

CAPSTONE TURBINE CORP  
Form PRE 14A  
July 03, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**CAPSTONE TURBINE CORPORATION**

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

\_\_\_\_\_

(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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o Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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## CAPSTONE TURBINE CORPORATION

21211 Nordhoff Street  
Chatsworth, California 91311

July , 2008

Dear Capstone Turbine Stockholder:

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of Capstone Turbine Corporation to be held at the Ronald Reagan Presidential Library and Museum, 40 Presidential Drive, Simi Valley, California 93065, on August 28, 2008, at 9:00 a.m., Pacific Time. We look forward to meeting you and discussing the accomplishments of the Company for the fiscal year ended March 31, 2008.

Details of the business to be conducted at the 2008 Annual Meeting of Stockholders are given in the attached Notice of Annual Meeting of Stockholders and Proxy Statement.

In accordance with new rules adopted by the Securities and Exchange Commission, we are mailing to many of our stockholders a Notice of Internet Availability instead of a paper copy of the Proxy Statement and our 2008 Annual Report to Stockholders. The Notice of Internet Availability contains instructions on how stockholders can access the documents over the Internet as well as how stockholders can receive a paper copy of our proxy materials, including the Proxy Statement, the 2008 Annual Report to Stockholders and a proxy card form.

**Whether or not you attend the 2008 Annual Meeting of Stockholders, it is important that your shares be represented and voted.** Therefore, I urge you to vote by proxy as soon as possible over the Internet or by phone as instructed in the Notice of Internet Availability or, if you receive paper copies of the proxy materials by mail, you can also vote by mail by following the instructions on the proxy card. If you attend the Annual Meeting, you may withdraw your proxy and vote your shares personally.

On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in Capstone.

Sincerely,

/s/ DARREN R. JAMISON

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Darren R. Jamison  
*President and Chief Executive Officer*

Chatsworth, California

### YOUR VOTE IS IMPORTANT

**PLEASE VOTE OVER THE INTERNET OR BY TELEPHONE AS INSTRUCTED  
IN THESE MATERIALS OR COMPLETE, DATE, SIGN AND RETURN A PROXY CARD  
AS PROMPTLY AS POSSIBLE.**

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## CAPSTONE TURBINE CORPORATION

21211 Nordhoff Street  
Chatsworth, California 91311

### NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held August 28, 2008

The Capstone Turbine Corporation (the "Company" or "Capstone") 2008 Annual Meeting of Stockholders (the "Annual Meeting") will be held at the Ronald Reagan Presidential Library and Museum, located at 40 Presidential Drive, Simi Valley, California 93065, on August 28, 2008, at 9:00 a.m., Pacific Time, for the following purposes:

1. To elect nine members to Capstone's Board of Directors to serve until the next annual meeting or until their successors have been elected and qualified;
2. To approve the Rights Agreement, dated as of July 7, 2005, with Mellon Investor Services LLC, as amended;
3. To approve the Capstone Turbine Corporation Executive Performance Incentive Plan;
4. To approve an amendment to the Capstone Turbine Corporation Amended and Restated 2000 Equity Incentive Plan;
5. To ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2009; and
6. To transact any other business that is properly brought before the Annual Meeting or any adjournments or postponements thereof.

The foregoing items of business are more fully described in the accompanying proxy statement. The Board of Directors has fixed the close of business on June 30, 2008 as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Only holders of record of the Company's Common Stock at the close of business on that date will be entitled to notice of, and vote at, the Annual Meeting and any adjournments or postponements thereof. In the event there are not sufficient shares to be voted in favor of any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies.

**Whether or not you plan to attend the Annual Meeting, please vote over the Internet or by telephone as instructed in these materials or complete, sign, date and return a proxy card promptly. The proxy is being solicited on behalf of the Board of Directors of Capstone for use at the Annual Meeting. The Board of Directors of Capstone recommends that stockholders vote *FOR* the matters listed above.**

Please note that space limitations make it necessary to limit attendance to stockholders. Registration will begin at 8:30 a.m., and the Annual Meeting will begin at 9:00 a.m. Each stockholder may be asked to present valid picture identification, such as a driver's license or passport. We

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will admit you if we are able to verify that you are a Capstone stockholder. Stockholders holding stock in brokerage accounts will need to bring a copy of a brokerage statement reflecting stock ownership as of

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the record date. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting.

Directions to the Ronald Reagan Presidential Library and Museum can be obtained by contacting the Company at (818) 734-5300.

By Order of the Board of Directors,

/s/ EDWARD I. REICH

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Edward I. Reich

*Secretary*

Chatsworth, California  
July , 2008

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## **CAPSTONE TURBINE CORPORATION**

21211 Nordhoff Street  
Chatsworth, California 91311

### **PROXY STATEMENT**

**For Annual Meeting Of Stockholders  
To Be Held August 28, 2008**

#### **Information About the 2008 Annual Meeting**

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors from holders of Capstone Turbine Corporation (the "Company" or "Capstone") issued and outstanding shares of Common Stock, par value \$.001 per share ("Common Stock"), to be voted at the 2008 Annual Meeting of Stockholders (the "Annual Meeting"), to be held at the Ronald Reagan Presidential Library and Museum, located at 40 Presidential Drive, Simi Valley, California 93065, at 9:00 a.m. Pacific Time on August 28, 2008, for the purposes set forth in the accompanying notice and herein, and any adjournments or postponements thereof.

#### **Voting Procedures**

If you were a stockholder of record of the Company's Common Stock at the close of business on June 30, 2008, you are entitled to notice of, and to vote at, the Annual Meeting. As of the record date, 151,557,713 shares of the Company's Common Stock were outstanding.

Proxies properly executed, duly returned to us and not revoked will be voted in accordance with the instructions given. Where no instructions are given, such proxies will be voted FOR each of the nominees and proposals. If any matter not described in this proxy statement (the "Proxy Statement") is properly presented for action at the Annual Meeting, the persons named on the proxy card will have discretionary authority to vote on the action according to their best judgment. Each stockholder of record on June 30, 2008 is entitled to one vote for each share of Common Stock held by such stockholder on that date. The required quorum for the transaction of business at the Annual Meeting is a majority of the shares of our Common Stock eligible to be voted on the record date. Shares that are voted "FOR" or "WITHHOLD AUTHORITY" are treated as being present at the Annual Meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the Annual Meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not have the effect of withholding authority to vote for a director. A broker non-vote occurs when a broker holding shares for a beneficial holder does not have discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner. Concerning the election of directors, you may: (a) vote for all of the director nominees as a group; (b) withhold authority to vote for all director nominees as

a group; or (c) vote for all director nominees as a group except those nominees you identify on the appropriate line. For each of the proposals other than the election of directors, abstentions will have the same legal effect as a vote against these proposals, and broker non-votes will have no effect on the outcome of the vote of these proposals.

A copy of Capstone's 2008 Annual Report to Stockholders (the "2008 Annual Report") and the Proxy Statement and accompanying proxy card will be first mailed or made available to stockholders on or about July , 2008. The 2008 Annual Report includes Capstone's audited consolidated financial statements.

You may revoke your proxy at any time before it is actually voted at the Annual Meeting by: (i) delivering written notice of revocation to the Secretary of Capstone at our address above; (ii) submitting a later dated proxy; or (iii) attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, constitute revocation of the proxy.

#### **Voting Electronically via the Internet or by Telephone**

Whether you hold shares directly as the stockholder of record or through a broker, trustee or other nominee, as the beneficial owner, you may direct how your shares are voted without attending the Annual Meeting. Stockholders are encouraged to vote their proxies by Internet, telephone or completing, signing, dating and returning a proxy card, but not by more than one method. If you vote by Internet or telephone, you do not need to return a proxy card. If you vote by more than one method, only the last vote that is submitted will be counted and each previous vote will be disregarded. Please refer to the instructions provided in the Notice of Internet Availability or proxy card provided to you for information on the available voting methods.

#### **Solicitation of Parties**

We will pay the expense of soliciting proxies and the cost of preparing, assembling and mailing material in connection with the solicitation of proxies. In addition, we have retained Mellon Investor Services LLC to assist in the solicitation. We will pay Mellon Investor Services LLC approximately \$10,500 for their assistance in the solicitation of proxies. Our directors, officers or employees also may solicit proxies by mail, e-mail, telephone, facsimile or other means. These individuals will not receive any additional compensation for these efforts.

Capstone's executive offices are located at 21211 Nordhoff Street, Chatsworth, California 91311, telephone (818) 734-5300.

#### **Proposals of Stockholders for 2009 Annual Meeting**

Stockholder proposals or nominations for directors intended to be presented at the 2009 annual meeting of stockholders (the "2009 Annual Meeting") must be in writing and received at Capstone's executive offices no later than the date listed below and must comply with Capstone's bylaws and the proxy rules of the Securities and Exchange Commission (the "SEC"). If appropriate notice of a stockholder proposal is not received at Capstone's executive offices prior to the close of business on March , 2009, the proposal will be deemed untimely. Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 and the Company's bylaws, an untimely proposal will not be included in the Company's proxy statement or proxy card for the 2009 Annual Meeting and cannot be brought before the 2009 Annual Meeting by the proponent.

In addition to stockholder nominations made in accordance with the procedures described above, Capstone's Nominating and Corporate Governance Committee will consider stockholder recommendations of candidates for election to the Board of Directors if such recommendations are submitted by the date and in accordance with the policies described in the "Director Recommendation and Nomination Process" section elsewhere in this proxy statement.

The date of this proxy statement is July , 2008.



## PROPOSAL 1

## ELECTION OF DIRECTORS TO THE BOARD OF DIRECTORS

Capstone's Board of Directors currently consists of nine members, all of whom the Company proposes for re-election at the Annual Meeting. The proxies cannot vote for a greater number of persons than the number of nominees named. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nine nominees of the Board of Directors named below, all of whom are currently directors of the Company.

If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by the present Board of Directors to fill the vacancy. The Company does not expect that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until the next annual meeting of stockholders or until the director's successor has been elected and qualified, or the earlier of the director's resignation or removal. The table and text below set forth information about each nominee as of June 30, 2008.

Nominees	Age	Director Since
Eliot G. Protsch(1)	55	2002
Richard K. Atkinson	57	2005
John V. Jagers	57	1993
Darren R. Jamison	42	2006
Noam Lotan	56	2005
Gary J. Mayo	54	2007
Gary D. Simon	59	2005
Holly A. Van Deursen	49	2007
Darrell J. Wilk	63	2006

(1) Chairman of the Board of Directors.

**Eliot G. Protsch.** Mr. Protsch has been a director since April 2002 and Chairman of the Board of Directors since October 2002. Mr. Protsch is Senior Executive Vice President and Chief Financial Officer of Alliant Energy Corporation (NYSE: LNT), an energy holding company, and has held such positions since January 2004. He previously was President of Interstate Power and Light Company, a subsidiary of Alliant Energy Corporation, and Executive Vice President Energy Delivery, from 1998 to 2003. Mr. Protsch currently serves on the Board of Directors for American Family Insurance (a Mutual Insurance Company). He received his Masters in Business Administration degree and his Bachelor of Business Administration degree in Economics and Finance from the University of South Dakota. Mr. Protsch is a Chartered Financial Analyst.

**Richard K. Atkinson.** Mr. Atkinson was appointed to the Board of Directors in December 2005. Mr. Atkinson was previously Senior Vice President and Chief Financial Officer of US BioEnergy Corporation (Nasdaq: USBE), a Brookings, South Dakota based company that built and operated large efficient ethanol plants and held these positions from June 2006 until April 2008. He previously was Vice President, Chief Financial Officer and Corporate Secretary of Pope & Talbot, a wood and pulp products business headquartered in Portland, Oregon, from December 2003 to June 2006. Before joining Pope & Talbot, Mr. Atkinson was with Sierra Pacific Resources since 1980, most recently as its Vice President, Chief Financial Officer. Mr. Atkinson received his Bachelor of Science degree in Biology/Chemistry from the University of Oregon and his Masters in Business Administration from the University of Nevada, Reno.

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**John V. Jagers.** Mr. Jagers has been a director since 1993. Mr. Jagers is General Partner of Sevin Rosen Funds, a venture capital firm and has held this position since 1988. Mr. Jagers served as Chief Financial Officer of Sevin Rosen Funds from 1995 to 2000. Mr. Jagers received his Bachelors and Masters degrees in Electrical Engineering from Rice University. He received his Masters in Business Administration from Harvard University.

**Darren R. Jamison.** Mr. Jamison joined Capstone Turbine Corporation in December 2006 as President and Chief Executive Officer and has been a director since December 2006. Mr. Jamison most recently served as President and Chief Operating Officer of Northern Power Systems, Inc. Prior to joining Northern Power Systems, Inc., Mr. Jamison was Vice President and General Manager of Distributed Energy Solutions for Stewart & Stevenson Services, Inc. from 1994 to 2003. He holds a Bachelor of Arts degree in Business Administration and Finance from Seattle University.

**Noam Lotan.** Mr. Lotan was appointed to the Board of Directors in June 2005. Mr. Lotan is the President, Chief Executive Officer and Director of MRV Communications, Inc. ("MRV") (Nasdaq: MRVC), a designer, manufacturer and distributor of communication equipment and services and optical components. He has been in this position since May 1990. Mr. Lotan was also Chief Financial Officer of MRV from October 1993 until June 1995. From 1987 to January 1990, Mr. Lotan served as Managing Director of Fibronics (UK) Ltd., the United Kingdom subsidiary of Fibronics International, Inc. ("Fibronics"), a manufacturer of fiber optic communication networks. MRV purchased the Fibronics business in September 1996. From 1985 to 1987, Mr. Lotan served as Director of European Operations for Fibronics. Prior to such time, Mr. Lotan held a variety of sales and marketing positions with Fibronics and Hewlett-Packard. Mr. Lotan holds a Bachelor of Science degree in Electrical Engineering from the Technion Israel Institute of Technology and a Masters in Business Administration from INSEAD (the European Institute of Business Administration, Fontainebleau, France).

**Gary J. Mayo.** Mr. Mayo was appointed to the Board of Directors in October 2007. Mr. Mayo is the Vice President of Corporate Sustainability Strategies in the Energy and Environmental Services Division of MGM MIRAGE (NYSE: MGM), one of the world's leading and most respected development companies with significant holdings in gaming, hospitality and entertainment. He has been in this position since November 2006. Prior to his current position, Mr. Mayo held a number of executive positions with Ford Motor Company and its wholly-owned subsidiary Visteon Corporation (spin-off in June 2000) from January 1977 until his retirement in November 2006. Mr. Mayo holds a Bachelor of Science degree in Marketing from C.W. Post College of Long Island University and a Masters in Business Administration from Duke University. Mr. Mayo participated in the Global Executive MBA Program at the Fuqua School of Business at Duke University.

**Gary D. Simon.** Mr. Simon has been a director since August 2005. Mr. Simon has been the Chairman, President and Chief Executive Officer of Acumentrics Corporation, a privately-held manufacturer of innovative power supply equipment, since July 2004. Mr. Simon has also served as the President of Sigma Energy Group, a clean energy investment and business development firm, since October 2003 and since July 2006 has been a limited partner in Velocity Venture Capital. From October 2002 to October 2003, Mr. Simon served as a consultant to several start-up businesses involved with clean energy technologies and as an advisor to the Connecticut and Massachusetts clean energy funds. From April 1998 to October 2002, Mr. Simon served as Senior Vice President, Strategy and Development at Northeast Utilities (NYSE: NU), a utility holding company. From 1998 to 2002, Mr. Simon served as a member of the Board of Directors of Northeast Optic Network, a public company that operated a high-speed fiber optic network from Boston to Washington, D.C. Mr. Simon holds a Bachelor of Arts degree in microbiology from Indiana University and an Masters of Science degree in Ecology (Resource Economics) from the University of California, Davis.

**Holly A. Van Deursen.** Ms. Van Deursen was appointed to the Board of Directors in October 2007. Ms. Van Deursen currently serves in non-executive director roles for Actuant Corporation since 2008, Bemis Company, Inc. since 2008 (NYSE: BMS), Anson Industries since 2006, and Petroleum Geo-Services since 2006 (OSE: PGS). Prior to her current roles, Ms. Van Deursen was employed by BP plc / Amoco Corporation from 1989 to 2005 and served on the Top-Forty Executive Team as Group Vice President, Petrochemicals from 2003 to 2005 and Group Vice President, Strategy from 2001 to 2003. Ms. Van Deursen received her Bachelor of Science degree in Chemical Engineering from the University of Kansas and her Masters in Business Administration degree from the University of Michigan.

**Darrell J. Wilk.** Mr. Wilk was appointed to the Board of Directors in June 2006. Mr. Wilk has been President of Ace Label Systems in Golden Valley, Minnesota since 2007. Mr. Wilk has taught an executive sales seminar at the University of Wisconsin Madison since 2005. Previously, Mr Wilk was a Strategic Planning and Marketing instructor at Concordia University in St. Paul, Minnesota and Argosy University from 2005 to 2007. From 2003 to December 2005, Mr. Wilk was Vice President and Director of Sales and Marketing Worldwide for the Electronics Components division of ITT Industries (NYSE: ITT), a global engineering and manufacturing company. Mr. Wilk also held the position of Vice President and Director of Marketing and Sales Worldwide for the Switch Products division of ITT Industries from 1981 to 2003. From 1972 to 1981, Mr. Wilk served in Sales and Marketing Manager roles in North America at 3M Company (NYSE: MMM), a diversified technology company. He also held the position of Application Engineer of North America from 1968 to 1972. Mr. Wilk holds a Bachelor of Science degree in Physics from Loyola University of Chicago and a Masters in Business Administration from the University of Detroit.

**Required Vote for Approval and Recommendation of the Board of Directors**

Assuming the presence of a quorum, the nine nominees for director receiving the highest number of votes will be elected to Capstone's Board of Directors. Information regarding the method by which votes will be counted appears on page one of this Proxy Statement under the heading "Voting Procedures."

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE ELECTION OF THE CANDIDATES NOMINATED BY THE BOARD OF DIRECTORS.**

**PROPOSAL 2**

**APPROVAL OF THE RIGHTS AGREEMENT**

The Company is currently a party to a Rights Agreement, dated as of July 7, 2005, with Mellon Investor Services LLC, as amended (the "Rights Agreement"). Pursuant to a "sunset provision," the Rights Agreement will expire on the 30th day after the 2008 Annual Meeting unless continuation of the Rights Agreement is approved by the stockholders of the Company at the Annual Meeting. The Board of Directors considered whether to propose approval of the Rights Agreement to the stockholders on the terms of the Rights Agreement as it was adopted by the Board of Directors in 2005. After consideration, the Board of Directors adopted an amendment to the Rights Agreement in July 2008 to make certain changes recommended by its Nominating and Corporate Governance Committee before submitting the agreement to the stockholders for approval. The full text of the Rights Agreement, as amended by the amendment adopted by the Board of Directors on July 3, 2008, can be found attached to the Current Reports on Form 8-K filed by the Company with the SEC on July 8, 2005 and July [ ], 2008.

The Board of Directors believes that maintaining the Rights Agreement is an important tool with which it can protect stockholder value. The rights to purchase preferred stock as set forth in the Rights Agreement (the "Rights") are intended to protect the stockholders of the Company in the event of an unfair or coercive offer to acquire the Company and to provide the Board of Directors with adequate time to evaluate unsolicited offers. The Rights may have anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of Rights being acquired. The Rights, however, should not inhibit any prospective offeror willing to make an offer at a fair price and otherwise in the best interests of the Company and its stockholders, as determined by the Board of Directors. The Rights should also not interfere with any merger or other business combination approved by the Board of Directors.

**Description of the Rights Agreement**

The following is a summary of the material terms of the Rights Agreement, as amended. The statements below are only a summary, and we refer you to the full text of the Rights Agreement, which can be found attached to the Current Reports on Form 8-K referred to above.

*General*

Under the terms of the Rights Agreement, each share of Common Stock outstanding has one Right attached to it, so that the purchase of a share of Common Stock is also a purchase of the attached Right. Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of Series A Junior Participating Preferred Stock, par value \$0.001 per share (the "Series A Preferred Stock") at a Purchase Price of \$10.00 per Unit, subject to adjustment. The description and terms of the Rights are set forth in the Rights Agreement.

*Exercisability and Termination*

Initially, the Rights will be attached to all Common Stock certificates, and no separate Rights certificates will be distributed. Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the Common Stock and a "Distribution Date" will occur upon the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of Common Stock (the "Stock Acquisition Date"), other than as a result of repurchases of stock by the Company or certain inadvertent actions by institutional or certain other stockholders, or (ii) 10 days (or such later date as the Board of Directors shall determine)

following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of the outstanding shares of Common Stock.

The Rights are not exercisable until the Distribution Date and will expire at 5:00 P.M. (California time) on July 18, 2015, unless such date is extended or the Rights are earlier redeemed or exchanged by the Company as described below (including by virtue of the "sunset provision"). Pursuant to the "sunset provision," the Rights Agreement will terminate unless approved by a vote of the Company's stockholders at the Annual Meeting. If the Rights Agreement is not approved by the stockholders, the Rights will automatically terminate and the holders of Rights will be entitled only to receive the \$0.0001 redemption price described below. If the Rights Agreement is approved by the stockholders at the Annual Meeting, then the Rights Agreement will continue until 2011 at which time the Rights Agreement must again be approved by the stockholders of the Company at the 2011 annual meeting of stockholders or the agreement will terminate.

As soon as practicable after the Distribution Date, Rights certificates will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and, thereafter, the separate Rights certificates alone will represent the Rights. Except as otherwise determined by the Board of Directors, only shares of Common Stock issued prior to the Distribution Date will be issued with Rights.

#### *Triggering Events and Adjustment*

In the event that any person or any group of affiliated or associated persons becomes an Acquiring Person, each holder of a Right will thereafter have the right to receive, upon exercise, in lieu of the fractional shares of Series A Preferred Stock, that number of shares of Common Stock (or, in certain circumstances, cash, property or other securities of the Company) having a value equal to two times the exercise price of the Right. Notwithstanding any of the foregoing, following the occurrence of the event set forth in this paragraph, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person will be null and void. However, Rights are not exercisable following the occurrence of the event set forth above until such time as the Rights are no longer redeemable or exchangeable by the Company as set forth below.

In the event that, at any time following the Stock Acquisition Date, (i) the Company engages in a merger or other business combination transaction in which the Company is not the surviving corporation, (ii) the Company engages in a merger or other business combination transaction in which the Company is the surviving corporation and the Common Stock of the Company is changed or exchanged, or (iii) 50% or more of the Company's assets, cash flow or earning power is sold or transferred, each holder of a Right (except Rights which have previously been voided as set forth above) shall thereafter have the right to receive, upon exercise, Common Stock of the acquiring company having a value equal to two times the exercise price of the Right.

At any time after a person or group of affiliated or associated persons becomes an Acquiring Person and prior to the acquisition by such person or group of fifty percent (50%) or more of the outstanding Common Stock, the Company may exchange the Rights (other than Rights owned by such person or group which have become void), in whole or in part, at an exchange ratio of one share of Common Stock, or one one-hundredth of a share of Series A Preferred Stock (or of a share of a class or series of the Company's preferred stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

#### *Redemption of the Rights*

At any time until ten days following the Stock Acquisition Date, the Company may redeem the Rights in whole, but not in part, at a price of \$0.0001 per Right (payable in cash, Common Stock or other consideration deemed appropriate by the Board of Directors). Immediately upon the action of

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the Board of Directors authorizing redemption of the Rights, the Rights will terminate and the holders of Rights will be entitled only to receive the \$0.0001 redemption price.

The Rights Agreement further provides that in the event the Company receives a Qualifying Offer (that has not been terminated prior thereto and which continues to be a Qualifying Offer), stockholders representing at least 10% of the shares of Common Stock then outstanding may request that the Board of Directors call a special meeting of stockholders to vote to exempt the Qualifying Offer from the operation of the Rights Agreement not earlier than 90, nor later than 120, business days following the commencement of such offer. The Board of Directors must then call and hold such a meeting to vote on exempting such offer from the terms of the Rights Agreement within the 90th business day following receipt of the stockholder demand for the meeting; provided that such period may be extended if, prior to the vote, the Company enters into an agreement (that is conditioned on the approval by the holders of not less than a majority of the outstanding shares of Common Stock) with respect to a merger, recapitalization, share exchange or a similar transaction involving us or the direct or indirect acquisition of more than 50% of our consolidated total assets (a "Definitive Acquisition Agreement"), until the time of the meeting at which the stockholders will be asked to vote on the Definitive Acquisition Agreement. If no Acquiring Person has emerged, the offer continues to be a Qualifying Offer and stockholders representing at least a majority of the shares of Common Stock represented at the meeting at which a quorum is present vote in favor of redeeming the rights, then such Qualifying Offer shall be deemed exempt from the Rights Agreement on the date that the vote results are certified. If no Acquiring Person has emerged and no special meeting is held by the date required, the Rights will be redeemed, without the need for action by the Board of Directors, at the close of business on the tenth business day following that date.

A Qualifying Offer, in summary terms, is an offer determined by the Board of Directors to have each of the following characteristics which are generally intended to preclude offers that are coercive, abusive, or clearly illegitimate:

is an all-cash tender offer or stock exchange offer or combination thereof for any and all of the outstanding shares of Common Stock of the Company;

is an offer that has commenced within the meaning of Rule 14d-2(a) under the Securities Exchange Act of 1934, as amended, and is made by an offeror (including its affiliates or associates) that beneficially owns no more than 1% of the outstanding Common Stock of the Company as of the date of such commencement;

is an offer whose per-share price represents a reasonable premium over the highest market price of our Common Stock in the preceding 24 months, with, in the case of an offer that includes shares of common stock of the offeror, such per-share offer price being determined using the lowest reported market price for common stock of the offeror during the five trading days immediately preceding and the five trading days immediately following the commencement of the offer;

is an offer which, within 20 business days after the commencement date of the offer (or within 10 business days after any increase in the offer consideration), does not result in a nationally recognized investment banking firm retained by the Board of Directors rendering an opinion to the Board of Directors that the consideration being offered to the Company's stockholders is either unfair or inadequate;

is subject only to the minimum tender condition described below and other customary terms and conditions, which conditions shall not include any requirements with respect to the offeror or its agents being permitted to conduct any due diligence with respect to the books, records, management, accountants and other outside advisers of the Company;

is accompanied by an irrevocable written commitment by the offeror to the Company that the offer will remain open for at least 120 business days and, if a special meeting is duly requested by Capstone's stockholders with respect to the offer, at least 10 business days after the date of the special meeting or, if no special meeting is held within 90 business days following receipt of the notice of the special meeting, for at least 10 business days following that 90-day period;

is accompanied by an irrevocable written commitment by the offeror to the Company that, in addition to the minimum time periods specified above, the offer will be extended for at least 15 business days after any increase in the price offered, and after any bona fide alternative offer is made;

is conditioned on a minimum of a majority of the shares of Capstone Common Stock being tendered and not withdrawn as of the offer's expiration date;

is accompanied by an irrevocable written commitment by the offeror to the Company to consummate promptly upon successful completion of the offer a second-step transaction whereby all shares of Capstone Common Stock not tendered into the offer will be acquired at the same consideration per share actually paid pursuant to the offer, subject to stockholders' statutory appraisal rights, if any;

is accompanied by an irrevocable written commitment by the offeror to the Company that no amendments will be made to the offer to reduce the offer consideration or otherwise change the terms of the offer in a way that is adverse to a tendering stockholder; and

is accompanied by certifications of the offeror and its chief executive officer and chief financial officer (in their individual capacities) that all information that may be material to an investor's decision to accept the offer have been, and will continue to be promptly for the pendency of the offer, fully and accurately disclosed.

Any offers that have cash as all or partial consideration are subject to further conditions for qualification as "qualifying offers," as set forth in the Rights Agreement. These conditions generally require assurance that the offer is fully financed and that the offeror has sufficient committed resources to consummate the offer. Any offers that have acquiror common stock as all or partial consideration are subject to further conditions for qualification as "qualifying offers," as set forth in the Rights Agreement. These conditions generally require certain safeguards regarding, and access to, information about the acquiror to allow an informed determination as to the value and risks of the stock, including safeguards against developments that adversely affect the value of the stock, that the acquiror's stock (which may not have subordinated voting rights nor may its ownership be heavily concentrated in one person or group) is listed on a national exchange, that the acquiror meets certain seasoned issuer standards under the Securities Act of 1933, and that no acquiror stockholder approval of the issuance of the consideration to the Company's stockholders is necessary after commencement of the offer.

#### **Required Vote for Approval and Recommendation of the Board of Directors**

Assuming the presence of a quorum, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required for approval of this proposal. Information regarding the method by which votes will be counted appears on page one of this Proxy Statement under the heading "Voting Procedures."

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE PROPOSAL TO APPROVE THE RIGHTS AGREEMENT.**

**PROPOSAL 3**

**APPROVAL OF THE CAPSTONE TURBINE CORPORATION  
EXECUTIVE PERFORMANCE INCENTIVE PLAN**

On June 11, 2008, the Board of Directors adopted the Capstone Turbine Corporation Executive Performance Incentive Plan (the "Executive Plan"), subject to the approval of our stockholders. The Executive Plan provides for the payment of incentive bonuses in the form of cash, Common Stock of the Company, or any other securities or property to participants based upon the achievement of performance goals established annually by the Compensation Committee. We are asking you to approve the Executive Plan so that (i) we may provide our officers an opportunity to earn compensation that is in addition to their base salary upon achievement of performance goals, and (ii) such compensation will be deductible for federal income tax purposes. Our intention is to adopt and administer the Executive Plan in a manner that maximizes the deductibility of all compensation paid to our officers under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

If the Executive Plan is approved by our stockholders at the Annual Meeting, it will become effective without further action as of the date of the Annual Meeting and will continue until terminated by the Board of Directors. However, stockholder approval of the Executive Plan is required at least every five years under current tax regulations. The Executive Plan is described below. The description is qualified in its entirety by reference to the full text of the Executive Plan, which is attached hereto as *Appendix A*.

**Purpose of the Executive Plan**

The Executive Plan is intended to increase stockholder value and our success by encouraging outstanding performance by our executive officers. These goals are to be achieved by providing eligible executive officers with incentive awards based on the achievement of goals relating to our performance. We currently do not have any incentive bonus program for our executive officers. The purposes for instituting such a program at this time are more fully described under "Compensation Discussion and Analysis Components of Compensation Annual Cash Bonus."

In addition, the Executive Plan is designed to qualify incentive compensation payments as "performance-based" compensation under Section 162(m) of the Code. Section 162(m) limits the deductibility of compensation for federal income tax purposes paid to certain "covered employees" (i.e., the chief executive officer and the four highest paid executive officers other than the chief executive officer) in any taxable year to the extent that any of these persons receives more than \$1 million in compensation. However, compensation that is "performance-based" under Section 162(m) is exempt from this deduction limit. To qualify as "performance-based" under Section 162(m), compensation must be paid under a plan that meets certain conditions and the plan must be approved by our stockholders.

If the Executive Plan is not approved by our stockholders at the Annual Meeting, we will not make any payments under the Executive Plan. In such event, the Executive Plan will not take effect, but the Compensation Committee will have the ability to award bonuses to individuals who would have been participants in an amount that the committee deems reasonable and appropriate. We have no present intention of paying incentive bonuses other than pursuant to the terms of the Executive Plan, and we expect that any other bonus payments would only be made under extraordinary circumstances. Such payments to a covered employee would not be deductible for federal income tax purposes to the extent that the \$1 million limit under Section 162(m) was exceeded.



### **Business Criteria for Performance Goals**

The Compensation Committee may take into account several factors when establishing the performance goals each year. Payments must be conditioned on achievement of objectively determinable goals that are based on business criteria that are set forth in the Executive Plan. These include:

Return on equity, capital, sales or assets

Revenue measurements (e.g., net, gross or sales)

Income (net, pre-tax, and/or operating)

Cash flow (including operating cash flow, free cash flow, discounted return on investment and cash flow in excess of cost of capital)

Earnings per share

Gross margins

Cash utilization

Operating expenses and its components (e.g., cost of materials)

These criteria are included in our annual financial budget and performance under any award will be measured in comparison to the budget. All performance goals established by the Compensation Committee must be based on these criteria.

### **Operation of the Executive Plan**

The Compensation Committee will administer the Executive Plan. Executive officers are eligible to be selected by the Compensation Committee to participate in the Executive Plan. All of our executive officers have been selected to participate in the Executive Plan for the current fiscal year and, subject to stockholder approval of the Executive Plan, have been provided an incentive award. For each award, the Compensation Committee will specify in writing the potential amounts of compensation payable, the performance goals upon which each award is conditioned, the formula to determine the amount payable upon achievement of the performance goals, and the period in which performance by the participant is measured. The performance goals and other terms of the award to a participant will be established no later than 90 days after the beginning of a performance period. Usually, the performance period will be the fiscal year of the Company. The amount payable under an award may vary among participants and from year to year, but the maximum bonus payable to any participant under the Executive Plan in a fiscal year is \$4 million.

As soon as possible after the end of each performance period, the Compensation Committee will certify in writing for each participant whether the performance goals for that year and any other material conditions have been met and the amount payable under each award. The Compensation Committee has discretion to reduce or eliminate, but not increase, the amount that would be payable under an award. Generally, any payments under the Executive Plan will be made as soon as practicable following the end of the performance period and certification by the Compensation Committee of achievement of the performance goals.

### **Change in Control**

If we experience a change in control (as defined in the Company's Amended and Restated 2000 Equity Incentive Plan), and the performance goals specified in an award are not satisfied, the Compensation Committee may in its discretion pay all or a portion of the amount specified in the award.

### **Death, Disability and Retirement**

Upon the death or disability (as defined in the Executive Plan) of a participant in the Executive Plan during a performance period, the participant will be entitled to payment following the end of the performance period, based on achievement of the performance goals under the award. The Compensation Committee may, in its discretion, reduce the payment pro rata for the portion of the performance period worked prior to death or disability. If the performance goals are not achieved, the Compensation Committee may determine in its discretion to pay all or a portion of the amount specified in the award to a participant who died or became disabled during the performance period.

When a participant retires during the course of the year, the Compensation Committee may pay the amount earned under the award only if all of the performance goals were achieved. The Compensation Committee may, in its discretion, reduce the payment pro rata for the portion of the performance period worked prior to retirement.

### **Amendment and Termination of the Executive Plan**

The Board of Directors may amend or terminate the Executive Plan at any time and for any reason. No amendment that would modify the material terms of the Executive Plan, including the performance goals, will be effective until approved by our stockholders in a manner that satisfies the stockholder approval requirements of Section 162(m).

### **Federal Income Tax Consequences**

Under present federal income tax law, participants will realize ordinary income equal to the amount of the bonus received in the year of receipt. We will receive a deduction for the amount constituting ordinary income to the participant, provided that the Executive Plan satisfies the requirements of Section 162(m). As described above, Section 162(m) limits the deductibility of compensation not based on performance that is paid to certain corporate executives.

### **Awards Granted to Certain Individuals and Groups**

Compensation payable under the Executive Plan will be determined based on our actual performance compared to certain performance goals established by the Compensation Committee. Therefore, compensation under the Executive Plan (if any) cannot now be determined. However, for the year ending March 31, 2009 ("Fiscal 2009"), the Compensation Committee has approved performance goals and other terms of awards for our executive officers, subject to the approval of the Executive Plan by our stockholders.

Pursuant to the Fiscal 2009 executive bonus program, each of the executive officers other than James D. Crouse will be eligible to receive a target bonus equal to a stated percentage of annual base salary, with a threshold bonus opportunity of one-half of the target bonus and a maximum possible bonus of one and one-half times the target bonus. Payments under the awards are based on performance goals that are selected from the criteria described above. Each objective is determined in reference to our financial statements and annual budget. The bonus program provides that the bonus of each executive officer, other than Mr. Crouse, will be based 40% upon targets related to the Company's revenue for Fiscal 2009, 20% upon targets related to cash utilization, 20% upon targets related to operating expenses and 20% upon targets related to direct material costs as a percentage of revenue. Bonuses are not payable unless the Company achieves threshold amounts of revenue and any two of the other objectives established for Fiscal 2009. The bonus for Mr. Crouse for Fiscal 2009 will be based solely on the Company's revenue. The Executive Plan includes an absolute maximum payment of \$4 million under any award. However, for Fiscal 2009, there is a maximum bonus payment that can be made to each executive officer, other than Mr. Crouse, as follows: Mr. Jamison, \$660,660; Mr. Estus, \$155,858; Mr. Gilbreth, \$183,695; Mr. Reich: \$185,625; and Ms. Reynolds, \$98,456.

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Following the end of Fiscal 2009, the Compensation Committee will determine whether and the extent to which the applicable 2009 performance targets discussed above were met. The Compensation Committee will then award each executive officer a bonus based on the achievement of the applicable performance targets. No payments will be made for performance below specified threshold levels. Payments for performance between the minimum threshold and the level required to receive the maximum bonus award will be determined based on a formula.

The Compensation Committee has retained discretion to reduce any payments that would otherwise be made under the awards based on the achievement of the performance goals. For example, a payment could be reduced if the Compensation Committee determined that the executive officer failed to satisfactorily achieve individual or departmental goals that are unrelated to the Company's overall performance.

### **Required Vote for Approval and Recommendation of the Board of Directors**

Assuming the presence of a quorum, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required for approval of this proposal. Information regarding the method by which votes will be counted appears on page one of this Proxy Statement under the heading "Voting Procedures."

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE PROPOSAL TO APPROVE THE CAPSTONE TURBINE CORPORATION EXECUTIVE PERFORMANCE INCENTIVE PLAN.**

**PROPOSAL 4**

**APPROVAL OF AN AMENDMENT TO THE CAPSTONE TURBINE CORPORATION  
AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN**

Our Board of Directors has adopted and is hereby proposing to the stockholders an amendment to the Capstone Turbine Corporation Amended and Restated 2000 Equity Incentive Plan (the "2000 Plan"). As further described below, the purposes of this amendment are to (i) increase the number of shares of Common Stock subject to grant under the 2000 Plan by 5,100,000 and (ii) prohibit repricing or cash payments in exchange for options or stock rights, except with stockholder approval. The explanation of the amendment below is qualified in its entirety by reference to the full text of the amendment to the 2000 Plan, which is attached hereto as *Appendix B*.

**Description of the Amendment to the 2000 Plan**

The 2000 Plan provides for the discretionary grant of equity-based incentive awards ("Awards") to employees, consultants and members of the Board of Directors. The types of Awards permitted under the 2000 Plan include options to purchase Common Stock, restricted stock, stock bonuses and stock purchase rights.

A maximum of 13,880,000 shares of Common Stock has been reserved for issuance under the 2000 Plan, 13,323,416 shares of which were either subject to outstanding Awards or had been issued pursuant to the 2000 Plan as of June 30, 2008. The amendment will add 5,100,000 shares of Common Stock to the number that is available for issuance under the 2000 Plan.

The amendment also modifies the 2000 Plan's prohibition on exchanging options that are "underwater" (i.e., exercise price is greater than market value). Currently, the 2000 Plan requires stockholder approval of an option exchange (as defined in the 2000 Plan). The amendment broadens stockholder protection by requiring stockholders to approve any action to lower the exercise price of an option or to exchange cash or other stock rights for options.

Without an increase in shares authorized under the 2000 Plan, we will be unable to grant meaningful new Awards to our employees. The Board of Directors believes that stock based incentive compensation is essential to the success of the Company. These Awards allow the Company to attract and retain the best available personnel for positions of substantial responsibility and provide meaningful incentives to employees, directors and consultants to promote the success of the Company's business. Awards under the 2000 Plan are integral to the Company's ability to achieve its business goals in the current economic environment.

**General Description of the 2000 Plan**

As mentioned above, the 2000 Plan provides for the discretionary grant of Awards to employees, consultants and members of the Board of Directors. The types of Awards permitted under the 2000 Plan include options to purchase Common Stock, restricted stock, stock bonuses and stock purchase rights. Options entitle the holder to purchase Common Stock at a specified exercise price, generally after the performance of certain periods of service, and may be issued in the form of "incentive stock options," as defined in Section 422 of the Code, or options that are not so qualified. Restricted stock is a transfer of Common Stock that is generally subject to forfeiture until certain vesting conditions specified in the Award are satisfied. A stock bonus is the right to receive Common Stock in the future after vesting conditions specified in the Award are satisfied. A stock purchase right is a grant of Common Stock that may be subject to certain vesting conditions and/or the payment of a purchase price, each as determined by the Compensation Committee in its discretion. Non-qualified stock options, restricted stock, stock purchase rights and stock bonuses may be granted to employees, consultants and members of the Board of Directors, whereas incentive stock options may be granted

only to employees. The stock underlying such options, purchase rights or stock bonuses are shares of our Common Stock. As of June 30, 2008, 556,584 shares were remaining for future grant under the 2000 Plan. As of June 30, 2008, 223 employees and all of our directors were eligible to participate in the 2000 Plan.

*Purpose*

The purpose of the 2000 Plan is to allow the Company to recruit, hire and retain the best available personnel for various positions throughout the Company. We believe that such personnel enhance the value of our stockholders' equity.

*Director Options*

The 2000 Plan provides that the Board of Directors grant to a non-employee director who joins the Board of Directors on his or her initial election to the Board of Directors, an initial stock option to purchase 21,600 shares of our Common Stock (the "Initial Grant"). The Initial Grant vests in three equal installments over three years, based upon continuing service as a director. The 2000 Plan further provides that the Board of Directors grant subsequent stock options (the "Annual Grant") to our non-employee directors to purchase 10,000 shares of our Common Stock on the date of the annual meeting of stockholders that occurs each year that the non-employee director is reelected to the Board of Directors. The Annual Grant vests quarterly over a one-year period, based upon continuing service as a director. The Initial Grant and Annual Grant will have an exercise price equal to the fair market value of the Common Stock on the grant date and a term of 10 years, subject to earlier expiration in connection with termination of service.

The 2000 Plan provides that a non-employee director may elect to receive in lieu of any cash compensation that is paid for board service shares of Common Stock that have an equivalent value, up to a maximum of 20,000 shares during any one-year board term.

*Administration*

The Compensation Committee administers the 2000 Plan. Awards under the Plan are approved by the members who are "independent" as defined by Nasdaq rules, SEC Rule 16b-3 and Section 162(m) of the Code, as required under the 2000 Plan. The Compensation Committee determines the terms of all Awards, including conditions for vesting or exercise, the exercise price, the number of shares subject to each Award and the forms of payment permitted upon exercise. The Compensation Committee may delegate the authority to grant awards under the 2000 Plan to eligible persons who are not officers or directors of the Company.

*Amendment and Termination*

The Board of Directors may amend, suspend or terminate the 2000 Plan, provided that stockholder approval is required for any material amendment to the 2000 Plan. Material amendments include an increase in the number of shares that may be issued under the 2000 Plan and certain changes to the types of awards or class of persons eligible to receive awards. No amendment to the 2000 Plan can adversely affect a holder's rights under an award without the holder's consent.

*Payment for Shares and Other Terms and Conditions of Awards*

The maximum term of a stock option granted under the 2000 Plan is generally ten years (five years for an incentive stock option granted to a 10% stockholder). The exercise price must be no less than the fair market value of our Common Stock on the grant date (110% for an incentive stock option granted to a 10% stockholder).

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Generally, an option may be exercised with cash, including a broker assisted transaction involving a pledge of shares, or, with the approval of the Compensation Committee, with shares of Common Stock or other consideration acceptable to the Compensation Committee or a combination thereof. Stock received by the Company in payment of the purchase price or withheld for payment of taxes due on exercise or vesting will be valued at its fair market value on the date of surrender.

Awards granted under the 2000 Plan generally are subject to forfeiture in the event of termination of employment prior to completion of periods of continued service to the Company. Awards of options are not exercisable until these vesting conditions are satisfied. Awards generally are not transferable except on death. Options generally must be exercised within three months following termination of service with the Company, or within one year in case of disability or death. All Awards are immediately forfeited if service with the Company is terminated for cause.

### *Change in Control*

Outstanding Awards will become fully vested in certain circumstances following a change in the control of the Company for participants whose service is terminated in connection with the change in control.

### *General Federal Income Tax Consequences*

Tax consequences to the Company and to individuals receiving awards will vary with the type of award. Generally, a participant will not recognize income, and the Company is not entitled to take a deduction, upon the grant of an Award. An individual who exercises incentive stock options will not recognize income on exercise. The exercise of an incentive option, however, does give rise to a preference under the alternative minimum tax rules. Provided that the participant holds the stock for at least two years after the incentive option is granted and one year after the date of exercise, the individual will be subject to capital gains tax on the difference between the price paid to exercise the incentive option and the fair market value of the Common Stock at the time it is sold. If, however, the stock is sold before the end of this holding period, the sale is treated as a "disqualifying disposition" and the individual is taxed at ordinary income rates on the difference between the exercise price of the option and the fair market value of Common Stock at the time of exercise.

An individual will be subject to ordinary income tax upon the exercise of a nonqualified option on the difference between the exercise price and the fair market value of Common Stock. Any subsequent gain on the sale of the Common Stock will be taxed as a capital gain.

There is generally no tax upon the receipt of a stock bonus award or restricted stock or upon purchase of restricted stock under a stock purchase right. An individual will recognize ordinary income on the fair market value of the Common Stock at the time a stock bonus award or shares of restricted stock become vested, less the amount paid to purchase the restricted stock. However, an individual may elect to be taxed at the time restricted stock is granted under Section 83(b) of the Code. The individual's tax basis in Common Stock acquired through a stock bonus, restricted stock or stock purchase award is the amount paid under the award plus the amount of taxable income that is recognized. Any subsequent gain or loss on the sale of Common Stock is subject to capital gains tax treatment.

The Company generally obtains a tax deduction that is equivalent to the amount of ordinary income recognized by a participant upon the exercise of options or the vesting of restricted stock, stock bonuses or stock purchase rights.

The federal income tax consequences described in this section are based on the laws and regulations of the United States of America currently in effect, and there is no assurance that the laws

and regulations will not change in the future and affect the tax consequences of the matters discussed in this section.

**Required Vote for Approval and Recommendation of the Board of Directors**

Assuming the presence of a quorum, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required for approval of this proposal. Information regarding the method by which votes will be counted appears on page one of this Proxy Statement under the heading "Voting Procedures."

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE PROPOSAL TO APPROVE THE AMENDMENT TO THE CAPSTONE TURBINE CORPORATION AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN.**

**PROPOSAL 5**

**RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected Deloitte & Touche LLP as the Company's independent registered public accounting firm for Fiscal 2009. Deloitte & Touche LLP is considered by management to be well-qualified. Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting and will have an opportunity to make any statement they consider appropriate and to respond to any appropriate stockholders' questions at that time.

**Required Vote for Ratification and Recommendation of the Board**

Stockholder ratification of the Audit Committee's selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm is not required by the bylaws or otherwise; however, the Board of Directors has elected to submit the selection of Deloitte & Touche LLP to the Company's stockholders for ratification. The Company is seeking an affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting, if a quorum is present, in order to ratify the selection of the independent registered public accounting firm. If the appointment of Deloitte & Touche LLP is not ratified by the stockholders, the selection of an independent registered public accounting firm will be determined by the Audit Committee after careful consideration of any information submitted by the stockholders.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE PROPOSAL TO RATIFY THE SELECTION OF DELOITTE & TOUCHE LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**



## GOVERNANCE OF THE COMPANY AND PRACTICES OF THE BOARD OF DIRECTORS

### Board of Directors

As of the date hereof, the Board of Directors consists of nine directors: Eliot G. Protsch, Richard K. Atkinson, John V. Jagers, Darren R. Jamison, Noam Lotan, Gary J. Mayo, Gary D. Simon, Holly A. Van Deursen and Darrell J. Wilk. The Board of Directors has determined that all of the members of the Board of Directors, other than Mr. Jamison, are "independent directors" as defined by Nasdaq rules.

The Board of Directors met twelve (12) times during the fiscal year ended March 31, 2008 ("Fiscal 2008"), and all of the directors attended or participated in more than 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which each such director served. The Company strongly encourages each member of the Board of Directors to attend each annual meeting of stockholders. Six of the seven directors serving on the Board of Directors at the time attended the 2007 annual meeting of stockholders. Our standing committees are an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Company's independent directors met in executive session, without members of the Company's management present, at all five in-person meetings of the Board of Directors in Fiscal 2008.

### Board Committees

#### *Audit Committee*

The Audit Committee currently consists of Messrs. Lotan (Chair), Atkinson and Protsch. Mr. Wilk was appointed to the Audit Committee effective as of the Annual Meeting. The Audit Committee is constituted to comply with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (the "Exchange Act") and is responsible, among other items, for (i) monitoring Capstone's financial reporting and overseeing accounting practices; (ii) annually retaining the independent public accountants as auditors of the books, records and accounts of Capstone; (iii) monitoring the scope of audits made by the independent public accountants and the audit reports submitted by the independent public accountants; and (iv) overseeing the systems of internal control which management and the Board of Directors have established. In addition, the Audit Committee has the duties of a "qualified legal compliance committee," including monitoring and reviewing stockholder complaints and also reviews and approves all related-party transactions. The Audit Committee operates under a written Audit Committee charter adopted by the Board of Directors, a copy of which is available on the Company's website at [www.microturbine.com](http://www.microturbine.com). During Fiscal 2008, the Audit Committee held five (5) meetings for which attendance was 93%. The Board of Directors has determined that Noam Lotan, Richard Atkinson and Eliot Protsch are "audit committee financial experts," as that term is defined by rules adopted by the SEC. Each member of the Audit Committee is an "independent director" pursuant to Nasdaq listing standards.

#### *Compensation Committee*

The Compensation Committee currently consists of Messrs. Jagers (Chair), Lotan, Mayo (who was appointed to the Compensation Committee in November 2007) and Simon. The Compensation Committee is comprised solely of "independent directors" as defined by Nasdaq listing standards in conformance with the Compensation Committee's charter. The functions of the Compensation Committee include (i) for the purposes of compensation, reviewing the performance and development of the Company's senior management in achieving corporate goals and objectives; (ii) determining the salary, benefits and other compensation of the executive officers and reviewing the compensation programs for the Company; (iii) adopting a succession plan for the Company's senior management; and (iv) administering the following benefit plans of Capstone: the 1993 Incentive Stock Option Plan, the

2000 Employee Stock Purchase Plan, the Amended and Restated 2000 Equity Incentive Plan and the Executive Performance Incentive Plan. The Compensation Committee operates under a written charter adopted by the Board of Directors, a copy of which is available on the Company's website at [www.microturbine.com](http://www.microturbine.com). During Fiscal 2008, the Compensation Committee held ten (10) meetings for which attendance was 85%. Processes and procedures for determining executive compensation are discussed elsewhere in this Proxy Statement in the section entitled "Compensation Discussion and Analysis."

#### *Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee consists of Messrs. Simon (Chair), Atkinson, Jagers and Ms. Van Deursen (who was appointed to the Nominating and Corporate Governance Committee in November 2007). The Nominating and Corporate Governance Committee is comprised solely of "independent directors" as defined by Nasdaq listing standards in conformance with the Committee's charter. The Nominating and Corporate Governance Committee is responsible for, among other things, (i) monitoring corporate governance matters and (ii) recommending to the full Board of Directors candidates for election to the Board of Directors. In the past year, the Nominating and Corporate Governance Committee has focused upon new director searches, screening, interviews and final recommendations to the Board of Directors, as well as on fulfilling the requirements of its charter. The Nominating and Corporate Governance Committee operates under a written charter adopted by the Board of Directors, a copy of which is available on the Company's website at [www.microturbine.com](http://www.microturbine.com). During Fiscal 2008, the Nominating and Corporate Governance Committee held one (1) meeting at which attendance was 100%. The Nominating and Corporate Governance Committee met subsequent to the end of Fiscal 2008 to recommend to the full Board of Directors each of the nominees for election to the Board of Directors, as presented herein.

In its year-end evaluation of the Company's governance policies and procedures, the Nominating and Corporate Governance Committee reviewed various materials, including the Company's corporate governance principles and the committee charter. The Nominating and Corporate Governance Committee also engaged Morrow & Co. ("Morrow") to perform an evaluation of the Company's governance policies and processes. The Nominating and Corporate Governance Committee received a written report from Morrow, met to discuss governance issues generally and received advice and recommendations from Morrow and legal counsel. The committee decided to, among certain disclosure enhancements, implement the following steps as a result of this year-end evaluation: (i) submit the ratification of the independent registered public accounting firm to the stockholders at the Annual Meeting; (ii) submit an amendment to the 2000 Plan to the stockholders at the Annual Meeting to prohibit repricing or cash payments in exchange for options or stock rights, except with stockholder approval; and (iii) propose the continuation of the Rights Agreement to the stockholders at the Annual Meeting.

#### **Board of Directors and Committee Performance Evaluations**

The charter of each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee requires an annual performance evaluation, and the Company's Corporate Governance Principles also mandate an annual evaluation of the Board of Directors. Such performance evaluations are designed to assess whether the Board of Directors and its committees function effectively and make valuable contributions to the Company. In April 2008, all members of the Company's Board of Directors were asked to assess the performance of the Board of Directors and such committees and identify areas for improvement through the completion of a detailed questionnaire for each such committee and the Board of Directors. Counsel for the Company reviewed the completed questionnaires, consolidated the responses and reported findings to the Nominating and Corporate Governance Committee in June 2008. The Nominating and Corporate Governance

Committee and the Board of Directors discussed the results of the performance evaluations and asked the appropriate committees to follow up on the consensus suggestions and put a follow-up process in place. The Nominating and Corporate Governance Committee will review the results and create an action items list for addressing the areas most in need of improvement.

#### **Director Recommendation and Nomination Process**

The Nominating and Corporate Governance Committee has a policy for the consideration of director candidates recommended by stockholders, and will consider all such bona fide recommended candidates for director if submitted in accordance with such policy. The policy provides that any stockholder recommendation must include the specific information required by the policy and be submitted in writing to:

Capstone Turbine Corporation  
21211 Nordhoff Street  
Chatsworth, CA 91311  
Attention: Chair of Nominating and Corporate Governance Committee  
Care of: Edward I. Reich, Secretary

and must be received by the Committee at least 180 days prior to that year's annual meeting of the stockholders. All such recommendations should include the following: (i) the name, age, business address and residence address of the prospective candidate and the name and record address of the stockholder submitting the recommendation, as well as the number of shares of stock of the Company which are owned of record or beneficially by that stockholder; (ii) a statement from the prospective candidate consenting to being named in the proxy and proxy card if selected as a nominee and to serving on the Board of Directors if elected; (iii) a statement explaining whether the prospective candidate is "independent" under applicable laws and otherwise; (iv) biographical data of the prospective candidate, including former and current service on other boards of directors, business experience and current occupation, and any other information relating to the prospective candidate and the recommending stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors; (v) transactions and relationships between the recommended candidate and the recommending stockholder, on the one hand, and the Company or Company management, on the other hand, as well as a description of all arrangements or understandings between the recommending stockholder and the prospective candidate and any other person pursuant to which the nomination is being made by the stockholder; (vi) the prospective candidate's Company stock trading history; (vii) any material proceedings to which the prospective candidate or his or her associates is a party that are adverse to the Company; (viii) the prospective candidate's involvement in any past or present legal proceedings, including any involvement in legal proceedings involving the Company; (ix) information regarding whether the recommending stockholder or the recommended candidate, or affiliates of either of those parties, have any plans or proposals for the Company; (x) an explanation as to whether the recommending stockholder and the prospective candidate intend to use the nomination to redress personal claims or grievances against the Company or others or to further personal interests or special interests not shared by the Company's stockholders at large; (xi) whether the prospective candidate is going to be nominated at the annual meeting of stockholders or is provided solely as a recommendation for consideration by the Committee and (xii) any other relevant information concerning the prospective candidate. The Committee reserves the right to request additional information as it deems appropriate.

In addition to stockholder recommendations as described above, the Company's bylaws permit stockholders to nominate directors at a meeting of the stockholders. Any stockholder nomination must comply with the applicable provisions of the Company's bylaws and the SEC's proxy rules and will be handled in accordance with the Company's bylaws and applicable laws.

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The Nominating and Corporate Governance Committee reviews the composition and size of the Board of Directors and determines the criteria for Board of Directors membership. In addition, the Nominating and Corporate Governance Committee reviews the qualifications of prospective candidates to determine whether they will make good candidates for membership on the Company's Board of Directors. This consideration includes, at a minimum, a review of each prospective candidate's character, judgment, experience, expertise, age, diversity, independence under applicable law and freedom from other conflicts, as well as other factors that the Nominating and Corporate Governance Committee deems relevant in light of the needs of the Board of Directors and the Company and/or that are in the best interests of the Company, including relevant experience, the ability to dedicate sufficient time, energy and attention to performance of Board of Directors duties, financial expertise, experience with a company that has introduced a new, technologically advanced product or service to the marketplace and existing relationships within target industries or political circles that may benefit the Company and whether the prospective candidate is a Nominating and Corporate Governance Committee-selected prospective candidate or a stockholder-recommended prospective candidate. The Nominating and Corporate Governance Committee selects qualified candidates and recommends those candidates to the Board of Directors, and the Board of Directors then decides if it will invite the candidates to be nominees for election to the Board of Directors.

The Nominating and Corporate Governance Committee uses the following process to identify prospective candidates for the Board of Directors and to evaluate all candidates, including candidates recommended by stockholders in accordance with the Company's policy regarding stockholder recommendations and the director nominations process. The Nominating and Corporate Governance Committee (i) reviews the composition and size of the Board of Directors and determines the criteria for Board of Directors membership; (ii) evaluates the Board of Directors for effectiveness and makes a verbal presentation of its findings to the Board of Directors; (iii) determines whether the current members of the Board of Directors who satisfy the criteria for Board of Directors membership are willing to continue in service; if the current members of the Board of Directors are willing to continue in service, the Committee evaluates the performance of such board members and considers those current members for re-nomination, and if the current members of the Board of Directors are not willing to continue in service or if there will be an increase in the number of directors on the Board of Directors, the Nominating and Corporate Governance Committee considers candidates who meet the criteria for Board of Directors membership; (iv) if necessary, engages a search firm to assist with the identification of potential candidates; (v) compiles a list of potential candidates; (vi) evaluates the prospective candidates, including candidates recommended by stockholders, to determine which of the prospective candidates, if any, will best represent the interests of all stockholders and determines whether any conflicts of interest exist; (vii) holds Committee meetings to narrow the list of prospective candidates; (viii) along with the Chairman of the Board of Directors and management, interviews a select group of prospective candidates; (ix) approves the candidate or candidates who are most likely to advance the best interests of the stockholders; and (x) recommends the