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

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-15957

Capstone Turbine Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**95-4180883**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

21211 Nordhoff Street, Chatsworth, California 91311
(Address of principal executive offices and zip code)

(Registrant's telephone number, including area code)
818-734-5300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated" filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

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

The number of outstanding shares of the registrant's common stock as of January 31, 2006 was 102,735,649.

CAPSTONE TURBINE CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. ***Consolidated Financial Statements***

CAPSTONE TURBINE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2005	March 31, 2005
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 66,190	$ 63,593
Accounts receivable, net of allowance for doubtful accounts and sales returns of $779 at December 31, 2005 and $536 at March 31, 2005	5,949	3,150
Inventories	14,702	11,273
Prepaid expenses and other current assets	932	992
Total current assets	87,773	79,008
Equipment and Leasehold Improvements, net	8,519	10,529
Non-Current Portion of Inventories	2,939	3,990
Intangible Asset, net and Other Long-Term Assets	1,469	1,663
Total	$ 100,700	$ 95,190
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 6,835	$ 5,796
Accrued salaries and wages	1,109	1,442
Accrued warranty reserve	7,984	8,667
Deferred revenue	1,419	1,522
Current portion of notes payable and capital lease obligations	19	19
Total current liabilities	17,366	17,446
Long-Term Portion of Notes Payable and Capital Lease Obligations	50	64
Other Long-Term Liabilities	690	1,002
Stockholders' Equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized; none issued	—	—
Common stock, $.001 par value; 415,000,000 shares authorized; 103,252,461 shares issued and 102,701,253 shares outstanding at December 31, 2005; 85,379,446 shares issued and 84,828,238 shares outstanding at March 31, 2005	103	85
Additional paid-in capital	571,963	530,931
Accumulated deficit	(488,714)	(453,469)
Deferred stock compensation	(245)	(356)
Treasury stock, at cost; 551,208 shares	(513)	(513)
Total stockholders' equity	82,594	76,678
Total	$ 100,700	$ 95,190

See accompanying notes to condensed consolidated financial statements.

CAPSTONE TURBINE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
	(Unaudited) (In thousands, except per share data)			
Revenue	$ 7,040	$ 4,683	$ 16,552	$ 11,563
Cost of Goods Sold	9,793	6,829	23,785	18,299
Gross Loss	(2,753)	(2,146)	(7,233)	(6,736)
Operating Expenses:				
Research and development	3,093	2,793	7,926	9,126
Selling, general and administrative	9,045	5,210	21,570	14,856
Total operating expenses	12,138	8,003	29,496	23,982
Loss from Operations	(14,891)	(10,149)	(36,729)	(30,718)
Interest income	708	378	1,481	937
Interest expense	(1)	(2)	(22)	(37)
Other Income	3	3	27	369
Loss Before Income Taxes	(14,181)	(9,770)	(35,243)	(29,449)
Provision for Income Taxes	—	—	2	2
Net Loss	$ (14,181)	$ (9,770)	$(35,245)	$(29,451)
Net Loss Per Share of Common Stock — Basic and Diluted	$ (0.14)	$ (0.12)	$ (0.39)	$ (0.35)
Weighted Average Shares Used to Calculate Basic and Diluted Net Loss Per Share	102,341	84,412	90,624	84,337

See accompanying notes to condensed consolidated financial statements.

CAPSTONE TURBINE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended December 31,	
	2005	2004
	(Unaudited) (In thousands)	
Cash Flows from Operating Activities:		
Net loss	$(35,245)	$ (29,451)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,231	3,586
Provision for doubtful accounts and sales returns	244	41
Inventories write-down	1,526	207
Provision for warranty expenses	1,243	957
(Gain)Loss on disposal of equipment	(21)	30
Non-cash stock compensation	753	254
Changes in operating assets and liabilities:		
Accounts receivable	(3,043)	2,149
Inventories	(3,904)	(2,312)
Prepaid expenses and other assets	53	194
Accounts payable	(652)	1,354
Accrued salaries and wages, and other accrued and long-term liabilities	983	(990)
Accrued warranty reserve	(1,926)	(2,039)
Deferred revenue	(103)	226
Net cash used in operating activities	(36,861)	(25,794)
Cash Flows from Investing Activities:		
Acquisition of and deposits on equipment and leasehold improvements	(966)	(605)
Proceeds from disposal of equipment and leasehold improvements	30	1
Net cash used in investing activities	(936)	(604)
Cash Flows from Financing Activities:		
Net proceeds from sale of common stock	39,089	—
Repayment of notes payable and capital lease obligations	(14)	(593)
Exercise of stock options and employee stock purchases	1,319	304
Net cash provided by(used in) financing activities	40,394	(289)
Net Increase (Decrease) in Cash and Cash Equivalents	2,597	(26,687)
Cash and Cash Equivalents, Beginning of Period	63,593	102,380
Cash and Cash Equivalents, End of Period	$ 66,190	$ 75,693
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 22	$ 37
Income taxes	$ 2	$ 2
Supplemental Disclosures of Non-Cash Information:		
During the nine months ended December 31, 2005 and 2004, the Company purchased on account $63 and $29 of fixed assets, respectively		

See accompanying notes to condensed consolidated financial statements.

CAPSTONE TURBINE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Organization

Capstone Turbine Corporation (the "Company") develops, manufactures, markets and services microturbine technology solutions for use in stationary distributed power generation applications, including secure power, cogeneration (combined heat and power ("CHP") and combined cooling, heat and power ("CCHP")), and resource recovery (including "renewable" fuels). In addition, the Company's microturbines can be used as generators for hybrid electric vehicle applications. The Company was organized in 1988 and has been commercially producing its microturbine generators since 1998.

The Company has incurred significant operating losses since its inception. Management anticipates incurring additional losses until the Company can produce sufficient revenue to cover costs and expenses. To date, the Company has funded its activities primarily through private and public equity offerings.

2. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q and Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated balance sheet at March 31, 2005 was derived from audited financial statements included in the Company's annual report on Form 10-K for the year ended March 31, 2005. In the opinion of management, the interim condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial condition, results of operations and cash flows for such periods. Results of operations for any interim period are not necessarily indicative of results for any other interim period or for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2005. This quarterly report on Form 10-Q ("Form 10-Q") refers to the fiscal years ending March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007 and March 31, 2006, and the fiscal years ended March 31, 2005 and March 31, 2004 as "Fiscal 2010", "Fiscal 2009", "Fiscal 2008", "Fiscal 2007", "Fiscal 2006", "Fiscal 2005" and "Fiscal 2004", respectively.

Certain reclassifications have been made to some prior year balances to conform to the current year's presentation.

The condensed consolidated financial statements include the accounts of the Company and Capstone Turbine International, Inc., its wholly owned subsidiary that was formed in June 2004, after elimination of inter-company transactions.

3. Customer Concentrations and Accounts Receivable

Individually, three customers accounted for 26%, 17% and 12% of revenue, respectively, for the third quarter of Fiscal 2006, totaling approximately 55% of revenue. For the same quarter a year ago, individually, two customers accounted for approximately 27% and 13% of revenue, respectively, totaling approximately 40% of revenue. United Technologies Corporation ("UTC") accounted for 26% and 4% of revenue for the third quarter of Fiscal 2006 and Fiscal 2005, respectively. For the nine months ended December 31, 2005, one customer accounted for 23% of revenue. For the same period a year ago, one customer accounted for approximately 13% of revenue. UTC accounted for 23% and 9% of revenue for the nine months ended December 31, 2005 and 2004, respectively. While the Company has individual customers who, in any given period, may represent a significant portion of the Company's business, overall, the Company is not dependent on any single customer or particular group of customers.

CAPSTONE TURBINE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Individually, two customers accounted for 22% and 19% of net accounts receivable, respectively, as of December 31, 2005, totaling approximately 41% of net accounts receivable. UTC accounted for 19% and 47% of net accounts receivable as of December 31, 2005 and March 31, 2005, respectively.

4. Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on the first-in, first-out method) or market and consisted of the following:

	December 31, 2005	March 31, 2005
	(In thousands)	
Raw materials	$ 13,748	$ 11,333
Work in process	1,017	2,580
Finished goods	2,876	1,350
Total	17,641	15,263
Less non-current portion	2,939	3,990
Current portion	$ 14,702	$ 11,273

The non-current portion of inventories represents that portion of the inventories in excess of amounts expected to be sold or used in the next twelve months.

5. Equipment and Leasehold Improvements

Equipment and leasehold improvements consisted of the following:

	December 31, 2005	March 31, 2005
	(In thousands)	
Machinery, equipment and furniture	$ 19,471	$ 18,760
Leasehold improvements	8,642	8,563
Molds and tooling	3,166	3,096
	31,279	30,419
Less: accumulated depreciation and amortization	22,760	19,890
Total equipment and leasehold improvements, net	$ 8,519	$ 10,529

6. Intangible Asset

The Company's sole intangible asset is a manufacturing license as follows:

	(In thousands)
Gross carrying amount	$ 3,663
Accumulated amortization and impairment loss	(2,236)
Balance, March 31, 2005	1,427
Amortization for the nine months ended December 31, 2005	(201)
Balance, December 31, 2005	$ 1,226

This intangible asset, which was acquired in 2000, is being amortized over its estimated useful life of ten years. Related amortization expense for the three-month and nine-month periods ended December 31, 2005 was $67,000 and $201,000, respectively. The related amortization expense for the same periods last year was $67,000 and

$201,000, respectively. The manufacturing license is scheduled to be fully amortized by the fiscal year ending March 31, 2011 with corresponding amortization estimated to be $66,000 for the remainder of Fiscal 2006, $267,000 for each of Fiscal 2007, Fiscal 2008, Fiscal 2009, Fiscal 2010 and $92,000 for the fiscal year ending March 31, 2011. The manufacturing license agreement requires the Company to pay a per-unit royalty fee over a seventeen-year period for cores manufactured and sold by the Company using the technology. As of December 31, 2005, royalties of $61,000 were earned under the terms of the manufacturing license agreement, of which $31,000 was unpaid.

7. Stock-Based Compensation

The Company accounts for employee stock option plans under the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The Company accounts for equity instruments issued to non-employees using the fair value at the date of grant as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Service." The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to employee stock option grants, employee stock purchases, restricted stock and stock awards:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net loss, as reported	$(14,181)	$ (9,770)	$(35,245)	$(29,451)
Add: Stock-based employee and director compensation included in reported net loss	62	37	214	114
Deduct: Total stock-based employee and director compensation expense determined under fair value based method	(857)	(915)	(2,441)	(2,864)
Pro forma net loss	$(14,976)	$(10,648)	$(37,472)	$(32,201)
Net loss per share — Basic and Diluted:				
As reported	$ (0.14)	$ (0.12)	$ (0.39)	$ (0.35)
Pro forma	$ (0.15)	$ (0.13)	$ (0.41)	$ (0.38)

During the fiscal years ended December 31, 1999 and December 31, 2000, the Company granted options at less than the fair value of its common stock, which were fully amortized as of June 30, 2004. In addition, in Fiscal 2004, the Company issued shares of restricted common stock at less than the fair value of its common stock. Accordingly, the Company recorded employee and director stock-based compensation expense based on the vesting of these issuances as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
	(In thousands)			
Research and development	$ —	$ —	$ —	$ 3
Selling, general and administrative	62	37	214	111
Total	$ 62	$ 37	$ 214	$ 114

CAPSTONE TURBINE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In July 2005, the Company entered into a General Release and Separation Agreement and a Consulting Agreement (the "Consulting Agreement") with the Company's former Chief Financial Officer. The Consulting Agreement provides for, among other items, a continuation of the vesting period of the then unvested common stock options through April 2006, and consulting fees for three months. The Company recognized stock-based compensation of $236,000 in the three months ended September 30, 2005 based upon the fair value of the unvested options in accordance with SFAS No. 123 and EITF 96-18.

As of December 31, 2005, the Company had $245,000 in deferred stock compensation related to restricted stock, which will be amortized through Fiscal 2008.

8. Accrued Warranty Reserve

The Company provides for the estimated costs of warranties at the time revenue is recognized. The specific terms and conditions of those warranties vary depending upon the product sold, geography of sale and the length of extended warranties sold. The Company's product warranties generally start from the delivery date and continue for up to three years. Factors that affect the Company's warranty obligations include product failure rates and costs of repair or replacement in correcting product failures. The Company also accrues the estimated costs to address reliability repairs on products no longer in warranty when, in the Company's judgment and in accordance with a specific plan developed by the Company, it is prudent to provide such repairs. The Company assesses the adequacy of recorded warranty liabilities and makes adjustments quarterly, if necessary.

Changes in accrued warranty reserve during the nine months ended December 31, 2005 are as follows:

	(In thousands)
Balance, March 31, 2005	$ 8,667
Warranty provision relating to products shipped during the period	1,191
Deduction for warranty payments	(1,926)
Changes for accruals related to preexisting warranties or reliability repairs programs	52
Balance, December 31, 2005	$ 7,984

9. Commitments and Contingencies

As of December 31, 2005, the Company had firm commitments to purchase inventories of approximately $9.9 million.

The Company leases offices and manufacturing facilities under various non-cancelable operating leases expiring at various times through the year ending March 31, 2011. All of the leases require the Company to pay maintenance, insurance and property taxes. The lease agreements provide for rent escalation over the lease term. Rent expense is recognized on a straight-line basis over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to "deferred rent" which is included in Other Long-term Liabilities in the accompanying condensed consolidated balance sheets. Deferred rent amounted to $635,000 and $655,000 as of December 31, 2005 and March 31, 2005, respectively. Also included in Other Long-term Liabilities was an accrual of $37,000 and $276,000 as of December 31, 2005 and March 31, 2005, respectively, for the expected loss on a sublease for office space previously occupied by the Company's wholly owned subsidiary. The change in the accrual was a result of the lease payments offset by the expected sublease income from the new sublease agreement. This sublessee vacated the premises during the third quarter of Fiscal 2005. During the quarter ending September 30, 2005, the Company entered into a new sublease agreement. The sublessee payments will be offset against the deferred rent balance.

In December 2001, a purported shareholder class action lawsuit was filed against the Company, two of its then officers, and the underwriters of the Company's initial public offering. The suit purports to be a class action filed on behalf of purchasers of the Company's common stock during the period from June 28, 2000 to December 6, 2000.

An amended complaint was filed on April 19, 2002. Plaintiffs allege that the underwriter defendants agreed to allocate stock in the Company's June 28, 2000 initial public offering and November 16, 2000 secondary offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectuses for these two public offerings were false and misleading in violation of the securities laws because they did not disclose these arrangements. A committee of the Company's Board of Directors conditionally approved a proposed partial settlement with the plaintiffs in this matter. The settlement would include, among other things, a release of the Company and of the individual defendants for liability associated with the conduct alleged in the action to be wrongful in the amended complaint. The Company would agree to undertake other responsibilities under the proposed settlement, including agreeing to assign away, not assert, or release certain potential claims the Company may have against its underwriters. Any direct financial impact of the proposed settlement is expected to be borne by the Company's insurers. The proposed settlement is pending final approval by parties to the action and the United States District Court for the Southern District of New York.

A demand for arbitration was filed in March 2004 by Interstate Companies, Inc. ("Interstate"), a company that conducts business with the Company. Interstate claimed damages for breach of contract in excess of $10 million. On December 30, 2005, the Company entered into a Confidential Settlement Agreement and Mutual Release ("Settlement Agreement") with Interstate, whereby all disputes between Interstate and the Company were amicably resolved. Pursuant to the Settlement Agreement, the Company paid Interstate $2.3 million on December 30, 2005 and the parties agreed to release each other from any and all claims. The Company accrued $0.3 million of the expense in a prior year and recorded $2.0 million of the expense in selling, general and administrative cost in the current quarter.

10. Related Party Transactions

Mr. Eliot Protsch is the Chairman of the Company's Board of Directors. Mr. Protsch is Senior Executive Vice-President and Chief Financial Officer of Alliant Energy Corporation. Alliant Energy Resources, Inc., a subsidiary of Alliant Energy Corporation, was a distributor for the Company and the agreement expired in March 2005. There were no sales to Alliant Energy Resources, Inc. during the three and nine months ended December 31, 2005 and 2004.

In October 2002, the Company entered into a strategic alliance with UTC, a stockholder, through its UTC power division. In March 2005, the Company and UTC replaced the strategic alliance agreement with an original equipment manufacturer agreement (the "OEM Agreement") between the Company and UTC Power LLC ("UTCP"). The OEM Agreement involves the integration, marketing, sales and service of CCHP solutions worldwide. Sales to UTC's affiliated companies were approximately $1.8 million and $169,000 for the three months ended December 31, 2005 and 2004, respectively. Sales for the nine months ended December 31, 2005 and 2004 were $3.9 million and $1.0 million, respectively. Related accounts receivable were $1.1 million and $1.5 million at December 31, 2005 and March 31, 2005, respectively. In December 2003, the Company engaged United Technologies Research Center ("UTRC") to be a subcontractor of the Company in relation to one of the awards that the Company received from the Department of Energy (the "DOE"). UTRC is the research and development branch of UTC. UTRC billed the Company $8,000 under this subcontract for the three months ended December 31, 2005, and the Company had an unpaid balance with UTRC of $9,000 at December 31, 2005. There were no billings under this contract for the three months ended December 31, 2004. For the nine months ended December 31, 2005, there were approximately $35,000 in billings compared to $100,000 for the same period a year ago.

On September 11, 2005, the Company gave notice to UTCP pursuant to the OEM Agreement, dated March 23, 2005, of certain breaches of the OEM Agreement by UTCP and called upon UTCP to cure those breaches to avoid termination of the OEM Agreement. UTCP filed suit in the United States District Court for the District of Connecticut on September 16, 2005, denying that it is in breach of the OEM Agreement and seeking to enjoin the Company from terminating or attempting to terminate the OEM Agreement; monetary damages were not sought.

On November 15, 2005, UTCP filed a notice of dismissal without prejudice with respect to its lawsuit and on November 16, 2005, the United States District Court for the District of Connecticut entered an order dismissing the case. The Company did not withhold sales of products or parts to UTCP during the cure period. The OEM Agreement provides for arbitration of all disputes between the parties. The Company invited UTCP to cure its performance failures under the OEM Agreement and to meet with the Company to determine if the parties can resolve the matters in dispute.

11. Net Loss Per Common Share

Basic loss per share of common stock is computed using the weighted-average number of common shares outstanding for the period. For purposes of computing basic loss per share and diluted loss per share, shares of restricted common stock which are contingently returnable and subject to repurchase if the purchaser's status as an employee or consultant terminates are not considered outstanding until they are vested. Diluted loss per share is also computed without consideration to potentially dilutive instruments because the Company incurred losses in the period covered by this Form 10-Q which would make them antidilutive. As of December 31, 2005 and 2004, the number of antidilutive stock options excluded from diluted net loss per common share computations was approximately 10,071,000 and 8,914,000 shares, respectively. As of December 31, 2005, 208,000 shares of restricted common stock are contingently returnable.

12. Sale of Common Stock

Effective October 21, 2005, the Company completed a registered direct offering of the Company's common stock whereby it issued a total of 17 million shares of its common stock, resulting in gross proceeds of approximately $41.4 million. The Company incurred approximately $2.3 million in direct costs associated with the offering.

The common stock was issued pursuant to a prospectus supplement filed with the Securities and Exchange Commission pursuant to Rule 424(b) of the Securities Act of 1933, as amended (the "Securities Act"), in connection with a takedown from the Company's registration statement on Form S-3 (File No. 333-128164).

13. Recent Accounting Pronouncements

New Accounting Pronouncements — In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. In addition, it carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principles in most circumstances. The Company plans to adopt SFAS No. 154 prospectively at the beginning of Fiscal 2007.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company will be required to adopt SFAS No. 123R at the beginning of Fiscal 2007. The Company believes that the adoption of SFAS No. 123R could have a material impact on the amount of earnings the Company reports in Fiscal 2007. The Company has not yet determined the specific impact that adoption of this standard will have on its financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB 43, Chapter 4." SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 now requires that those items be recognized as current-period charges

regardless of whether they meet the criterion of "so abnormal." In addition, it requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted. The Company plans to adopt SFAS No. 151 at the beginning of Fiscal 2007. The Company has not yet determined the specific impact that adoption of this standard will have on its financial position or results of operations.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this Form 10-Q and within the Company's Annual Report on Form 10-K for the year ended March 31, 2005. When used in this Form 10-Q, and in the following discussion, the words "believes", "anticipates", "intends", "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. These risks include those identified under "Business Risks" in Item 2 of Part I of this Form 10-Q. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. All dollar amounts are approximate.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ from management's estimates. We believe the critical accounting policies listed below affect our more significant accounting judgments and estimates used in the preparation of the consolidated financial statements. These policies are described in greater detail in our Annual Report on Form 10-K for Fiscal 2005 and continue to include the following areas:

- Impairment of long-lived assets, including intangible assets;
- Inventory write-downs and classification of inventories;
- Estimates of warranty obligations;
- Sales returns and allowances;
- Allowance for doubtful accounts;
- Deferred tax assets; and
- Loss contingencies.

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has not yet determined the specific impact that adoption of this standard will have on its financial position or results of operations.

Overview

We develop, manufacture, market and service microturbine technology solutions for use in stationary distributed power generation applications, including secure power, cogeneration (combined heat and power ("CHP") and combined cooling, heat and power ("CCHP")) and resource recovery (including "renewable" fuels). In addition, our microturbines can be used as generators for hybrid electric vehicle applications. Microturbines allow customers to produce power on-site. There are several technologies which are used to provide "on-site power generation", also called "distributed generation," such as reciprocating engines, solar power, wind powered systems and fuel cells. For customers who do not have access to the electric utility grid, microturbines can provide clean, on-site power with lower scheduled maintenance intervals and greater fuel flexibility than competing technologies. For customers with access to the electric grid, microturbines can provide an additional source of continuous duty power, thereby providing additional reliability and in some instances, cost savings. With our stand-alone feature, customers can produce their own energy in the event of a power outage and can use the microturbines as their primary source of power for extended periods. Because our microturbines also produce clean, usable heat energy, they can provide economic advantages to customers who can benefit from the use of hot water, air conditioning and direct hot air. Our microturbines are sold primarily through our distributors and dealers. Our Authorized Service Companies ("ASCs") provide installation and service. Successful implementation of the microturbine relies on the quality of the microturbine, the ability to sell into appropriate applications, and the quality of the installation and support of the ASCs.

We believe we were the first company to offer a commercially available power source using microturbine technology. Our Model C30 and C60 Series products are designed to produce electricity for commercial and small industrial users. A 30-kilowatt product can produce enough electricity to power a small convenience store. The 60 and 65 kilowatt products can produce enough heat to provide hot water to a 100-room hotel while also providing about one-third of its electrical requirements. Our microturbines combine patented air-bearing technology, advanced combustion technology and sophisticated power electronics to form efficient electricity and heat production systems. Because of our air-bearing technology, our microturbines do not require lubrication. This means they do not require routine maintenance to change oil or other lubrications, as do the most common competing products. The 30-kilowatt product can be fueled by various sources including natural gas, propane, sour gas, renewable fuels such as landfill or digestor gas, kerosene and diesel. The 60 and 65 kilowatt products are available with an integrated heat exchanger, making it efficient to install in applications where hot water is used. Our products produce exceptionally clean power. In terms of nitrogen oxides ("NOx") emissions, our microturbines have been shown to consistently produce less NOx than conventional reciprocating engines, including those designed for natural gas.

The market for our products is highly competitive and is changing rapidly. Our microturbines compete with existing technologies, such as the utility grid and reciprocating engines, and may also compete with emerging distributed generation technologies, including solar power, wind-powered systems, fuel cells and other microturbines. Additionally, many of our distributed generation competitors are well-established firms that derive advantages from production economies of scale and have a worldwide presence and greater resources, which they can devote to product development or promotion.

We began commercial sales of our Model C30 products in 1998. In September 2000, we shipped the first commercial unit of our Model C60 microturbine. Annually, we revisit our strategic plan. While some aspects of our strategic plan may be modified, the overall direction, targets and key initiatives remain intact. An overview of our strategic plan progress and its current status follows:

1. *Focus on vertical markets* — Within the distributed generation markets that we serve, we focus on vertical markets that we identify as having the greatest near-term potential. In our primary products and applications (secure power, cogeneration (CHP and CCHP) and resource recovery), we identify specific targeted vertical market segments. Within each of these markets, we identify the critical factors to penetrating these markets and have based our plans on those factors.

During the third quarter of Fiscal 2006, we booked orders for 3.8 megawatts and shipped 6.8 megawatts of products, resulting in 12.8 megawatts in backlog at the end of the third quarter. About 95% of our actual product shipments in the third quarter of Fiscal 2006 were to target markets: 17% for use in CHP applications, 42% for use in CCHP applications, 36% for use in resource recovery applications and all other shipments including secure power were 5%.

2. *Sales and Distribution Channel* — Previously, we identified the need to refine our channels of distribution. While some distributors, dealers and representatives had business capabilities to support our growth plans in our targeted markets, others did not. Additionally, we identified the need to add new distributors, dealers and representatives who were experienced in our target markets. We made significant progress in tailoring our distribution channels in the past two years. In the Americas, we currently have eight distributors and five dealers. Internationally, we added distribution centers in a number of countries where we were previously under-represented. We continue to refine the distribution channels to address our specific targeted markets.

3. *Geographic Focus* — The Americas have been, and will continue to be, our largest market. Within the United States, our focus will be on California and the Northeast. In Fiscal 2005, we opened a sales and service office in New York. We intend to use this presence to expand our penetration in the Northeastern market. We are investigating Boston as the next location for a direct Capstone presence in the Northeast. Based on our belief that Europe will offer significant opportunities, we opened a European headquarters office in Milan, Italy in Fiscal 2005. Since establishing that office, we have seen an improvement of 120% in our sales in Europe during the first nine months of Fiscal 2006, compared with the same period last year. We expect to continue to develop our distribution base and market presence in Europe. In Japan, we are focused on developing niche opportunities that we believe offer the potential for increasing sales volumes over the next three years. Additionally, we have established an office in Mexico to service our fourth largest market and we have established an office in China to work with our China distributor in the expectation that China will become one of our leading markets in the years ahead.

4. *Service* — During Fiscal 2005, we entered the direct service business. Previously, our service strategy was to serve all customers through our distributors and ASCs. Distributors were expected to sell the products, provide engineering solutions, and perform as ASCs by providing installation, commissioning and service. Several of our distributors did not provide the level of service desired and a number of end users requested to work directly with us. As a result, we are pursuing a strategy to serve customers directly, as well as through qualified distributors and ASCs, all of whom will perform their service work using technicians specifically trained by Capstone. In Fiscal 2005, we put the resources in place to initiate our direct service offering in North America. We also intend to establish spare parts distribution centers in strategic locations to ensure timely delivery of parts.

5. *Product Robustness and Life Cycle Maintenance Costs* — Customers expect high performance and competitive total cost of ownership. To address those needs, we must continually ensure a high level of performance. Performance is affected not only by the microturbine, but also by the proper application design and installation, and the quality of ongoing service. We established a team to enhance the robustness of both our Model C30 and Model C60 products. The objective of this team was to meet, and then exceed, an average of 8,000 hours mean-time-between-failures for our microturbines. Based on our expected performance of units being manufactured and shipped, the team met this goal early in Fiscal 2005. These product robustness enhancements are expected to lower our per unit warranty costs and other support costs.

To further provide us with the ability to evaluate microturbine performance in the field, we developed a “real-time” remote monitoring and diagnostic feature. This feature allows us to monitor installed units and rapidly collect operating data on a continual basis. We use this information to anticipate and quickly respond to field performance issues, evaluate component robustness and identify areas for continuous improvement. This feature is very important in allowing us to better serve our customers.

6. *New Product Development* — Our new product development is targeted specifically to meet the needs of our selected vertical markets. We expect that our existing product platforms, the Model C30 and C60 Series, will be our foundational product lines for the foreseeable future. Our product development efforts are centered on enhancing the features of these base products. In December 2005 we announced the introduction of the

Capstone C65 to our C60 Series, with an installed output of 65 kilowatts. The C65 will complement, rather than replace as originally intended, our C60 Series. In addition, our C200 product beta testing was successfully implemented during Fiscal 2005. Testing continues, and we are in the process of implementing a market survey to establish launch customers for this new product.

7. *Cost and Core Competencies* — Improving overall product cost is an important element of the strategic plan. The planning process identified opportunities for improvement through focusing on core competencies. We believe that we can achieve overall cost improvements by outsourcing areas not consistent with our core competencies. We have identified design, assembly, test and installation support as areas where we have opportunities to save costs through outsourcing. In conjunction with these changes, we have launched a strategic supply chain initiative to begin developing suppliers in China and other parts of Asia. Although we are only in the early stages of this initiative, we are encouraged by the improved cost opportunities this effort may produce. While we are striving to reduce costs, commodity price increases in mid-to-late Fiscal 2005 increased our costs of goods sold. In response to this development, in late Fiscal 2005 and again in February 2006, we increased selling prices an average of 7% in each period.

We believe that execution in each of these key areas of our strategic plan will be necessary to continue Capstone's transition from an R&D focused company with a promising technology and early market leadership to achieving positive cash flow with growing market presence and improving financial performance. Primarily because of the delay in the approval of the New York City Department of Buildings' Materials Equipment Acceptance application, we now expect to achieve our goal of positive cash flow by the end of the first quarter of Fiscal 2008. The approval of the MEA application will result in our Capstone-branded MicroTurbine Emergency Elevator Interface product being added to the MEA Index, which is the New York City Department of Buildings' list of accepted products. As a result, this will significantly simplify the permit filing process for our customers.

Results of Operations

Three Months Ended December 31, 2005 and 2004

Revenue. Revenue for the third quarter of Fiscal 2006 increased $2.3 million, or 50%, to $7.0 million from $4.7 million for the same period last year. Revenue from product shipments increased $2.2 million, or 68%, to $5.7 million during the current period from $3.5 million in the prior year. Shipments during the current period were 6.8 megawatts compared with 4.5 megawatts in the prior period reflecting higher demand in the current period. The overall revenue increase reflects an average unit price increase of 21%, as well as a product mix price change towards higher priced units. Revenue from accessories, parts and service for the third quarter of Fiscal 2006 increased $0.1 million to $1.3 million from $1.2 million for the same period last year.

Individually, three customers accounted for 26%, 17% and 12% of revenue, respectively, for the third quarter of Fiscal 2006, totaling approximately 55% of revenue. For the same quarter a year ago, individually, two customers accounted for approximately 27% and 13% of revenue, respectively, totaling approximately 40% of revenue. UTC accounted for 26% and 4% of revenue for the third quarter of Fiscal 2006 and Fiscal 2005, respectively.

Gross loss. Cost of goods sold includes direct material costs, production overhead, inventory charges and provision for estimated product warranty expenses. The gross loss was $2.8 million, or 39.1% of revenue, for the third quarter of Fiscal 2006 compared to $2.1 million, or 45.8% of revenue, for the same period last year. The improvement in the gross loss percentage reflects the operating leverage of increased revenue over fixed manufacturing costs. The operating leverage benefits were offset by increased inventory valuation charges of $0.6 million and warranty expense of $0.3 million, compared to the same period last year. Warranty expense for unit shipments decreased approximately $0.9 million as a result of improvements that have been made through engineering design changes and product robustness, offset by an increase in reliability programs of $1.2 million primarily as a result of benefits of $0.9 recorded in the prior period resulting from design changes and product enhancements. Warranty expense is a combination of a per-unit warranty accrual recorded at the time the product is shipped and changes in estimates of several reliability enhancement programs. These program estimates are recorded in the period that new information, such as design changes and product enhancements, becomes available.

We expect to continue to incur gross losses until we are able to increase our margins through higher sales volumes, lower warranty and direct materials costs, and reduced manufacturing costs through efforts such as outsourcing non-core functions, including design, assembly, test and installation support.

Research and Development ("R&D") Expenses. R&D expenses include compensation, engineering department expenses, overhead allocations for administration and facilities and materials costs associated with development. R&D expenses for the third quarter of Fiscal 2006 increased $0.3 million, or 11%, to $3.1 million from $2.8 million for the same period last year. R&D expenses are reported net of benefits from cost-sharing programs such as the DOE funding. There were approximately $0.5 million of such benefits this quarter, compared with $0.2 million for the same period a year ago. These benefits were offset by an increase of $0.7 million in R&D expense. This increase in R&D expense is primarily the result of increased spending for development hardware for various engineering projects of $0.4 million and consulting services of $0.3 million. Cost-sharing programs vary from period to period depending on the phases of the programs. We expect R&D expense in Fiscal 2006 to be somewhat lower than in Fiscal 2005. This change is expected to occur as a result of higher spending being more than offset by cost-sharing programs.

Selling, General, and Administrative ("SG&A") Expenses. SG&A expenses for the third quarter of Fiscal 2006 increased $3.8 million, or 74%, to $9.0 million from $5.2 million for the same period last year. Approximately $2.0 million of the increase relates to the Interstate Settlement Agreement. Approximately $0.5 million of the increase in SG&A expenses relates to labor related costs, including salaries, consulting, recruitment and relocation expenses to support our continuous process improvement throughout the organization. Approximately $0.5 million of the increase is related to marketing expense, $0.4 million results from legal fees and $0.3 million is related to supplies and facility maintenance costs. We expect SG&A costs in Fiscal 2006 to be higher than the prior year.

Interest Income. Interest income for the third quarter of Fiscal 2006 increased $0.3 million, or 87%, to $0.7 million from $0.4 million for the same period last year. The increase during the current period was attributable to higher cash balances as a result of the $39.1 million in net proceeds from the equity offering in addition to increased investment yields over the same period.

Nine Months Ended December 31, 2005 and 2004

Revenue. Revenue for the nine months ended December 31, 2005 increased $5.0 million, or 43%, to $16.6 million from $11.6 million for the same period last year, reflecting increased demand across products, parts, accessories and service in the current year. Revenue from product shipments increased $4.2 million, or 48%, to $12.9 million during the current period from $8.7 million in the prior year. Shipments during the nine-month period were 15.4 megawatts compared with 11.3 megawatts during the same period last year. The overall revenue increase reflects an average unit price increase of 10%, as well as a product mix price change towards higher priced units. Revenue from accessories, parts and service for the nine months ended December 31, 2005 increased $0.8 million to $3.5 million from $2.7 million for the same period last year. We expect sales in Fiscal 2006 to exceed sales for Fiscal 2005.

For the nine months ended December 31, 2005, one customer accounted for 23% of revenue. For the same period a year ago, one customer accounted for approximately 13% of revenue. UTC accounted for 23% and 2% of revenue for the nine months ended December 31, 2005 and 2004, respectively.

Gross loss. The gross loss was $7.2 million, or 43.7% of revenue, for the nine months ended December 31, 2005 compared to $6.7 million, or 58.3% of revenue, for the same period last year. The improvement in the gross loss percentage reflects the operating leverage of increased revenue over fixed manufacturing costs. The operating leverage benefits were offset by increased inventory valuation charges of $0.7 million and warranty expense of $0.3 million, compared to the same period last year. Warranty expense for unit shipments decreased approximately $1.4 million as a result of improvements that have been made through engineering design changes and product robustness, offset by an increase in reliability programs of $1.7 million primarily as a result of benefits of $1.6 million recorded in the prior period resulting from design changes and product enhancements. Warranty expense is a combination of a per-unit warranty accrual recorded at the time the product is shipped and changes in estimates of several reliability enhancement programs. These program estimates are recorded in the period that new information, such as design changes and product enhancements, becomes available. The increased inventory

valuation charges during the nine months ended December 31, 2005 is net of a benefit of $0.3 million recognized during the nine months ended December 31, 2004 for the use of previously fully written-down recuperator cores.

R&D Expenses. R&D expenses for the nine months ended December 31, 2005 decreased $1.2 million, or 13%, to $7.9 million from $9.1 million for the same period last year. R&D expenses are reported net of benefits from cost-sharing programs. These benefits were $1.6 million for the nine months ended December 31, 2005, compared with $0.3 million for the same period a year ago. The benefits from cost-sharing programs vary from period to period depending on the phases of the programs. The decrease in expenses is primarily the result of a $1.3 million increase in benefit from cost-sharing programs. The decrease is also a result of a $0.4 million reduction in spending for development hardware and a $0.2 million reduction in spending for legal costs relating to intellectual property, offset by higher costs for consulting and labor of approximately $0.8 million associated with our product robustness and enhancement efforts.

SG&A Expenses. SG&A expenses for the nine months ended December 31, 2005 increased $6.7 million, or 45%, to $21.6 million from $14.9 million for the same period last year. Approximately $2.0 million of the increase relates to the Interstate Settlement Agreement. Additionally, $1.5 million of the increase relates to consulting costs, $1.2 million is the result of legal and accounting fees and $0.5 million relates to severance expense. Approximately $0.4 million of the increase is for marketing expense and $0.4 million is for labor related costs, including salaries, recruitment and relocation expenses to support our continuous process improvement throughout the organization. Additionally, $0.4 million of the increase relates to increased facility maintenance costs and $0.4 million is the result of increased other administrative costs. We expect SG&A costs in Fiscal 2006 to be higher than the prior year.

Interest Income. Interest income for the nine months ended December 31, 2005 increased $0.6 million, or 58%, to $1.5 million from $0.9 million for the same period last year. The increase during the current period was attributable to higher cash balances as a result of the $39.1 million in net proceeds from the equity offering in addition to increased investment yields over the same period.

Liquidity and Capital Resources

Our cash requirements depend on many factors, including the execution of our strategic plan. We expect to continue to devote substantial capital resources to running our business and creating the strategic changes summarized herein. We believe that our current cash balance is sufficient to fund operations and our currently projected commitments for the next twelve months.

We have invested our cash in an institutional fund, with maturities of less than sixty days, that invests in high quality short-term money market instruments to provide liquidity for capital preservation and for operations.

Operating Activities. During the nine months ended December 31, 2005 we used $36.9 million in cash in our operating activities, which consisted of a net loss for the period of approximately $35.3 million, offset by non-cash adjustments (primarily depreciation, warranty and inventory charges) of $7.0 million and cash used for working capital of approximately $8.6 million. This compared to operating cash usage of $25.8 million during the nine months ended December 31, 2004, which consisted of a net loss for the period of approximately $29.5 million, offset by non-cash adjustments (primarily depreciation and warranty charges) of $5.1 million and cash used for working capital of approximately $1.4 million. The working capital change between periods of approximately $7.2 million is largely attributable to a $5.2 million increase in accounts receivable resulting primarily from higher sales occurring at the end of the period and a $1.6 million increase in inventories to support expected sales in future periods.

Investing Activities. Net cash used in investing activities for acquisition of fixed assets was $1.0 million and $0.6 million for the nine months ended December 31, 2005 and 2004, respectively. Our cash usage for investing activities has been relatively low. Our significant capital expenditures were made in previous periods.

Financing Activities. During the nine months ended December 31, 2005, we generated $40.4 million from financing activities as compared with the prior year period, in which we used $0.3 million. The funds generated from financing activities in the nine months ended December 31, 2005 were primarily the result of a registered offering of the Company's common stock, which was completed effective October 21, 2005. Pursuant to the offering, the company issued a total of 17 million shares of its common stock, resulting in gross proceeds of

approximately $41.4 million, and incurred approximately $2.3 million in direct cost. The exercise of stock options, restricted stock awards and employee stock purchases yielded $1.3 million in cash in the nine months ended December 31, 2005 as compared with $0.3 million in the prior year period. Repayments of capital lease obligations used $14,000 during the nine months ended December 31, 2005 as compared with $0.6 million for the same period a year ago because the leases were substantially paid down during last year.

We anticipate that, as a result of our efforts to generate sales and margins while controlling costs, we will lower our cash usage in future periods. Our goal for Fiscal 2007 is to use less cash for operating and investing activities than in Fiscal 2006.

Except for scheduled payments made on operating and capital leases during the first nine months of Fiscal 2006, there have been no material changes in the Company's remaining commitments under non-cancelable operating leases and capital leases as disclosed in the Company's Annual Report on Form 10-K for Fiscal 2005.

Business Risks

This document contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act and Section 21E of the Exchange Act pertaining to, among other things, our future results of operations, R&D activities, sales and cash flow expectations, our ability to develop markets for our products, sources for parts, federal, state and local regulations and approvals, and general business, industry and economic conditions applicable to us. These statements are based largely on our current expectations, estimates and forecasts and are subject to a number of risks and uncertainties, including the possibility that the New York MEA approval may not be obtained, or obtained on a timely basis. Actual results could differ materially from these forward-looking statements. Factors that can cause actual results to differ materially include, but are not limited to, those discussed below. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The following factors should be considered in addition to the other information contained herein in evaluating Capstone and its business. We assume no obligation to update any of the forward-looking statements after the filing of this Form 10-Q to conform such statements to actual results or to changes in our expectations except as required by law.

Investors should carefully consider the risks described below before making an investment decision. In addition, these risks are not the only ones facing our Company. Additional risks of which we may not be aware or that we currently believe are not material may also impair our business operations or our stock price. Our business could be harmed by any of these risks. The trading price of our common stock has and could continue to vary as a result of any of these risks, and investors may lose all or part of their investment. These factors are described in greater detail in our Annual Report on Form 10-K for the year ended March 31, 2005 and our prospectus supplement filed pursuant to Rule 424(b)(5) of the Securities Act dated October 7, 2005.

- Our operating history is characterized by net losses, and we anticipate further losses and may never become profitable;
- A sustainable market for microturbines may never develop or may take longer to develop than we anticipate, which would adversely affect our revenue and profitability;
- We operate in a highly competitive market among competitors who have significantly greater resources than we have, and we may not be able to compete effectively;
- If we do not effectively implement our sales, marketing and service plans, our sales will not grow and our profitability will suffer;
- Approval of the application for listing our product on the MEA Index, if and when obtained, may not result in an increase in sales;
- Approval of Capstone-branded products for listing on the General Service Administration Schedule does not ensure that we will supply products to the federal government and may not result in an increase in sales;
- Although we have negotiated and signed a Memorandum of Understanding with Broad USA, Inc. to develop jointly fully integrated cogeneration (CCHP) systems, this strategic relationship is subject to negotiation and execution of a definitive agreement and may not result in an increase in sales;
- We may not be able to retain or develop distributors in our targeted markets, in which case our sales would not increase as expected;

- Our largest customer's performance has been inadequate, and that customer has not and may not achieve its forecasted sales growth;
- We may not be able to develop sufficiently trained applications engineering, installation and service support to serve our targeted markets;
- Changes in our product components may require us to replace parts held at distributors and ASCs;
- We operate in a highly regulated business environment and changes in regulation could impose costs on us or make our products less economical, thereby affecting demand for our microturbines;
- Utility companies or governmental entities could place barriers to our entry into the marketplace and we may not be able to effectively sell our product;
- Product quality expectations may not be met, causing slower market acceptance or warranty cost exposure;
- We depend upon the development of new products and enhancements of existing products;
- Operational restructuring may result in asset impairment or other unanticipated charges;
- We may not achieve production cost reductions necessary to competitively price our product, which would impair our sales;
- Commodity market factors impact our costs and availability of materials;
- Our suppliers may not supply us with a sufficient amount of components or components of adequate quality, and we may not be able to produce our product;
- Our products involve a lengthy sales cycle and we may not anticipate sales levels appropriately, which could impair our potential profitability;
- Potential intellectual property, shareholder or other litigation may adversely impact our business;
- We may be unable to fund our future operating requirements, which could force us to curtail our operations;
- We may not be able to effectively manage our growth, expand our production capabilities or improve our operational, financial and management information systems, which would impair our sales and profitability;
- Our success depends in significant part upon the service of management and key employees;
- We cannot be certain of the future effectiveness of our internal controls over financial reporting or the impact thereof on our operations or the market price of our common stock;
- Our operations are vulnerable to interruption by fire, earthquake and other events beyond our control;
- The market price of our common stock has been and may continue to be highly volatile and an investment in our common stock could suffer a decline in value; and
- Provisions in our certificate of incorporation, bylaws and our stockholder rights plan, as well as Delaware law, may discourage, delay or prevent a merger or acquisition at a premium price.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in its Annual Report on Form 10-K for the year ended March 31, 2005.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's principal executive officer and the principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. The Company's principal executive officer and principal financial officer have concluded, based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report on Form 10-Q, that the Company's disclosure controls and procedures were not effective to ensure that the information required to be disclosed in reports that are filed or submitted under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded,

processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

As a result of management's assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2005 it was concluded that the Company's internal controls over financial reporting were ineffective. Three control deficiencies were identified in the Company's internal controls over financial reporting which constituted "material weaknesses" within the meaning of the Public Company Accounting Oversight Board Auditing Standard No. 2. A material weakness is defined as a significant deficiency or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The first material weakness related to a deficiency in the design of controls for ensuring that the Company's financial accounting software was properly configured, during the Company's change in fiscal year, to correctly calculate depreciation and amortization expense of equipment and leasehold improvements. In the three month period ended March 31, 2004, the software was configured to change to fiscal from calendar years. Controls designed to detect errors in depreciation and amortization expense, principally the reconciliation and review of depreciation and amortization expense for reasonableness, did not operate effectively because they did not detect the error. These deficiencies in controls resulted in the Company recording an adjustment of $609,000 to increase depreciation and amortization expense in the fourth quarter of Fiscal 2005. The impact of such adjustment on prior quarters was not significant. The second material weakness, a deficiency in the operation of controls for identifying and recording accounts payable and accrued liabilities, principally from the failure of the Company's controls to detect an understatement of accrued liabilities for legal expenses, resulted in recording adjustments aggregating $277,000 to increase accounts payable and accrued liabilities and corresponding expenses as of the end of Fiscal 2005. The third material weakness relates to a deficiency in the operation of controls for compiling fiscal year-end physical inventory counts for work-in-process inventories, principally inadequate compiling of inventory count tags and the lack of review by supervisors sufficient to detect errors arising from manually input data.

Since March 31, 2005, we believe we have adequately addressed the first and second material weaknesses, however, we have continued to identify a material weakness related to the effectiveness of internal controls over inventories as they relate to custody, control and recording of assets. The deficiencies in this area of internal controls were concluded to be a material weakness based on the significance of the potential misstatement of the annual and interim financial statements and the significance of the controls over inventories to the preparation of reliable financial statements.

Changes in Internal Control Over Financial Reporting

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the changes in the Company's internal controls over financial reporting that occurred during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company has taken steps to remediate the control deficiencies identified in our annual report on Form 10-K for Fiscal 2005. The Company had calculated and recorded depreciation and leasehold amortization expense manually until such time as its financial accounting software was correctly configured. The Company has also developed analytical procedures to ensure amounts recorded are accurate. The Company has implemented additional controls over the accruals of legal fees to ensure amounts recorded are accurate. Specifically, the Company has provided training to appropriate personnel to ensure a better understanding of accounting concepts related to accruals and has developed a confirmation process in which monthly communication is made directly with any vendor providing legal services. The Company performed a limited scope physical inventory during the first and second quarter and a full scope physical inventory during the third quarter of Fiscal 2006. While progress was made with respect to compiling the quarter-end physical inventory counts, management is in the process of refining existing controls and considering implementation of new controls in an effort to remediate completely the material weakness related to inventory controls.

Management has discussed these issues and remediation efforts in detail with our Audit Committee. Our Chief Executive Officer and our Chief Financial Officer believe the aforementioned changes in the Company's internal controls over financial reporting have remediated the first and second material weaknesses and that management's planned activities with respect to inventory controls will remediate the third material weakness as of March 31, 2006.

PART II — OTHER INFORMATION

Item 1. ***Legal Proceedings***

On September 11, 2005, the Company gave notice to UTCP pursuant to the OEM Agreement, dated March 23, 2005, of certain breaches of the OEM Agreement by UTCP and called upon UTCP to cure those breaches to avoid termination of the OEM Agreement. UTCP filed suit in the United States District Court for the District of Connecticut on September 16, 2005, denying that it was in breach of the OEM Agreement and seeking to enjoin the Company from terminating or attempting to terminate the OEM Agreement; monetary damages were not sought. The OEM Agreement provides for arbitration of all disputes between the parties. The Company invited UTCP to cure its performance failures under the OEM Agreement and to meet with the Company to determine if the parties can resolve the matters in dispute. The Company did not withhold sales of products or parts to UTCP during the cure period. On November 15, 2005, UTCP filed a notice of dismissal without prejudice with respect to its lawsuit and on November 16, 2005, the United States District Court for the District of Connecticut entered an order dismissing the case.

A demand for arbitration was filed in March 2004 by Interstate, a company that conducts business with the Company. Interstate claimed damages for breach of contract in excess of $10 million. On December 30, 2005, the Company entered into the Settlement Agreement with Interstate, whereby all disputes between Interstate and the Company were amicably resolved. Pursuant to the Settlement Agreement, the Company paid Interstate the sum of $2.3 million on December 30, 2005 and the parties agreed to release each other from any and all claims.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None

Item 3. ***Defaults Upon Senior Securities***

None

Item 4. ***Submission of Matters to a Vote of Security Holders***

None

Item 5. ***Other Information***

None

Item 6. ***Exhibits:***

The following exhibits are filed with, or incorporated by reference into, this Form 10-Q:

Exhibit Number	Description
3.1(3)	Second Amended and Restated Certificate of Incorporation of Capstone Turbine Corporation
3.2(1)	Amended and Restated Bylaws of Capstone Turbine Corporation
4.1(2)	Specimen stock certificate
10.1(4)	Stock Option Agreement with Leigh Estus
10.2(1)	Subscription Agreement effective as of October 7, 2005 between Capstone Turbine Corporation and Monarch Pointe Fund, Ltd.
10.3(1)	Subscription Agreement effective as of October 7, 2005 between Capstone Turbine Corporation and Asset Managers International, Ltd.
31.1(1)	CEO's Certification Pursuant to Rule 13a-14(a)/15d-14(a)
31.2(1)	CFO's Certification Pursuant to Rule 13a-14(a)/15d-14(a)
32.1(1)	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the CEO and CFO

(1) Filed herewith.

(2) Incorporated by reference to Capstone Turbine Corporation's registration statement on Form S-1/A, dated June 21, 2000 (File No. 333-33024).

(3) Incorporated by reference to Capstone Turbine Corporation's registration statement on Form S-1/A, dated May 8, 2000 (File No. 333-33024).

(4) Incorporated by reference to Capstone Turbine Corporation's registration statement on Form S-8, dated February 1, 2006 (File No. 333-131431).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPSTONE TURBINE CORPORATION

By: /s/ Walter J. McBride
Walter J. McBride
Executive Vice President,
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 9, 2006

EXHIBIT INDEX

Exhibit Number	Description of Document
3.2	Amended and Restated Bylaws of Capstone Turbine Corporation
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EXHIBIT 3.2

AMENDED AND RESTATED BYLAWS OF

CAPSTONE TURBINE CORPORATION

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AMENDED AND RESTATED BYLAWS

OF

CAPSTONE TURBINE CORPORATION

ARTICLE I – OFFICES

Section 1. *Registered Office*. The registered office of Capstone Turbine Corporation (hereinafter, called the "corporation") shall be in the City of Dover, County of Kent, State of Delaware.

Section 2. *Other Offices*. The corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II – STOCKHOLDERS

Section 1. *Place of Meetings*. Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

Section 2. *Annual Meetings of Stockholders*. The annual meeting of stockholders shall be held each year on a date and time designated by the board of directors. Any previously scheduled annual meeting of the stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such annual meeting of the stockholders.

Section 3. *Special Meetings*. A special meeting of the stockholders may be called at any time by the chairman of the board of directors, or by a majority of the directors or by a committee of the board of directors which has been duly designated by the board of directors and whose powers and authority, as provided in a resolution of the board of directors, include the power to call such meetings, but such special meetings may not be called by any other person or persons. Any previously scheduled special meeting of the stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders.

Section 4. *Notice of Stockholders' Meetings*. All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) nor more than sixty (60) days before the date of the meeting being noticed. The notice shall specify the place, date and hour of the meeting and in the case of a special meeting, the general nature of the business to be transacted.

Section 5. *Manner of Giving Notice; Affidavit of Notice*. Notice of any meeting of stockholders shall be deemed to have been given:

(A) when deposited in the mail, postage prepaid, directed to the stockholder at his address appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice; or

(B) if electronically transmitted as provided in Article VIII, Section 1 of these bylaws.

An affidavit of the mailing, electronic transmission or other means of giving any notice of any stockholders' meeting shall be executed by the secretary, assistant secretary or any transfer agent of the corporation giving such notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. *Quorum*. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of stockholders shall constitute a quorum for the transaction of business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. *Adjourned Meeting and Notice Thereof.* Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the chairman of the meeting, but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section 6 of this Article II.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days from the date set for the original meeting. Notice of any such adjourned meeting, if required, shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. *Voting*. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 11 of this Article II. Such vote may be by voice vote or by ballot, at the discretion of the chairman of the meeting. Any stockholder entitled to vote on any matter (other than the election of directors) may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal; but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any matter shall be the act of the stockholders, unless the vote of a greater number or voting by classes is required by the Delaware General Corporation Law (the "DGCL") or the certificate of incorporation or the certificate of determination of preferences as to any preferred stock.

At a stockholders' meeting involving the election of directors, no stockholder shall be entitled to cumulate (i.e., cast for any one or more candidates a number of votes greater than the number of the stockholders shares). The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section 9. *Waiver of Notice or Consent by Absent Stockholders*. The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, not present in person or by proxy, delivers a written waiver signed by such person (or a waiver by electronic transmission by such person) of notice or a consent (manually signed or submitted by electronic transmission) to the holding of the meeting, or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders. All such waivers, consents or approvals shall be filed with the corporate records or made part of the minutes of the meeting.

Attendance of a person at a meeting shall also constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if such objection is expressly made at the meeting.

Section 10. *No Stockholder Action by Written Consent Without a Meeting*. Stockholders may take action only at a regular or special meeting of stockholders.

Section 11. *Record Date for Stockholder Notice and Voting*. For purposes of determining the holders entitled to notice of any meeting or to vote, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of any such meeting, and in such case only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the Delaware General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

Section 12. *Proxies*. Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized (a) by a written proxy signed by the person and filed with the secretary of the corporation or (b) by an electronic transmission permitted by law filed in accordance with the procedure established for the meeting. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing delivered to the corporation (whether manually signed or electronically transmitted)

stating that the proxy is revoked or by a subsequent proxy executed or electronically transmitted by, or attendance at the meeting and voting in person by, the person executing or electronically transmitting the proxy, or (ii) written notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of one (1) year from the date of such proxy, unless otherwise provided in the proxy.

Section 13. *Inspectors of Election; Opening and Closing the Polls*. The board of directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

Section 14. *Nomination and Stockholder Business Bylaw*.

(A) *Annual Meetings of Stockholders*.

(1) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the corporation's notice of meeting, (b) by or at the direction of the board of directors or (c) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in this bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this bylaw.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this bylaw, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not less than the close of business on the 120th calendar day in advance of the first anniversary of the date the corporation's proxy statement was released to security holders in connection with the preceding year's annual meeting; provided, however, that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) calendar days from the date contemplated at the time of the previous year's proxy statement, a proposal shall be received by the corporation no later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public announcement of the date of the meeting was made, whichever comes first. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the

giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to applicable federal securities laws, including, without limitation, Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a 11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner and (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this bylaw to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased and there is no public announcement by the corporation naming all of the nominees for director or specifying the size of the increased board of directors at least 70 days prior to the first anniversary of the date of the preceding year's annual meeting, a stockholders notice required by this bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(B) *Special Meetings of Stockholders*. Only such business shall be conducted at a special meeting of stockholders as shall be brought before the meeting pursuant to the corporation's notice of meeting. A stockholder's nomination of one or more persons for election to the board of directors shall only be permitted to be made at a special meeting of stockholders if: (i) the corporation's notice of such meeting specified that directors are to be elected at such special meeting; (ii) such stockholder was a stockholder of record entitled to vote at the meeting at the time of giving of notice provided for in this bylaw; and (iii) if such stockholder complies with the notice procedures set forth in this bylaw. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by paragraph (A)(2) of this bylaw shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(C) *General.*

(1) Only such persons who are nominated in accordance with the procedures set forth in this bylaw shall be eligible to serve as directors. Except as otherwise provided by law, the certificate of incorporation or these bylaws, the chairman of the meeting shall have the power and authority to determine the procedures of a meeting of stockholders, including, without limitation, the authority to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this bylaw and, if any proposed nomination or business is not in compliance with this bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this bylaw. Nothing in this bylaw shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a 8 under the Exchange Act or (ii) of the holders of any series of preferred stock, if any, to elect directors under certain circumstances.

ARTICLE III – DIRECTORS

Section 1. *Powers*. Subject to the provisions of the Delaware General Corporation Law and any limitations in the certificate of incorporation and these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Section 2. *Number and Qualification of Directors*. Until otherwise determined by resolution of the Board of Directors, the number of directors of the corporation shall be eight (8).

Section 3. *Election and Term of Office of Directors*. Directors shall be elected at the annual meeting of the stockholders. Each director, including a director elected to fill a vacancy, shall serve for a term ending on the next annual meeting following the annual meeting at which such director was elected and until a successor has been elected and qualified or the earlier of his resignation or removal.

Section 4. *Vacancies*. Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. Each director elected to fill a vacancy shall hold office for the remainder of the term of the person whom he succeeds, and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, retirement, resignation or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by

an order of court or convicted of a felony, or if the authorized number of directors be increased, or if the stockholders fail at any meeting of stockholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

Any director may resign or voluntarily retire upon giving notice in writing or by electronic transmission to the chairman of the board, the president, the secretary or the board of directors. Such retirement or resignation shall be effective upon the giving of the notice, unless the notice specifies a later time for its effectiveness. If such retirement or resignation is effective at a future time, the board of directors may elect a successor to take office when the retirement or resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

Section 5. *Place of Meetings and Telephonic Meetings*. Regular meetings of the board of directors may be held at any place within or without the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board shall be held at any place within or without the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in such meeting can hear one another, and all such directors shall be deemed to be present in person at such meeting.

Section 6. *Annual Meetings*. Immediately following each annual meeting of stockholders, the board of directors shall hold a regular meeting for the purpose of organization, any desired election of officers and transaction of other business. Notice of this meeting shall not be required.

Section 7. *Other Regular Meetings*. Other regular meetings of the board of directors shall be held at such time as shall from time to time be determined by the board of directors. Such regular meetings may be held without notice provided that notice of any change in the determination of time of such meeting shall be sent to all of the directors. Notice of a change in the determination of the time shall be given to each director in the same manner as for special meetings of the board of directors.

Section 8. *Special Meetings*. Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board or the president or any vice president or the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director, sent by facsimile, first class mail or telegram, charges prepaid, addressed to each director at his or her address as it is shown upon the records of the corporation, or sent by electronic mail addressed to each director at his or her electronic mail address as it is shown upon the records of the corporation. In case such notice is mailed, it shall be deposited in the United States mail at least four (4) days prior to the time of the holding of the meeting. In

case such notice is delivered personally, by telephone, facsimile, telegram or electronic mail, it shall be delivered personally, or by telephone, by facsimile, to the telegraph company or by electronic mail at least twenty four (24) hours prior to the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated to either the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. *Quorum*. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 10. *Waiver of Notice*. The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present delivers a written waiver signed by such director (or a waiver by electronic transmission by such director) of notice or a consent (manually signed or submitted by electronic transmission) to the holding of the meeting, or an approval of the minutes thereof. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director.

Section 11. *Adjournment.* A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. *Notice of Adjournment*. Notice of the time and place of an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the directors who were not present at the time of the adjournment.

Section 13. *Action Without Meeting*. Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing or by electronic transmission to such action. Such action by written consent or electronic transmission shall have the same force and effect as a unanimous vote of the board of directors. Such written consent or consents or electronic transmission or transmissions shall be filed with the minutes of the proceedings of the board.

Section 14. *Fees and Compensation of Directors*. Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses, as

may be fixed or determined by resolution of the board of directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for such services.

ARTICLE IV – COMMITTEES

Section 1. *Committees of Directors*. The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, including an executive committee, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) the approval of any action which, under the General Corporation Law of Delaware, also requires the approval of the full board of directors, or the stockholders of the outstanding shares;

(b) the filling of vacancies on the board of directors or in any committee;

(c) the fixing of compensation of the directors for serving on the board or on any committee;

(d) the amendment or repeal of bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;

(f) a distribution to the stockholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) the appointment of any other committees of the board of directors or the members thereof.

Section 2. *Meetings and Action of Committees*. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Sections 5 (place of meetings), 7 (regular meetings), 8 (special meetings and notice), 9 (quorum), 10 (waiver of notice), 11 (adjournment), 12 (notice of adjournment) and 13 (action without meetings), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined by resolution of the board of directors as well as the committee, special meetings of committees may also be called by resolution of the board of directors, and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V – OFFICERS

Section 1. *Officers*. The officers of the corporation shall be chosen by the board of directors and shall include a chairman of the board or president, or both, a vice president, a secretary and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a president, one or more additional vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be held by the same person.

Section 2. *Election of Officers*. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen annually by the board of directors, and each shall hold his office until he shall resign or be removed or otherwise disqualified to serve or his successor shall be appointed in accordance with the provisions of Section 3 of this Article V. Any number of officers may be elected and qualified.

Section 3. *Subordinate Officers, etc*. The board of directors may appoint, and may empower the chairman of the board to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the board of directors may from time to time determine.

Section 4. *Removal and Resignation of Officers*. Any officer may be removed, either with or without cause, by the board of directors, at any regular or special meeting thereof, or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. *Vacancies in Office*. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

Section 6. *Chairman of the Board*. The chairman of the board shall preside at all meetings of the stockholders and of the board of directors. The chairman of the Board shall be responsible for the general management of the affairs of the corporation and shall perform all duties incidental to his office which may be required by law and all such other duties as are properly required of him by the board of directors. Except where by law the signature of the president is required, the chairman of the board shall possess the same power as the president to sign all certificates, contracts, and other instruments of the corporation which may be authorized by the board of directors. He shall make reports to the board of directors and the stockholders, and shall perform all such other duties as are properly required of him by the board of directors. He shall see that all orders and resolutions of the board of directors and of any committee thereof are carried into effect.

Section 7. *President*. The president shall act in a general executive capacity and shall assist the chairman of the board in the administration and operation of the corporation's business and general supervision of its policies and affairs. The president shall, in the absence of or because of the inability to act of the chairman of the board, perform all duties of the chairman of the board and preside at all meetings of stockholders and of the board of directors. The president may sign, alone or with the secretary, or an assistant secretary, or any other proper officer of the corporation authorized by the board of directors, certificates, contracts, and other instruments of the corporation as authorized by the board of directors.

Section 8. *Vice Presidents*. In the absence or disability of the president, a vice president designated by the board of directors shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors or the bylaws.

Section 9. *Secretary*. The secretary shall keep or cause to be kept, at the principal executive office or such other place as the board of directors may order, a book of minutes of all meetings and actions of directors, committees of directors and stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a stock register, or a duplicate register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required by the bylaws or by law to be given and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by the bylaws.

Section 10. *Chief Financial Officer*. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall be open at all reasonable times to inspection by any director.

The chief financial officer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. The chief financial officer shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the chairman of the board and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

Section 11. *Assistant Secretaries and Assistant Treasurers*. Any assistant secretary may perform any act within the power of the secretary, and any assistant treasurer may perform any act within the power of the chief financial officer, subject to any limitations which may be imposed in these bylaws or in board resolutions.

ARTICLE VI – INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

Section 1. *Indemnification*. The corporation shall indemnify, in the manner and to the full extent permitted by law, any person (or the estate of any person) who was or is a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether or not by or in the right of the corporation, and whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is a director or officer of the corporation, and at the discretion of the board of directors may indemnify any person (or the estate of any person) who is such a party or threatened to be made such a party by reason of the fact that such person is or was an employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The corporation may, to the full extent permitted by law, purchase and maintain insurance on behalf of any such person against any liability which may be asserted against him and may enter into contracts providing for the indemnification of such person to the full extent permitted by law. To the full extent permitted by law, the indemnification provided herein shall include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, and, in the manner provided by law, any such expenses may be paid by the corporation in advance of the final disposition of such action, suit or proceeding. The indemnification provided herein shall not be deemed to limit the right of the corporation to indemnify any other person for any such expenses to the full extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the corporation may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

For the purposes of this Article VI, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers so that any person who is or was a director or officer of such constituent corporation, or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VI with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

For purposes of this Article VI, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include service as a director or officer of the corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably

believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this section.

ARTICLE VII – GENERAL CORPORATE MATTERS

Section 1. *Record Date for Purposes Other Than Notice and Voting*. For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which shall not be more than sixty (60) nor less than ten (10) days prior to any such action, and in such case only stockholders of record on the date so fixed are entitled to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the Delaware General Corporation Law.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting. In order that the corporation may determine the stockholders entitled to consent to corporate action in writing or by electronic transmission without a meeting, the board of directors may fix a record date which shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the board of directors.

Section 2. *Checks, Drafts, Evidences of Indebtedness*. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

Section 3. *Corporate Contracts and Instruments, How Executed*. The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

Section 4. *Stock Certificates*. A certificate or certificates for shares of the capital stock of the corporation shall be issued to each stockholder when any such shares are fully paid. All certificates shall be signed in the name of the corporation by the chairman of the board or the president or vice president and by the chief financial officer, the treasurer or an assistant treasurer or the secretary or any assistant secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or

registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Section 5. *Lost Certificates*. Except as hereinafter in this Section 5 provided, no new stock certificate shall be issued in lieu of an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may in case any stock certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, upon such terms and conditions as the board of directors may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 6. *Representation of Stock of Other Corporations*. The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the board of directors by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all stock of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority herein granted to said officers to vote or represent on behalf of the corporation any and all stock by the corporation in any other corporation or corporations may be exercised by any such officer in person or by any person authorized to do so by proxy duly executed by said officer.

Section 7. *Construction and Definitions*. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of the bylaws. Without limiting the generality of the foregoing, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both a corporation and a natural person.

Section 8. *Fiscal Year*. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

ARTICLE VIII – NOTICE BY ELECTRONIC TRANSMISSION

Section 1. *Notice by Electronic Transmission*. Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the Company under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Company. Any such consent shall be deemed revoked if:

(A) the Company is unable to deliver by electronic transmission two consecutive notices given by the Company in accordance with such consent; and

(B) such inability becomes known to the secretary or an assistant secretary of the Company or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

(A) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;

(B) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;

(C) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (i) such posting and (ii) the giving of such separate notice; and

(D) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the Company that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Section 2. *Definition of Electronic Transmission.* An "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Section 3. *Inapplicability.* Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the DGCL.

ARTICLE IX – AMENDMENTS

Section 1. Amendment. The bylaws, or any of them, may be rescinded, altered, amended or repealed, and new bylaws may be made (i) by the board of directors, by vote of a majority of the number of directors then in office as directors, acting at any meeting of the board of directors, or (ii) by the stockholders, by the vote of the holders of sixty six and two thirds percent (66 2/3%) of the outstanding voting stock of the corporation, at any annual or special meeting of stockholders, provided that notice of such proposed amendment, modification, repeal or adoption is given in the notice of the annual or special meeting; provided, however, that the bylaws can only be amended if such amendment would not conflict with the certificate of incorporation. Any bylaw made or altered by the requisite number of stockholders may be altered or repealed by the board of directors or may be altered or repealed by the requisite number of stockholders.

* * * *

EXHIBIT 10.2

Capstone Turbine Corporation
Shares of Common Stock, par value $0.001

SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT (the "AGREEMENT") by and between Monarch Pointe Fund, Ltd., a corporation organized under the laws of the British Virgin Islands (the "INVESTOR"), and CAPSTONE TURBINE CORPORATION, a corporation organized and existing under the laws of the State of Delaware (the "COMPANY") is dated the 7th day of October, 2005 and effective as of the execution of the Escrow Agreement by and between the Company, the Investor and Mellon Investor Services, LLC (the "COMMENCEMENT DATE").

WHEREAS, the parties desire that, upon the terms and subject to the conditions contained herein, the Company shall issue and sell to the Investor, from time to time as provided herein, and the Investor shall purchase from the Company shares of the Company's common stock, par value $0.001 per share (the "COMMON STOCK"), with an aggregate purchase price of up to Twenty Million Dollars ($20,000,000.00); and

WHEREAS, the shares of Common Stock will be issued pursuant to a registration statement filed with the Securities and Exchange Commission (the "SEC") on Form S-3 (SEC File No. 333-128164) (the "SHELF REGISTRATION STATEMENT") with respect to, among other securities, the Company's Common Stock (such shares of Common Stock covered by the Shelf Registration Statement are referred to herein as the "REGISTERED STOCK").

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

Section 1.1 "ADVANCE" shall mean the portion of the Commitment Amount advanced by or on behalf of the Investor to or for the benefit of the Company on any Advance Date for the purchase of shares of Registered Stock.

Section 1.2 "ADVANCE DATE" shall mean each Trading Day during the Offering Period (other than October 13, 2005) on which the Investor purchases, and the Company sells, Registered Stock during the Offering Period in connection with an Advance.

Section 1.3 "ADVANCE NOTICE" shall mean a written (including by electronic transmission) notice in the form attached hereto as Exhibit A to the Investor setting forth the Daily Advance Amount that the Company is requesting with respect to the Advance Date.

Section 1.4 "AGREEMENT" shall have the meaning set forth in the preamble to this Agreement.

Section 1.5 "BID PRICE" shall mean, on any Trading Day, the closing bid price (as reported by Bloomberg, L.P.) of the Common Stock on the Principal Market.

Section 1.6 “COMMENCEMENT DATE” shall have the meaning set forth in the preamble to this Agreement.

Section 1.7 “COMMITMENT AMOUNT” shall mean the aggregate amount of up to Twenty Million Dollars ($20,000,000.00) which the Investor has agreed to provide to the Company during the Offering Period in order to purchase the Company’s Registered Stock pursuant to the terms and conditions of this Agreement.

Section 1.8 “COMMON STOCK” shall have the meaning set forth in the recitals to this Agreement.

Section 1.9 “COMPANY” shall have the meaning set forth in the preamble to this Agreement.

Section 1.10 “DAILY ADVANCE AMOUNT” shall mean, on the first Advance Date, $3,703,703.70, and on each subsequent Advance Date $1,810,699.59, or such other amount advanced to or for the benefit of the Company for the purchase of shares of Registered Stock as determined by the Company in accordance with this Agreement (subject to the Maximum Daily Advance Amount).

Section 1.11 “ESCROW AGENT” shall mean Mellon Investor Services LLC, and its successors and assigns under the Escrow Agreement.

Section 1.12 “ESCROW AGREEMENT” shall mean the escrow agreement among the Company, the Investor, and Escrow Agent dated the date hereof.

Section 1.13 “EXCHANGE ACT” shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Section 1.14 “INVESTOR” shall have the meaning set forth in the preamble to this Agreement.

Section 1.15 “MARKET PRICE” shall mean the VWAP of each share of Common Stock on the Trading Date with respect to which an Advance Notice has been delivered.

Section 1.16 “MAXIMUM DAILY ADVANCE AMOUNT” shall be $2,777,777.78 per any Advance Date (other than the first Advance Date).

Section 1.17 “NASD” shall mean the National Association of Securities Dealers, Inc.

Section 1.18 “OFFERING PERIOD” shall mean the period commencing on the Trading Day immediately following the Commencement Date and expiring on the tenth (10^{th}) Trading Day after the Commencement Date; provided, however, that the Offering Period shall not include October 13, 2005 as a Trading Day, and that the Offering Period shall be extended automatically by one Trading Day for each Trading Day on which no Advance is made, up to a maximum of ten (10) additional Trading Days; and further provided that the Offering Period shall automatically expire upon the first to occur of, in the aggregate, the purchase and sale of 17,000,000 shares of Common Stock or the purchase and sale of shares of Common Stock with

an aggregate purchase price of $54,000,000 pursuant to this Agreement and the Subscription Agreement by and between the Company and Asset Managers International Ltd, dated October 7, 2005.

Section 1.19 "PERSON" shall mean an individual, a corporation, a partnership, an association, a trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

Section 1.20 "PRINCIPAL MARKET" shall mean the Nasdaq National Market.

Section 1.21 "PURCHASE PRICE" shall be ninety-six percent (96%) of the Market Price, computed to three decimal places, on the applicable Advance Date; provided however, that if the Company offers Common Stock to one or more third parties during the Offering Period at a price lower than the Purchase Price calculated in accordance with the foregoing, the Purchase Price shall be the lowest price at which the Company offers such shares of Common Stock.

Section 1.22 "REGISTERED STOCK" shall have the meaning set forth in the recitals to this Agreement.

Section 1.23 "SHELF REGISTRATION STATEMENT" shall have the meaning set forth in the recitals to this Agreement.

Section 1.24 "SEC" shall have the meaning set forth in the recitals to this Agreement.

Section 1.25 "SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

Section 1.26 "TRADING DAY" shall mean any day during which the Principal Market shall be open for business.

Section 1.27 "VWAP" shall mean the volume weighted average price of the Company's Common Stock as quoted by Bloomberg, LP on the applicable Trading Day.

Section 1.28 "WRITTEN DIRECTION TO DISBURSE" shall mean the written notice from the Investor and the Company to the Escrow Agent in the form attached hereto as Exhibit B, which written notice may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

ARTICLE II
ADVANCES

Section 2.1 ADVANCES; SHARES TRANSFERS

2.1.1 ADVANCES. On the first Trading Day after the Commencement Date (i.e., the first "Advance Date"), the Company shall receive the Daily Advance Amount of $3,703,703.70, and on each of the nine (9) Trading Days (subject to the following proviso and sentence) thereafter during the Offering Period the Company shall, unless the Company delivers an Advance Notice to the Investor requesting a different Daily Advance Amount from zero to the

Maximum Daily Advance Amount in accordance with Section 2.3, receive a Daily Advance Amount of $1,810,699.59; provided, however, that no Advance will be made, and no shares of Registered Stock will be purchased, on October 13, 2005. Notwithstanding anything to the contrary contained herein, no Advance will be made on any of such nine (9) Trading Days, and the Investor shall not direct the Escrow Agent to disburse any funds, on any such Trading Day on which between 6:30 a.m. (Pacific Time) and 11:00 a.m. (Pacific Time) the VWAP of the Company's Common Stock is below ninety percent (90%) of the closing VWAP for the immediately preceding Trading Day; provided, however, that the Company may elect to sell the previously designated number of shares of Registered Stock and the Investor shall direct the Escrow Agent to disburse the Daily Advance Amount on such a day if the Company delivers written notice (including by electronic transmission) to that effect to the Investor before 11:00 a.m. (Pacific Time) on such date. All Advances shall be made on the Advance Date after the determination of the Purchase Price and the number of shares of Registered Stock to be purchased with respect to such Advance.

2.1.2 REGISTERED STOCK TRANSFERS. With respect to each Advance, the Investor shall receive via DTC transfer to the Investor's brokerage account on the next Trading Day after the Advance Date, the number of shares of Registered Stock equal to the quotient obtained by dividing the Daily Advance Amount disbursed to the Company with respect to such Advance by the per share Purchase Price. No fractional shares shall be issued. Fractional shares shall be rounded to the next higher whole number of shares. The maximum aggregate number of shares of Common Stock which the Investor shall have the right or obligation to acquire hereunder shall not exceed the lesser of: (i) 6,296,296 shares; and (ii) the number of shares of Common Stock that has an aggregate Purchase Price equal to the Commitment Amount.

Section 2.2 CLOSING. On the Commencement Date, (i) the Company shall give its transfer agent instructions providing for the transfer to the account designated by the Escrow Agent of 6,296,296 shares of Registered Stock in accordance with the Escrow Agreement and (ii) the Investor shall deliver to the Escrow Agent $15,000,000, and by 6:30 a.m. (Pacific Time) on October 11, 2005 the Investor shall deliver an additional $5,000,000 of the Commitment Amount, by wire transfer of immediately available funds to the account designated by the Escrow Agent in accordance with the Escrow Agreement. The maximum aggregate number of shares of Common Stock which the Company shall be required to sell hereunder shall not exceed the lesser of: (i) 6,296,296 shares; and (ii) the number of shares of Common Stock that has an aggregate purchase price equal to the Commitment Amount. Each of the Company and the Investor shall deliver to the other all documents, instruments and writings required to be delivered by either of them pursuant to this Agreement in order to implement and effect the transactions contemplated herein. Disbursement of Advances to the Company and transfer of the shares of the Company's Registered Stock to the Investor shall occur in accordance with the conditions set herein above and in the Escrow Agreement.

Section 2.3 ADVANCE NOTICE; WRITTEN DIRECTION TO DISBURSE. On or before 6:00 a.m. (Pacific Time) on each Trading Day after the first Trading Day during the Offering Period, subject to all other terms and provisions herein, the Company shall deliver to the Investor an Advance Notice setting forth the requested Daily Advance Amount (but not more than the Maximum Daily Advance Amount) requested on such Advance Date. Subject to all

other terms and provisions herein, the Investor and the Company shall, after the close of the Principal Market on each Trading Day including the first Trading Day during the Offering Period, deliver to the Escrow Agent a Written Direction to Disburse, specifying the Daily Advance Amount to be disbursed to the Company, the VWAP for the Common Stock on such Advance Date, the Purchase Price for the shares of Registered Stock, and the number of shares of Registered Stock to be transferred to the account of Investor. If the Company does not deliver an Advance Notice on or before 6:00 a.m. (Pacific Time) with respect to an Advance Date other than the first Trading Day during the Offering Period, the Daily Advance Amount for such Advance Date shall be $1,810,699.59.

Section 2.4 TERMINATION OF INVESTMENT. The obligation of the Investor to make an Advance to the Company pursuant to this Agreement shall terminate permanently (including with respect to each Advance Date that has not yet occurred) in the event that (i) there shall occur any stop order or suspension of the effectiveness of the Shelf Registration Statement or (ii) the Company shall at any time fail materially to comply with the requirements of Article VI. The obligation of the Company to transfer shares of Registered Stock to the Investor pursuant to this Agreement shall terminate permanently (including with respect to each Advance Date that has not yet occurred) in the event that the Investor shall at any time materially fail to comply with the requirements of Article III.

Section 2.5 AGREEMENT TO ADVANCE FUNDS. The Investor agrees to advance the Commitment Amount to the Escrow Agent after the completion of each of the following conditions and the other conditions set forth in this Agreement required to be completed prior to advancement of the Commitment Amount:

(a) the execution and delivery by the Company, and the Investor, of this Agreement and the Exhibits and Schedules hereto;

(b) the Company's transfer agent shall have set aside in reserve the number of shares of Registered Stock required by Section 2.2(b) for the benefit of the Investor;

(c) there shall not have been any stop order or suspension of the effectiveness of the Shelf Registration Statement;

(d) the Company shall have obtained all material permits and qualifications required by any applicable state for the offer and sale of the Registered Stock, and the sale and issuance of the Registered Stock shall be legally permitted by all laws and regulations to which the Company is subject;

(e) the Company shall file with the Commission in a timely manner a prospectus supplement under Securities Act Rule 424(b) describing the specific plan of distribution (the "PROSPECTUS SUPPLEMENT") and all reports, notices and other documents required of a "reporting company" under the Exchange Act and applicable SEC regulations; and

(f) the conditions set forth in Section 7.2 shall have been satisfied as of the time of the advancement of the Commitment Amount.

Section 2.6 DAMAGES. In the event the Investor sells shares of the Company's Common Stock after receipt of an Advance Notice and the Company fails to perform its obligations as mandated in Article II, and specifically the Company fails to effect through the Escrow Agent the transfer of the shares of Registered Stock to the Investor, the Company acknowledges that the Investor shall suffer financial loss and therefore shall be liable for any and all direct losses, commissions or fees incurred by the Investor.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF INVESTOR

Investor hereby represents to the Company that the following are true and correct as of the date hereof:

Section 3.1 ORGANIZATION AND AUTHORIZATION. The Investor is duly incorporated or organized and validly existing in the jurisdiction of its incorporation or organization and has all requisite power and authority to purchase and hold the securities issuable hereunder. The decision to invest and the execution and delivery of this Agreement by such Investor, the performance by such Investor of its obligations hereunder and the consummation by such Investor of the transactions contemplated hereby have been duly authorized and requires no other proceedings on the part of the Investor. The undersigned has the right, power and authority to execute and deliver this Agreement and all other instruments, on behalf of the Investor. This Agreement has been duly executed and delivered by the Investor and, assuming the execution and delivery hereof and acceptance thereof by the Company, will constitute the legal, valid and binding obligations of the Investor, enforceable against the Investor in accordance with its terms.

Section 3.2 NO UNDERWRITER. The Investor is not acting and will not act as an "underwriter" (as that term is defined in the Securities Act) with respect to the Company's Common Stock.

Section 3.3 NO STABILIZATION. Neither the Investor nor any of its directors, officers, employees, agents, partners, members, controlling persons or shareholders holding 5% or more of the Common Stock, has taken or will take, directly or indirectly, any actions designed, or that might reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock.

Section 3.4 NO SHORTING. Neither the Investor nor any of its affiliates has, directly or indirectly, offered to "short sell", contracted to "short sell," otherwise engaged in any "short selling" or encouraged others to "short sell" the securities of the Company, including, without limitation, shares of Common Stock that will be received as a result of the transactions contemplated by this Agreement, and neither the Company nor any of its affiliates will engage in any of the foregoing at any time any of them own shares of Common Stock acquired under this Agreement. For purposes of this Agreement, "short selling" shall include any short sale and any similar hedging or derivative securities transaction; provided, however, that nothing contained herein shall prohibit the Investor from selling any shares of Common Stock that will be received as a result of the transactions contemplated by this Agreement "against the box."

Section 3.5 RESTRICTIONS ON RESALE. Investor shall not sell any shares of Common Stock directly to any shareholder of the Company who owns of record or beneficially fifteen percent (15%) or more, or any offeror for shares of Common Stock which is seeking to acquire fifteen percent (15%) or more, of the Common Stock the Company; provided, however, that nothing herein shall prevent the Investor from selling its Common Stock in an open-market transaction through a registered broker or dealer (as such terms are defined in the Exchange Act).

Section 3.6 INVESTOR OWNERSHIP OF COMMON STOCK. Immediately prior to the Commencement Date, neither the Investor nor any of its affiliates owns (either directly or indirectly) any shares of Common Stock of the Company. Neither the Investor nor any of its affiliates has, directly or indirectly, entered into any agreement with any third party to sell shares, or offered to sell, any shares of Common Stock to be acquired pursuant to this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Investor as follows:

Section 4.1 In connection with the sale of the Registered Stock, the Company has made available, as requested (including electronically via the SEC's EDGAR system) to Investor its periodic and current reports, forms, schedules, proxy statements and other documents (including exhibits and all other information incorporated by reference) filed with the SEC under the Exchange Act. The Company's Annual Report on Form 10-K for the year ended March 31, 2005 and all subsequent reports, forms, schedules, statements, documents, filings and amendments filed by the Company with the SEC under the Exchange Act, are collectively referred to as the "DISCLOSURE DOCUMENTS." All references in this Agreement to financial statements and schedules and other information which is "contained," "included" or "stated" in the Disclosure Documents (or other references of like import) shall be deemed to mean and include all such financial statements and schedules, documents, exhibits and other information which is incorporated by reference in the Disclosure Documents. The Disclosure Documents as of their respective dates did not, and will not as of the Commencement Date or any Advance Date, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Disclosure Documents and the documents incorporated or deemed to be incorporated by reference therein, at the time they were filed or hereafter are filed with the SEC, complied and will comply, at the time of filing, in all material respects with the requirements of the Securities Act and/or the Exchange Act, as the case may be, as applicable.

Section 4.2 Schedule 4.2(A) attached hereto sets forth a complete list of the subsidiaries of the Company (the "SUBSIDIARIES"). Each of the Company and its Subsidiaries has been duly incorporated and each of the Company and the Subsidiaries is validly existing in good standing as a corporation under the laws of its jurisdiction of incorporation, with the requisite corporate power and authority to own its properties and conduct its business as now conducted as described in the Disclosure Documents and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on

the business, condition (financial or other), properties or results of operations of the Company and the Subsidiaries, taken as a whole (any such event, a "MATERIAL ADVERSE EFFECT"); as of the Commencement Date, the Company will have the authorized, issued and outstanding capitalization set forth in the Disclosure Documents (the "COMPANY CAPITALIZATION"); the Company does not have any Subsidiaries or own directly or indirectly any of the capital stock or other equity or long-term debt securities of or have any equity interest in any other person; all of the outstanding shares of capital stock of the Company and the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive or similar rights and are owned free and clear of all liens, encumbrances, equities, and restrictions on transferability (other than those imposed by the Securities Act and the state securities or "Blue Sky" laws) or voting; except as set forth in the Disclosure Documents, all of the outstanding shares of capital stock of the Subsidiaries are owned, directly or indirectly, by the Company; except as set forth in the Disclosure Documents, no options, warrants or other rights to purchase from the Company or any Subsidiary, agreements or other obligations of the Company or any Subsidiary to issue or other rights to convert any obligation into, or exchange any securities for, shares of capital stock of or ownership interests in the Company or any Subsidiary are outstanding; and except as included in the Company's public filings on file with the Securities and Exchange Commission, there is no agreement, understanding or arrangement among the Company or any Subsidiary and each of their respective stockholders or any other person relating to the ownership or disposition of any capital stock of the Company or any Subsidiary or the election of directors of the Company or any Subsidiary or the governance of the Company's or any Subsidiary's affairs, and, if any, such agreements, understandings and arrangements will not be breached or violated as a result of the execution and delivery of, or the consummation of the transactions contemplated by, this Agreement.

Section 4.3 The Company has the requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement. This Agreement has been duly and validly authorized by the Company and, when executed and delivered by the Company, will constitute a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms except as the enforcement thereof may be limited by (A) bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally or (B) general principles of equity and the discretion of the court before which any proceeding therefore may be brought (regardless of whether such enforcement is considered in a proceeding at law or in equity) (collectively, the "ENFORCEABILITY EXCEPTIONS").

Section 4.4 The Common Stock of the Company conforms to the description thereof contained in the Disclosure Documents. The stockholders of the Company have no preemptive or similar rights with respect to the Common Stock.

Section 4.5 No consent, approval, authorization, license, qualification, exemption or order of any court or governmental agency or body or third party is required for the performance of this Agreement by the Company or for the consummation by the Company of any of the transactions contemplated thereby, or the application of the proceeds of the issuance of the Registered Stock as described in this Agreement, except for such consents, approvals, authorizations, licenses, qualifications, exemptions or orders (i) as have been obtained on or prior

to the Commencement Date, (ii) as are not required to be obtained on or prior to the Commencement Date that will be obtained when required, or (iii) the failure to obtain which would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.6 None of the Company or the Subsidiaries is (i) in material violation of its articles of incorporation or bylaws (or similar organizational document), (ii) in breach or violation of any statute, judgment, decree, order, rule or regulation applicable to it or any of its properties or assets, which breach or violation would, individually or in the aggregate, have a Material Adverse Effect, or (iii) except as described in the Disclosure Documents, in default (nor has any event occurred which with notice or passage of time, or both, would constitute a default) in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which it is a party or to which it is subject, which default would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.7 The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated thereby and the fulfillment of the terms thereof will not (a) violate, conflict with or constitute or result in a breach of or a default under (or an event that, with notice or lapse of time, or both, would constitute a breach of or a default under) any of (i) the terms or provisions of any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which any of the Company or the Subsidiaries is a party or to which any of their respective properties or assets are subject, (ii) the Certificate of Incorporation or bylaws of any of the Company or the Subsidiaries (or similar organizational document) or (iii) any statute, judgment, decree, order, rule or regulation of any court or governmental agency or other body applicable to the Company or the Subsidiaries or any of their respective properties or assets or (b) result in the imposition of any lien upon or with respect to any of the properties or assets now owned or hereafter acquired by the Company or any of the Subsidiaries; which violation, conflict, breach, default or lien would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.8 The audited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations, cash flows and changes in shareholders' equity of the entities, at the dates and for the periods to which they relate and have been prepared in all material respects in accordance with generally accepted accounting principles applied on a consistent basis; the interim unaudited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations and cash flows of the entities, at the dates and for the periods to which they relate subject to year-end audit adjustments and have been prepared in all material respects in accordance with generally accepted accounting principles applied on a consistent basis with the audited consolidated financial statements included therein; the selected financial data included in the Disclosure Documents present fairly the information shown therein and have been prepared and compiled in all material respects on a basis consistent with the audited financial statements included therein, except as otherwise stated therein; and each of the auditors previously engaged by the Company or to be engaged in the future by the Company is an independent certified public accountant as required by the Securities Act for an offering registered thereunder.

Section 4.9 Except as described in the Disclosure Documents, there is not pending or, to the knowledge of the Company, threatened any action, suit, proceeding, inquiry or investigation, governmental or otherwise, to which any of the Company or the Subsidiaries is a party, or to which their respective properties or assets are subject, before or brought by any court, arbitrator or governmental agency or body, that, if determined adversely to the Company or any such Subsidiary, would, individually or in the aggregate, have a Material Adverse Effect or that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the issuance or sale of the Securities to be sold hereunder or the application of the proceeds therefrom or the other transactions described in the Disclosure Documents.

Section 4.10 The Company and the Subsidiaries own or possess adequate licenses or other rights to use all patents, trademarks, service marks, trade names, copyrights and know-how that are necessary to conduct their businesses as described in the Disclosure Documents. None of the Company or the Subsidiaries has received any written notice of infringement of (or knows of any such infringement of) asserted rights of others with respect to any patents, trademarks, service marks, trade names, copyrights or know-how that, if such assertion of infringement or conflict were sustained, would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.11 Each of the Company and the Subsidiaries possesses all licenses, permits, certificates, consents, orders, approvals and other authorizations from, and has made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals presently required or necessary to own or lease, as the case may be, and to operate its respective properties and to carry on its respective businesses as now or proposed to be conducted as set forth in the Disclosure Documents ("PERMITS"), except where the failure to obtain such Permits would not, individually or in the aggregate, have a Material Adverse Effect and none of the Company or the Subsidiaries has received any notice of any proceeding relating to revocation or modification of any such Permit, except as described in the Disclosure Documents and except where such revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.12 Subsequent to June 30, 2005 and except as described in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 or in the Company's Annual Report on Form 10-K for the year ended March 31, 2005, (i) the Company and the Subsidiaries have not incurred any material liabilities or obligations, direct or contingent, or entered into any material transactions not in the ordinary course of business or (ii) the Company and the Subsidiaries have not purchased any of their respective outstanding capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on any of their respective capital stock or otherwise (other than, with respect to any of such Subsidiaries, the purchase of capital stock by the Company), (iii) there has not been any material increase in the long-term indebtedness of the Company or any of the Subsidiaries, (iv) there has not occurred any event or condition, individually or in the aggregate, that has a Material Adverse Effect, and (v) the Company and the Subsidiaries have not sustained any material loss or interference with respect to their respective businesses or properties from fire, flood, hurricane, earthquake, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding.

Section 4.13 There are no material legal or governmental proceedings nor are there any material contracts or other documents required by the Securities Act to be described in a prospectus that are not described in the Disclosure Documents. Except as described in the Disclosure Documents, none of the Company or the Subsidiaries is in default under any of the contracts described in the Disclosure Documents, has received a notice or claim of any such default or has knowledge of any breach of such contracts by the other party or parties thereto, except for such defaults or breaches as would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.14 The Company and the Subsidiaries own no real property, and each has good and marketable title to the leasehold estate in the real property described in the Disclosure Documents as being leased by it, free and clear of all liens, charges, encumbrances or restrictions, except, in each case, as described in the Disclosure Documents or such as would not, individually or in the aggregate, have a Material Adverse Effect. All material leases, contracts and agreements to which the Company or any of the Subsidiaries is a party or by which any of them is bound are valid and enforceable against the Company or any such Subsidiary, are, to the knowledge of the Company, valid and enforceable against the other party or parties thereto and are in full force and effect, in each case subject to the Enforceability Exceptions.

Section 4.15 Each of the Company and the Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns, except where the failure to so file such returns would not, individually or in the aggregate, have a Material Adverse Effect, and has paid all taxes shown as due thereon; and other than tax deficiencies which the Company or any Subsidiary is contesting in good faith and for which adequate reserves have been provided in accordance with generally accepted accounting principles, there is no tax deficiency that has been asserted against the Company or any Subsidiary that would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.16 None of the Company or the Subsidiaries is, or immediately after any Advance Date will be, required to register as an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "INVESTMENT COMPANY ACT").

Section 4.17 None of the Company or the Subsidiaries or, to the knowledge of any of such entities' directors, officers, employees, agents or controlling persons, has taken, directly or indirectly, any action for the purpose of causing the stabilization or manipulation of the price of the Common Stock.

Section 4.18 There is no strike, labor dispute, slowdown or work stoppage with the employees of the Company or any of the Subsidiaries which is pending or, to the knowledge of the Company or any of the Subsidiaries, threatened.

Section 4.19 Each of the Company and the Subsidiaries carries general liability insurance coverage comparable to other companies of its size and similar business.

Section 4.20 Except as disclosed in the Disclosure Documents, each of the Company and the Subsidiaries maintains internal accounting controls which provide reasonable assurance

that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, (C) access to its material assets is permitted only in accordance with management's authorization and (D) the values and amounts reported for its material assets are compared with its existing assets at reasonable intervals.

Section 4.21 Other than the fee to Credit Suisse First Boston set forth in the Prospectus Supplement, the Company does not know of any claims for services, either in the nature of a finder's fee or financial advisory fee, with respect to the offering of the Registered Stock and the transactions contemplated by this Agreement.

Section 4.22 The Common Stock is traded on the Principal Market. Except as described in the Disclosure Documents, the Company currently is not in violation of, and the consummation of the transactions contemplated by this Agreement will not violate, any rule of the Principal Market.

Section 4.23 Set forth in the Prospectus Supplement is the Company's intended use of the proceeds from this transaction.

Section 4.24 To the Company's knowledge, none of the officers or directors of the Company (i) has been convicted of any crime (other than traffic violations or misdemeanors not involving fraud) or is currently under investigation or indictment for any such crime, (ii) has been found by a court or governmental agency to have violated any securities or commodities law or to have committed fraud or is currently a party to any legal proceeding in which either is alleged, (iii) has been the subject of a proceeding under the bankruptcy laws or any similar state laws, or (iv) has been an officer, director, general partner, or managing member of an entity which has been the subject of such a proceeding.

ARTICLE V
INDEMNIFICATION

Section 5.1 INDEMNIFICATION.

(a) In consideration of the Investor's execution and delivery of this Agreement, and in addition to all of the Company's other obligations under this Agreement, the Company shall defend, protect, indemnify and hold harmless the Investor, and all of its officers, directors, partners, employees and agents (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "INVESTOR INDEMNITEES") from and against any and all actions, causes of action, suits, claims, losses, costs, penalties, fees, liabilities and damages, and expenses in connection therewith (irrespective of whether any such Investor Indemnitee is a party to the action for which indemnification hereunder is sought), and including reasonable attorneys' fees and disbursements (the "INDEMNIFIED LIABILITIES"), incurred by the Investor Indemnitees or any of them as a result of, or arising out of, or relating to (i) any misrepresentation or breach of any representation or warranty made by the Company in this Agreement or any other certificate, instrument or document contemplated hereby or thereby, or (ii) any breach of any covenant, agreement or obligation of the Company contained in this Agreement or any other certificate, instrument or

document contemplated hereby or thereby. To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities, which is permissible under applicable law.

(b) In consideration of the Company's execution and delivery of this Agreement, and in addition to all of the Investor's other obligations under this Agreement, the Investor shall defend, protect, indemnify and hold harmless the Company and all of its officers, directors, shareholders, employees and agents (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "COMPANY INDEMNITEES") from and against any and all Indemnified Liabilities incurred by the Company Indemnitees or any of them as a result of, or arising out of, or relating to (i) any misrepresentation or breach of any representation or warranty made by the Investor in this Agreement or the Prospectus Supplement, or (ii) any breach of any covenant, agreement or obligation of the Investor contained in this Agreement or any other certificate, instrument or document contemplated hereby or thereby. To the extent that the foregoing undertaking by the Investor may be unenforceable for any reason, the Investor shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities, which is permissible under applicable law.

(c) The obligations of the parties to indemnify or make contribution under this Section 5.1 shall survive termination.

ARTICLE VI
COVENANTS OF THE COMPANY

Section 6.1 LISTING OF COMMON STOCK. The Company shall maintain the Common Stock's authorization for quotation on the Principal Market.

Section 6.2 EXCHANGE ACT REGISTRATION. The Company will cause its Common Stock to continue to be registered under Section 12(g) of the Exchange Act, will file in a timely manner all reports and other documents required of it as a reporting company under the Exchange Act and will not take any action or file any document (whether or not permitted by Exchange Act or the rules thereunder) to terminate or suspend such registration or to terminate or suspend its reporting and filing obligations under said Exchange Act.

Section 6.3 TRANSFER AGENT INSTRUCTIONS. The Company shall deliver or cause the Escrow Agent to deliver instructions to the Company's transfer agent to transfer shares of Registered Stock equal to the Daily Advance Amount divided by the per share Purchase Price to the Investor on each Advance Date.

Section 6.4 CORPORATE EXISTENCE. The Company will take all steps necessary to preserve and continue the corporate existence of the Company.

Section 6.5 NOTICE OF CERTAIN EVENTS AFFECTING REGISTRATION; SUSPENSION OF RIGHT TO MAKE AN ADVANCE. The Company will immediately notify the Investor upon its becoming aware of the occurrence of any of the following events in respect of a registration statement or related prospectus relating to an offering of Registrable Securities:

(i) receipt of any request for additional information by the SEC or any other federal or state governmental authority during the period of effectiveness of the registration statement for amendments or supplements to the registration statement or related prospectus; (ii) the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings for that purpose; (iii) receipt of any notification with respect to the suspension of the qualification or exemption from qualification of any of the registrable securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; (iv) the happening of any event that makes any statement made in the registration statement or related prospectus of any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in the registration statement, related prospectus or documents so that, in the case of the registration statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the related prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (v) the Company's reasonable determination that a post-effective amendment to the registration statement would be appropriate; and the Company will promptly make available to the Investor any such supplement or amendment to the related prospectus. The Company shall not deliver to the Investor any Advance Notice during the continuation of any of the foregoing events.

Section 6.6 RESTRICTION ON SALE OF CAPITAL STOCK. During the Offering Period, the Company shall not, without the prior written consent of the Investor, (i) issue or sell any Common Stock or preferred stock without consideration or for a consideration per share less than the Bid Price of the Common Stock determined immediately prior to its issuance, (ii) issue or sell any preferred stock, warrant, option, right, contract, call, or other security or instrument granting the holder thereof the right to acquire Common Stock without consideration or for a consideration per share less than such Common Stock's Bid Price determined immediately prior to its issuance, or (iii) file any registration statement on Form S-8.

Section 6.7 CONSOLIDATION; MERGER. The Company shall not, at any time after the date hereof, effect any merger or consolidation of the Company with or into, or a transfer of all or substantially all the assets of the Company to another entity (a "CONSOLIDATION EVENT") unless the resulting successor or acquiring entity (if not the Company) assumes by written instrument the obligation to deliver to the Investor such shares of stock and/or securities as the Investor is entitled to receive pursuant to this Agreement.

ARTICLE VII
CONDITIONS FOR ADVANCE AND CONDITIONS TO ADVANCES

Section 7.1 CONDITIONS PRECEDENT TO THE OBLIGATIONS OF THE COMPANY. The obligation hereunder of the Company to issue and sell the shares of Common Stock to the Investor incident to each Advance is subject to the satisfaction, or waiver by the Company, at or before each Advance Date, of each of the conditions set forth below.

(a) ACCURACY OF THE INVESTOR'S REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Investor contained herein shall be true and correct in all material respects.

(b) PERFORMANCE BY THE INVESTOR. The Investor shall have performed, satisfied and complied in all respects with all covenants, agreements and conditions required by this Agreement the Commencement Date to be performed, satisfied or complied with by the Investor at or prior to the Commencement Date.

Section 7.2 CONDITIONS PRECEDENT TO THE RIGHT OF THE COMPANY TO SELL REGISTERED STOCK AND THE OBLIGATION OF THE INVESTOR TO PURCHASE REGISTERED STOCK. The right of the Company to receive an Advance and the obligation of the Investor hereunder to acquire and pay for shares of the Company's Common Stock incident to an Advance is subject to the fulfillment by the Company, of each of the following conditions on each Advance Date:

(a) ACCURACY OF COMPANY'S REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Company contained herein shall be true and correct in all material respects.

(b) REGISTRATION OF THE COMMON STOCK WITH THE SEC. The Shelf Registration Statement shall have previously become effective and shall remain effective on each Advance Date and (i) neither the Company nor the Investor shall have received notice that the SEC has issued or intends to issue a stop order with respect to the Shelf Registration Statement or that the SEC otherwise has suspended or withdrawn the effectiveness of the Shelf Registration Statement, either temporarily or permanently, or intends or has threatened to do so (unless the SEC's concerns have been addressed and the Investor is reasonably satisfied that the SEC no longer is considering or intends to take such action), and (ii) no other suspension of the use or withdrawal of the effectiveness of the Shelf Registration Statement or related prospectus shall exist. The Prospectus Supplement must have been filed with the SEC on or prior to the Commencement Date.

(c) AUTHORITY. The Company shall have obtained all permits and qualifications required by any applicable state for the offer and sale of the shares of Common Stock, or shall have the availability of exemptions therefrom. The sale and issuance of the shares of Common Stock shall be legally permitted by all laws and regulations to which the Company is subject.

(d) FUNDAMENTAL CHANGES. There shall not exist any fundamental changes to the information set forth in the Shelf Registration Statement which would require the Company to file a post-effective amendment to the Shelf Registration Statement.

(e) PERFORMANCE BY THE COMPANY. The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to each Advance Date.

(f) NO INJUNCTION. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits or directly and adversely affects any of the transactions contemplated by this Agreement, and no proceeding shall have been commenced that may have the effect of prohibiting or adversely affecting any of the transactions contemplated by this Agreement.

(g) NO SUSPENSION OF TRADING IN OR DELISTING OF COMMON STOCK. The trading of the Common Stock is not suspended by the SEC or the Principal Market. The issuance of shares of Common Stock with respect to the applicable Advance, if any, shall not violate the shareholder approval requirements of the Principal Market. The Company shall not have received any notice threatening the continued listing of the Common Stock on the Principal Market.

(h) MAXIMUM DAILY ADVANCE AMOUNT. The amount of an Advance requested by the Company shall not exceed the Maximum Daily Advance Amount. In addition, notwithstanding anything to the contrary contained herein, in no event shall the number of shares the Investor is required or permitted to purchase pursuant to an Advance equal or exceed the number of shares that would cause the aggregate number of shares of Common Stock that are acquired as a result of the transactions contemplated hereby and beneficially owned by the Investor and its affiliates to exceed nine and 99/100 percent (9.99%) of the then outstanding Common Stock of the Company. Shares owned by any other investor pursuant to a Subscription Agreement referenced in this Agreement will not be aggregated with shares owned by the Investor for purposes of determining beneficial ownership. For the purposes of this Section beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act.

(i) NO KNOWLEDGE. The Company has no knowledge of any event which would be more likely than not to have the effect of causing the Shelf Registration Statement to be suspended or otherwise ineffective.

ARTICLE VIII
NON-DISCLOSURE OF NON-PUBLIC INFORMATION

Section 8.1 NON-DISCLOSURE OF NON-PUBLIC INFORMATION.

Nothing herein shall require the Company to disclose non-public information to the Investor or its advisors or representatives, and the Company represents that it does not disseminate non-public information to any investors who purchase stock in the Company in a public offering, to money managers or to securities analysts, provided, however, that notwithstanding anything herein to the contrary, the Company will, as hereinabove provided, immediately notify the advisors and representatives of the Investor of any event or the existence of any circumstance (without any obligation to disclose the specific event or circumstance) of which it becomes aware, constituting non-public information (whether or not requested of the Company specifically or generally during the course of due diligence by such persons or entities), which, if not disclosed in the prospectus included in the Shelf Registration Statement would cause such prospectus to include a material misstatement or to omit a material fact required to be stated therein in order to make the statements, therein, in light of the

circumstances in which they were made, not misleading. Nothing contained in this Section 8.1 shall be construed to mean that such persons or entities other than the Investor (without the written consent of the Investor prior to disclosure of such information) may not obtain non-public information in the course of conducting due diligence in accordance with the terms of this Agreement and nothing herein shall prevent any such persons or entities from notifying the Company of their opinion that based on such due diligence by such persons or entities, that the Shelf Registration Statement contains an untrue statement of material fact or omits a material fact required to be stated in the Shelf Registration Statement or necessary to make the statements contained therein, in light of the circumstances in which they were made, not misleading.

ARTICLE IX
CHOICE OF LAW/JURISDICTION

Section 9.1 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS. THE PARTIES FURTHER AGREE THAT ANY ACTION BETWEEN THEM SHALL BE HEARD IN AND EXPRESSLY CONSENT TO THE JURISDICTION AND VENUE OF THE STATE AND FEDERAL COURTS LOCATED IN THE CITY OF LOS ANGELES, CALIFORNIA FOR THE ADJUDICATION OF ANY CIVIL ACTION ASSERTED PURSUANT TO THIS PARAGRAPH.

ARTICLE X
ASSIGNMENT; TERMINATION

Section 10.1 ASSIGNMENT. Neither this Agreement nor any rights of the Company hereunder may be assigned to any other Person.

Section 10.2 TERMINATION. Except for provisions which expressly survive termination, this Agreement shall terminate upon the earliest to occur of the following:

(i) The expiration of the Offering Period;

(ii) Investor provides written notice to the Company that Investor is terminating the Agreement due to a material inaccuracy of any representation or warranty of the Company or its failure to comply with any covenant or obligation hereunder, or the Company provides written notice to the Investor that the Company is terminating the Agreement due to a material inaccuracy of any representation or warranty of the Investor or its failure to comply with any covenant or obligation hereunder;

(iii) immediately without further action by either party if the sale of Common Stock hereunder is prohibited or enjoined by applicable law or governmental or self-regulatory body; and

(iv) by written agreement of the parties.

ARTICLE XI
NOTICES

Section 11.1 NOTICES. Any notices, consents, waivers, or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile or by other electronic transmission (including email); (iii) three (3) days after being sent by U.S. certified mail, return receipt requested, or (iv) one (1) day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company, to:	Capstone Turbine Corporation 21211 Nordhoff Street Chatsworth, CA 91311 Attention: John R. Tucker Telephone: 818-407-3611 Facsimile: 818-734-5321 Email: jtucker@capstoneturbine.com
With a copy to:	Waller Lansden Dortch & Davis, PLLC 511 Union Street, Suite 2700 Nashville, TN 37219 Attention: J. Chase Cole, Esq. Telephone: (615) 850-8476 Facsimile: (615) 244-6804 Email: chase.cole@wallerlaw.com
If to the Investor(s):	M.A.G. Capital, LLC 555 South Flower Street Suite 4200 Los Angeles, CA 90071 Attention: Todd Bomberg, Bill Fitzhugh, H. Harry Aharonian, and Bill Jose Telephone: 213-533-8288 Facsimile: 213-533-8285 Email: todd@magcapital.net; bill@magcapital.net; harry@magcapital.net; and bjose@magcapital.net
With a Copy to:	Sheppard Mullin Richter & Hampton LLP 333 S. Hope Street, 48th Floor Los Angeles, CA 90071 Attention: David C. Ulich, Esq. Telephone: 213-830-2020 Facsimile: 213-620-1398 Email: Dulich@sheppardmullin.com

Each party shall provide two (2) days' prior written notice to the other party of any change in address or facsimile number.

ARTICLE XII
MISCELLANEOUS

Section 12.1 COUNTERPARTS. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. In the event any signature page is delivered by facsimile transmission, the party using such means of delivery shall cause four (4) additional original executed signature pages to be physically delivered to the other party within five (5) days of the execution and delivery hereof, though failure to deliver such copies shall not affect the validity of this Agreement.

Section 12.2 ENTIRE AGREEMENT; AMENDMENTS. This Agreement supersedes all other prior oral or written agreements between the Investor, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Investor makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the party to be charged with enforcement.

Section 12.3 REPORTING ENTITY FOR THE COMMON STOCK. The reporting entity relied upon for the determination of the trading price or trading volume of the Common Stock on any given Trading Day for the purposes of this Agreement shall be Bloomberg, L.P. or any successor thereto. The written mutual consent of the Investor and the Company shall be required to employ any other reporting entity.

Section 12.4 SURVIVAL. The representations and warranties of the Company set forth in this agreement shall survive until the first (1st) anniversary of the Commencement Date.

Section 12.5 BROKERAGE. Each of the parties hereto represents that it has had no dealings in connection with this transaction with any finder or broker who will demand payment of any fee or commission from the other party except as indicated in the Disclosure Documents. The Company on the one hand, and the Investor, on the other hand, agree to indemnify the other against and hold the other harmless from any and all liabilities to any person claiming brokerage commissions or finder's fees on account of services purported to have been rendered on behalf of the indemnifying party in connection with this Agreement or the transactions contemplated hereby.

Section 12.6 CONFIDENTIALITY. If for any reason the transactions contemplated by this Agreement are not consummated, each of the parties hereto shall keep confidential any information obtained from any other party (except information publicly available or in such party's domain prior to the date hereof, and except as required by court order) and shall promptly return to the other parties all schedules, documents, instruments, work papers or other written

information without retaining copies thereof, previously furnished by it as a result of this Agreement or in connection herein.

Section 12.7 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party or parties shall be entitled to receive from the other party or parties reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which the prevailing party or parties may be entitled.

Section 12.8 SUCCESSORS. This Agreement shall inure to the benefit of and be binding upon Investor and the Company and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person.

Section 12.9 NO WAIVER. No failure or delay on the part of the Company or Investor in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Company or Investor at law or in equity or otherwise. No waiver of or consent to any departure by the Company or Investor from any provision of this Agreement shall be effective unless signed in writing by the party entitled to the benefit thereof, provided that notice of any such waiver shall be given to each party hereto as set forth below.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by the undersigned, thereunto duly authorized, as of the date first set forth above.

COMPANY:
CAPSTONE TURBINE CORPORATION

By: /s/ John R. Tucker
Name: John R. Tucker
Title: President and Chief Executive Officer

INVESTOR:
MONARCH POINTE FUND, LTD.
By: M.A.G. Capital, LLC

By: /s/ David Firestone
Name: David Firestone
Title: Managing Partner

EXHIBIT A

ADVANCE NOTICE

The undersigned, _____ hereby certifies, with respect to the sale of shares of Common Stock of CAPSTONE TURBINE CORPORATION (the "COMPANY"), issuable in connection with this Advance Notice dated _____ (the "NOTICE"), delivered pursuant to the Subscription Agreement (the "AGREEMENT"), as follows:

1. The undersigned is the duly elected _____ of the Company.

2. The representations and warranties of the Company contained in the Agreement are true and correct in all material respects and the Company is in compliance with each of its obligations under such Agreement as of the date hereof.

3. The Daily Advance Amount requested on _____, 2005, is $_____.

The undersigned has executed this Notice this ___day of _____, 2005.

COMPANY:
CAPSTONE TURBINE CORPORATION

By: _____
Name: _____
Title: _____

EXHIBIT B

WRITTEN DIRECTION TO DISBURSE

The undersigned, _____ , hereby certifies as follows, each on behalf of Monarch Pointe Fund, Ltd. ("INVESTOR"), pursuant to the Subscription Agreement dated as of even date herewith (the "AGREEMENT").

1. The undersigned is the duly elected _____ of the Investor.

2. The Investor received an Advance Notice from Capstone Turbine Corporation (the "Company") on _____ , 2005, requesting a Daily Advance Amount of $ _____ .

3. The VWAP of the shares of Common Stock is $_____, and the Purchase Price per share for such shares is $_____.

4. Pursuant to the Agreement, the Investor shall acquire the number of shares of Registered Stock equal to $_____ [amount from 2 above] divided by the per share Purchase Price.

5. The Escrow Agent is directed to disburse immediately $_____ to the account designated by the Company in the Escrow Agreement.

6. The Escrow Agent is directed to effect immediately the transfer of _____ shares of Registered Stock to the Investor's account set forth in the Escrow Agreement.

The undersigned has executed this Written Direction this ___day of _____, 2005.

[Signature page follows.]

INVESTOR:
MONARCH POINTE FUND, LTD.
By: M.A.G. Capital, LLC

By: _____
Name:
Title:

The signature below manifests the Company's agreement as to numbers 3, 4, 5 and 6 set forth above.

CAPSTONE TURBINE CORPORATION

By: _____
Name: _____
Title: _____

Schedule 4.2(A)

Capstone Turbine International, Inc.

EXHIBIT 10.3

Capstone Turbine Corporation
Shares of Common Stock, par value $0.001

SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT (the "AGREEMENT") by and between ASSET MANAGERS INTERNATIONAL LTD, an international business company incorporated in the British Virgin Islands (the "INVESTOR"), and CAPSTONE TURBINE CORPORATION, a corporation organized and existing under the laws of the State of Delaware (the "COMPANY") is dated the 7th day of October, 2005 and effective as of the execution of the Escrow Agreement by and between the Company, the Investor and Mellon Investor Services, LLC (the "COMMENCEMENT DATE").

WHEREAS, the parties desire that, upon the terms and subject to the conditions contained herein, the Company shall issue and sell to the Investor, from time to time as provided herein, and the Investor shall purchase from the Company shares of the Company's common stock, par value $0.001 per share (the "COMMON STOCK"), with an aggregate purchase price of up to Thirty-four Million Dollars ($34,000,000.00); and

WHEREAS, the shares of Common Stock will be issued pursuant to a registration statement filed with the Securities and Exchange Commission (the "SEC") on Form S-3 (SEC File No. 333-128164) (the "SHELF REGISTRATION STATEMENT") with respect to, among other securities, the Company's Common Stock (such shares of Common Stock covered by the Shelf Registration Statement are referred to herein as the "REGISTERED STOCK").

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

Section 1.1 "ADVANCE" shall mean the portion of the Commitment Amount advanced by or on behalf of the Investor to or for the benefit of the Company on any Advance Date for the purchase of shares of Registered Stock.

Section 1.2 "ADVANCE DATE" shall mean each Trading Day during the Offering Period (other than October 13, 2005) on which the Investor purchases, and the Company sells, Registered Stock during the Offering Period in connection with an Advance.

Section 1.3 "ADVANCE NOTICE" shall mean a written (including by electronic transmission) notice in the form attached hereto as Exhibit A to the Investor setting forth the Daily Advance Amount that the Company is requesting with respect to the Advance Date.

Section 1.4 "AGREEMENT" shall have the meaning set forth in the preamble to this Agreement.

Section 1.5 “BID PRICE” shall mean, on any Trading Day, the closing bid price (as reported by Bloomberg, L.P.) of the Common Stock on the Principal Market.

Section 1.6 “COMMENCEMENT DATE” shall have the meaning set forth in the preamble to this Agreement.

Section 1.7 “COMMITMENT AMOUNT” shall mean the aggregate amount of up to Thirty-four Million Dollars ($34,000,000) which the Investor has agreed to provide to the Company during the Offering Period in order to purchase the Company’s Registered Stock pursuant to the terms and conditions of this Agreement.

Section 1.8 “COMMON STOCK” shall have the meaning set forth in the recitals to this Agreement.

Section 1.9 “COMPANY” shall have the meaning set forth in the preamble to this Agreement.

Section 1.10 “DAILY ADVANCE AMOUNT” shall mean, on the first Advance Date, $6,296,296.30, and on each subsequent Advance Date $3,078,189.30, or such other amount advanced to or for the benefit of the Company for the purchase of shares of Registered Stock as determined by the Company in accordance with this Agreement (subject to the Maximum Daily Advance Amount).

Section 1.11 “ESCROW AGENT” shall mean Mellon Investor Services LLC, and its successors and assigns under the Escrow Agreement.

Section 1.12 “ESCROW AGREEMENT” shall mean the escrow agreement among the Company, the Investor, and Escrow Agent dated the date hereof.

Section 1.13 “EXCHANGE ACT” shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Section 1.14 “INVESTOR” shall have the meaning set forth in the preamble to this Agreement.

Section 1.15 “MARKET PRICE” shall mean the VWAP of each share of Common Stock on the Trading Date with respect to which an Advance Notice has been delivered.

Section 1.16 “MAXIMUM DAILY ADVANCE AMOUNT” shall be $4,722,222.22 per any Advance Date (other than the first Advance Date).

Section 1.17 “NASD” shall mean the National Association of Securities Dealers, Inc.

Section 1.18 “OFFERING PERIOD” shall mean the period commencing on the Trading Day immediately following the Commencement Date and expiring on the tenth (10^{th}) Trading Day after the Commencement Date; provided, however, that the Offering Period shall not include October 13, 2005 as a Trading Day, and that the Offering Period shall be extended automatically by one Trading Day for each Trading Day on which no Advance is made, up to a

maximum of ten (10) additional Trading Days; and further provided that the Offering Period shall automatically expire upon the first to occur of, in the aggregate, the purchase and sale of 17,000,000 shares of Common Stock or the purchase and sale of shares of Common Stock with an aggregate purchase price of $54,000,000 pursuant to this Agreement and the Subscription Agreement by and between the Company and Monarch Pointe Fund, Ltd., dated October 7, 2005.

Section 1.19 "PERSON" shall mean an individual, a corporation, a partnership, an association, a trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

Section 1.20 "PRINCIPAL MARKET" shall mean the Nasdaq National Market.

Section 1.21 "PURCHASE PRICE" shall be ninety-six percent (96%) of the Market Price, computed to three decimal places, on the applicable Advance Date; provided however, that if the Company offers Common Stock to one or more third parties during the Offering Period at a price lower than the Purchase Price calculated in accordance with the foregoing, the Purchase Price shall be the lowest price at which the Company offers such shares of Common Stock.

Section 1.22 "REGISTERED STOCK" shall have the meaning set forth in the recitals to this Agreement.

Section 1.23 "SHELF REGISTRATION STATEMENT" shall have the meaning set forth in the recitals to this Agreement.

Section 1.24 "SEC" shall have the meaning set forth in the recitals to this Agreement.

Section 1.25 "SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

Section 1.26 "TRADING DAY" shall mean any day during which the Principal Market shall be open for business.

Section 1.27 "VWAP" shall mean the volume weighted average price of the Company's Common Stock as quoted by Bloomberg, LP on the applicable Trading Day.

Section 1.28 "WRITTEN DIRECTION TO DISBURSE" shall mean the written notice from the Investor and the Company to the Escrow Agent in the form attached hereto as Exhibit B, which written notice may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

ARTICLE II
ADVANCES

Section 2.1 ADVANCES; SHARES TRANSFERS

2.1.1 ADVANCES. On the first Trading Day after the Commencement Date (i.e., the first "Advance Date"), the Company shall receive the Daily Advance Amount of

$6,296,296.30, and on each of the nine (9) Trading Days (subject to the following proviso and sentence) thereafter during the Offering Period the Company shall, unless the Company delivers an Advance Notice to the Investor requesting a different Daily Advance Amount from zero to the Maximum Daily Advance Amount in accordance with Section 2.3, receive a Daily Advance Amount of $3,078,189.30; provided, however, that no Advance will be made, and no shares of Registered Stock will be purchased, on October 13, 2005. Notwithstanding anything to the contrary contained herein, no Advance will be made on any of such nine (9) Trading Days, and the Investor shall not direct the Escrow Agent to disburse any funds, on any such Trading Day on which between 6:30 a.m. (Pacific Time) and 11:00 a.m. (Pacific Time) the VWAP of the Company's Common Stock is below ninety percent (90%) of the closing VWAP for the immediately preceding Trading Day; provided, however, that the Company may elect to sell the previously designated number of shares of Registered Stock and the Investor shall direct the Escrow Agent to disburse the Daily Advance Amount on such a day if the Company delivers written notice (including by electronic transmission) to that effect to the Investor before 11:00 a.m. (Pacific Time) on such date. All Advances shall be made on the Advance Date after the determination of the Purchase Price and the number of shares of Registered Stock to be purchased with respect to such Advance.

2.1.2 REGISTERED STOCK TRANSFERS. With respect to each Advance, the Investor shall receive via DTC transfer to the Investor's brokerage account on the next Trading Day after the Advance Date, the number of shares of Registered Stock equal to the quotient obtained by dividing the Daily Advance Amount disbursed to the Company with respect to such Advance by the per share Purchase Price. No fractional shares shall be issued. Fractional shares shall be rounded to the next higher whole number of shares. The maximum aggregate number of shares of Common Stock which the Investor shall have the right or obligation to acquire hereunder shall not exceed the lesser of: (i) 10,703,704 shares; and (ii) the number of shares of Common Stock that has an aggregate Purchase Price equal to the Commitment Amount.

Section 2.2 CLOSING. On the Commencement Date, (i) the Company shall give its transfer agent instructions providing for the transfer to the account designated by the Escrow Agent of 10,703,704 shares of Registered Stock in accordance with the Escrow Agreement and (ii) the Investor shall deliver (or shall have delivered) to the Escrow Agent $28,000,000 and by 6:30 a.m. (Pacific Time) on October 12, 2005 the Investor shall deliver an additional $6,000,000 of the Commitment Amount by wire transfer of immediately available funds to the account designated by the Escrow Agent in accordance with the Escrow Agreement. The maximum aggregate number of shares of Common Stock which the Company shall be required to sell hereunder shall not exceed the lesser of: (i) 10,703,704 shares; and (ii) the number of shares of Common Stock that has an aggregate purchase price equal to the Commitment Amount. Each of the Company and the Investor shall deliver to the other all documents, instruments and writings required to be delivered by either of them pursuant to this Agreement in order to implement and effect the transactions contemplated herein. Disbursement of Advances to the Company and transfer of the shares of the Company's Registered Stock to the Investor shall occur in accordance with the conditions set herein above and in the Escrow Agreement.

Section 2.3 ADVANCE NOTICE; WRITTEN DIRECTION TO DISBURSE. On or before 6:00 a.m. (Pacific Time) on each Trading Day after the first Trading Day during the

Offering Period, subject to all other terms and provisions herein, the Company shall deliver to the Investor an Advance Notice setting forth the requested Daily Advance Amount (but not more than the Maximum Daily Advance Amount) requested on such Advance Date. Subject to all other terms and provisions herein, the Investor and the Company shall, after the close of the Principal Market on each Trading Day including the first Trading Day during the Offering Period, deliver to the Escrow Agent a Written Direction to Disburse, specifying the Daily Advance Amount to be disbursed to the Company, the VWAP for the Common Stock on such Advance Date, the Purchase Price for the shares of Registered Stock, and the number of shares of Registered Stock to be transferred to the account of Investor. If the Company does not deliver an Advance Notice on or before 6:00 a.m. (Pacific Time) with respect to an Advance Date other than the first Trading Day during the Offering Period, the Daily Advance Amount for such Advance Date shall be $3,078,189.30.

Section 2.4 TERMINATION OF INVESTMENT. The obligation of the Investor to make an Advance to the Company pursuant to this Agreement shall terminate permanently (including with respect to each Advance Date that has not yet occurred) in the event that (i) there shall occur any stop order or suspension of the effectiveness of the Shelf Registration Statement or (ii) the Company shall at any time fail materially to comply with the requirements of Article VI. The obligation of the Company to transfer shares of Registered Stock to the Investor pursuant to this Agreement shall terminate permanently (including with respect to each Advance Date that has not yet occurred) in the event that the Investor shall at any time materially fail to comply with the requirements of Article III.

Section 2.5 AGREEMENT TO ADVANCE FUNDS. The Investor agrees to advance the Commitment Amount to the Escrow Agent after the completion of each of the following conditions and the other conditions set forth in this Agreement required to be completed prior to advancement of the Commitment Amount:

(a) the execution and delivery by the Company, and the Investor, of this Agreement and the Exhibits and Schedules hereto;

(b) the Company's transfer agent shall have set aside in reserve the number of shares of Registered Stock required by Section 2.2(b) for the benefit of the Investor;

(c) there shall not have been any stop order or suspension of the effectiveness of the Shelf Registration Statement;

(d) the Company shall have obtained all material permits and qualifications required by any applicable state for the offer and sale of the Registered Stock, and the sale and issuance of the Registered Stock shall be legally permitted by all laws and regulations to which the Company is subject;

(e) the Company shall file with the Commission in a timely manner a prospectus supplement under Securities Act Rule 424(b) describing the specific plan of distribution (the "PROSPECTUS SUPPLEMENT") and all reports, notices

and other documents required of a "reporting company" under the Exchange Act and applicable SEC regulations; and

(f) the conditions set forth in Section 7.2 shall have been satisfied as of the time of the advancement of the Commitment Amount.

Section 2.6 DAMAGES. In the event the Investor sells shares of the Company's Common Stock after receipt of an Advance Notice and the Company fails to perform its obligations as mandated in Article II, and specifically the Company fails to effect through the Escrow Agent the transfer of the shares of Registered Stock to the Investor, the Company acknowledges that the Investor shall suffer financial loss and therefore shall be liable for any and all direct losses, commissions or fees incurred by the Investor.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF INVESTOR

Investor hereby represents to the Company that the following are true and correct as of the date hereof:

Section 3.1 ORGANIZATION AND AUTHORIZATION. The Investor is duly incorporated or organized and validly existing in the jurisdiction of its incorporation or organization and has all requisite power and authority to purchase and hold the securities issuable hereunder. The decision to invest and the execution and delivery of this Agreement by such Investor, the performance by such Investor of its obligations hereunder and the consummation by such Investor of the transactions contemplated hereby have been duly authorized and requires no other proceedings on the part of the Investor. The undersigned has the right, power and authority to execute and deliver this Agreement and all other instruments, on behalf of the Investor. This Agreement has been duly executed and delivered by the Investor and, assuming the execution and delivery hereof and acceptance thereof by the Company, will constitute the legal, valid and binding obligations of the Investor, enforceable against the Investor in accordance with its terms.

Section 3.2 NO UNDERWRITER. The Investor is not acting and will not act as an "underwriter" (as that term is defined in the Securities Act) with respect to the Company's Common Stock.

Section 3.3 NO STABILIZATION. Neither the Investor nor any of its directors, officers, employees, agents, partners, members, controlling persons or shareholders holding 5% or more of the Common Stock, has taken or will take, directly or indirectly, any actions designed, or that might reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock.

Section 3.4 NO SHORTING. Neither the Investor nor any of its affiliates has, directly or indirectly, offered to "short sell", contracted to "short sell," otherwise engaged in any "short selling" or encouraged others to "short sell" the securities of the Company, including, without limitation, shares of Common Stock that will be received as a result of the transactions contemplated by this Agreement, and neither the Company nor any of its affiliates will engage in any of the foregoing at any time any of them own shares of Common Stock acquired under this

Agreement. For purposes of this Agreement, "short selling" shall include any short sale and any similar hedging or derivative securities transaction; provided, however, that nothing contained herein shall prohibit the Investor from selling any shares of Common Stock that will be received as a result of the transactions contemplated by this Agreement "against the box."

Section 3.5 RESTRICTIONS ON RESALE. Investor shall not sell any shares of Common Stock directly to any shareholder of the Company who owns of record or beneficially fifteen percent (15%) or more, or any offeror for shares of Common Stock which is seeking to acquire fifteen percent (15%) or more, of the Common Stock the Company; provided, however, that nothing herein shall prevent the Investor from selling its Common Stock in an open-market transaction through a registered broker or dealer (as such terms are defined in the Exchange Act).

Section 3.6 INVESTOR OWNERSHIP OF COMMON STOCK. Immediately prior to the Commencement Date, neither the Investor nor any of its affiliates owns (either directly or indirectly) any shares of Common Stock of the Company. Neither the Investor nor any of its affiliates has, directly or indirectly, entered into any agreement with any third party to sell shares, or offered to sell, any shares of Common Stock to be acquired pursuant to this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the Investor as follows:

Section 4.1 In connection with the sale of the Registered Stock, the Company has made available, as requested (including electronically via the SEC's EDGAR system) to Investor its periodic and current reports, forms, schedules, proxy statements and other documents (including exhibits and all other information incorporated by reference) filed with the SEC under the Exchange Act. The Company's Annual Report on Form 10-K for the year ended March 31, 2005 and all subsequent reports, forms, schedules, statements, documents, filings and amendments filed by the Company with the SEC under the Exchange Act, are collectively referred to as the "DISCLOSURE DOCUMENTS." All references in this Agreement to financial statements and schedules and other information which is "contained," "included" or "stated" in the Disclosure Documents (or other references of like import) shall be deemed to mean and include all such financial statements and schedules, documents, exhibits and other information which is incorporated by reference in the Disclosure Documents. The Disclosure Documents as of their respective dates did not, and will not as of the Commencement Date or any Advance Date, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Disclosure Documents and the documents incorporated or deemed to be incorporated by reference therein, at the time they were filed or hereafter are filed with the SEC, complied and will comply, at the time of filing, in all material respects with the requirements of the Securities Act and/or the Exchange Act, as the case may be, as applicable.

Section 4.2 Schedule 4.2(A) attached hereto sets forth a complete list of the subsidiaries of the Company (the "SUBSIDIARIES"). Each of the Company and its Subsidiaries has been duly incorporated and each of the Company and the Subsidiaries is validly existing in good standing as a corporation under the laws of its jurisdiction of incorporation, with the

requisite corporate power and authority to own its properties and conduct its business as now conducted as described in the Disclosure Documents and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the business, condition (financial or other), properties or results of operations of the Company and the Subsidiaries, taken as a whole (any such event, a "MATERIAL ADVERSE EFFECT"); as of the Commencement Date, the Company will have the authorized, issued and outstanding capitalization set forth in the Disclosure Documents (the "COMPANY CAPITALIZATION"); the Company does not have any Subsidiaries or own directly or indirectly any of the capital stock or other equity or long-term debt securities of or have any equity interest in any other person; all of the outstanding shares of capital stock of the Company and the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive or similar rights and are owned free and clear of all liens, encumbrances, equities, and restrictions on transferability (other than those imposed by the Securities Act and the state securities or "Blue Sky" laws) or voting; except as set forth in the Disclosure Documents, all of the outstanding shares of capital stock of the Subsidiaries are owned, directly or indirectly, by the Company; except as set forth in the Disclosure Documents, no options, warrants or other rights to purchase from the Company or any Subsidiary, agreements or other obligations of the Company or any Subsidiary to issue or other rights to convert any obligation into, or exchange any securities for, shares of capital stock of or ownership interests in the Company or any Subsidiary are outstanding; and except as included in the Company's public filings on file with the Securities and Exchange Commission, there is no agreement, understanding or arrangement among the Company or any Subsidiary and each of their respective stockholders or any other person relating to the ownership or disposition of any capital stock of the Company or any Subsidiary or the election of directors of the Company or any Subsidiary or the governance of the Company's or any Subsidiary's affairs, and, if any, such agreements, understandings and arrangements will not be breached or violated as a result of the execution and delivery of, or the consummation of the transactions contemplated by, this Agreement.

Section 4.3 The Company has the requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement. This Agreement has been duly and validly authorized by the Company and, when executed and delivered by the Company, will constitute a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms except as the enforcement thereof may be limited by (A) bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally or (B) general principles of equity and the discretion of the court before which any proceeding therefore may be brought (regardless of whether such enforcement is considered in a proceeding at law or in equity) (collectively, the "ENFORCEABILITY EXCEPTIONS").

Section 4.4 The Common Stock of the Company conforms to the description thereof contained in the Disclosure Documents. The stockholders of the Company have no preemptive or similar rights with respect to the Common Stock.

Section 4.5 No consent, approval, authorization, license, qualification, exemption or order of any court or governmental agency or body or third party is required for the performance of this Agreement by the Company or for the consummation by the Company of any of the transactions contemplated thereby, or the application of the proceeds of the issuance of the Registered Stock as described in this Agreement, except for such consents, approvals, authorizations, licenses, qualifications, exemptions or orders (i) as have been obtained on or prior to the Commencement Date, (ii) as are not required to be obtained on or prior to the Commencement Date that will be obtained when required, or (iii) the failure to obtain which would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.6 None of the Company or the Subsidiaries is (i) in material violation of its articles of incorporation or bylaws (or similar organizational document), (ii) in breach or violation of any statute, judgment, decree, order, rule or regulation applicable to it or any of its properties or assets, which breach or violation would, individually or in the aggregate, have a Material Adverse Effect, or (iii) except as described in the Disclosure Documents, in default (nor has any event occurred which with notice or passage of time, or both, would constitute a default) in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which it is a party or to which it is subject, which default would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.7 The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated thereby and the fulfillment of the terms thereof will not (a) violate, conflict with or constitute or result in a breach of or a default under (or an event that, with notice or lapse of time, or both, would constitute a breach of or a default under) any of (i) the terms or provisions of any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which any of the Company or the Subsidiaries is a party or to which any of their respective properties or assets are subject, (ii) the Certificate of Incorporation or bylaws of any of the Company or the Subsidiaries (or similar organizational document) or (iii) any statute, judgment, decree, order, rule or regulation of any court or governmental agency or other body applicable to the Company or the Subsidiaries or any of their respective properties or assets or (b) result in the imposition of any lien upon or with respect to any of the properties or assets now owned or hereafter acquired by the Company or any of the Subsidiaries; which violation, conflict, breach, default or lien would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.8 The audited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations, cash flows and changes in shareholders' equity of the entities, at the dates and for the periods to which they relate and have been prepared in all material respects in accordance with generally accepted accounting principles applied on a consistent basis; the interim unaudited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations and cash flows of the entities, at the dates and for the periods to which they relate subject to year-end audit adjustments and have been prepared in all material respects in accordance with generally accepted accounting principles applied on a consistent basis with the audited consolidated financial statements included therein; the selected financial

data included in the Disclosure Documents present fairly the information shown therein and have been prepared and compiled in all material respects on a basis consistent with the audited financial statements included therein, except as otherwise stated therein; and each of the auditors previously engaged by the Company or to be engaged in the future by the Company is an independent certified public accountant as required by the Securities Act for an offering registered thereunder.

Section 4.9 Except as described in the Disclosure Documents, there is not pending or, to the knowledge of the Company, threatened any action, suit, proceeding, inquiry or investigation, governmental or otherwise, to which any of the Company or the Subsidiaries is a party, or to which their respective properties or assets are subject, before or brought by any court, arbitrator or governmental agency or body, that, if determined adversely to the Company or any such Subsidiary, would, individually or in the aggregate, have a Material Adverse Effect or that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the issuance or sale of the Securities to be sold hereunder or the application of the proceeds therefrom or the other transactions described in the Disclosure Documents.

Section 4.10 The Company and the Subsidiaries own or possess adequate licenses or other rights to use all patents, trademarks, service marks, trade names, copyrights and know-how that are necessary to conduct their businesses as described in the Disclosure Documents. None of the Company or the Subsidiaries has received any written notice of infringement of (or knows of any such infringement of) asserted rights of others with respect to any patents, trademarks, service marks, trade names, copyrights or know-how that, if such assertion of infringement or conflict were sustained, would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.11 Each of the Company and the Subsidiaries possesses all licenses, permits, certificates, consents, orders, approvals and other authorizations from, and has made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals presently required or necessary to own or lease, as the case may be, and to operate its respective properties and to carry on its respective businesses as now or proposed to be conducted as set forth in the Disclosure Documents ("PERMITS"), except where the failure to obtain such Permits would not, individually or in the aggregate, have a Material Adverse Effect and none of the Company or the Subsidiaries has received any notice of any proceeding relating to revocation or modification of any such Permit, except as described in the Disclosure Documents and except where such revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.12 Subsequent to June 30, 2005 and except as described in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 or in the Company's Annual Report on Form 10-K for the year ended March 31, 2005, (i) the Company and the Subsidiaries have not incurred any material liabilities or obligations, direct or contingent, or entered into any material transactions not in the ordinary course of business or (ii) the Company and the Subsidiaries have not purchased any of their respective outstanding capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on any of their respective capital stock or otherwise (other than, with respect to any of such Subsidiaries, the purchase of capital stock by the Company), (iii) there has not been any material increase in the long-term indebtedness of the Company or any of the Subsidiaries, (iv) there has not occurred any event or

condition, individually or in the aggregate, that has a Material Adverse Effect, and (v) the Company and the Subsidiaries have not sustained any material loss or interference with respect to their respective businesses or properties from fire, flood, hurricane, earthquake, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding.

Section 4.13 There are no material legal or governmental proceedings nor are there any material contracts or other documents required by the Securities Act to be described in a prospectus that are not described in the Disclosure Documents. Except as described in the Disclosure Documents, none of the Company or the Subsidiaries is in default under any of the contracts described in the Disclosure Documents, has received a notice or claim of any such default or has knowledge of any breach of such contracts by the other party or parties thereto, except for such defaults or breaches as would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.14 The Company and the Subsidiaries own no real property, and each has good and marketable title to the leasehold estate in the real property described in the Disclosure Documents as being leased by it, free and clear of all liens, charges, encumbrances or restrictions, except, in each case, as described in the Disclosure Documents or such as would not, individually or in the aggregate, have a Material Adverse Effect. All material leases, contracts and agreements to which the Company or any of the Subsidiaries is a party or by which any of them is bound are valid and enforceable against the Company or any such Subsidiary, are, to the knowledge of the Company, valid and enforceable against the other party or parties thereto and are in full force and effect, in each case subject to the Enforceability Exceptions.

Section 4.15 Each of the Company and the Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns, except where the failure to so file such returns would not, individually or in the aggregate, have a Material Adverse Effect, and has paid all taxes shown as due thereon; and other than tax deficiencies which the Company or any Subsidiary is contesting in good faith and for which adequate reserves have been provided in accordance with generally accepted accounting principles, there is no tax deficiency that has been asserted against the Company or any Subsidiary that would, individually or in the aggregate, have a Material Adverse Effect.

Section 4.16 None of the Company or the Subsidiaries is, or immediately after any Advance Date will be, required to register as an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "INVESTMENT COMPANY ACT").

Section 4.17 None of the Company or the Subsidiaries or, to the knowledge of any of such entities' directors, officers, employees, agents or controlling persons, has taken, directly or indirectly, any action for the purpose of causing the stabilization or manipulation of the price of the Common Stock.

Section 4.18 There is no strike, labor dispute, slowdown or work stoppage with the employees of the Company or any of the Subsidiaries which is pending or, to the knowledge of the Company or any of the Subsidiaries, threatened.

Section 4.19 Each of the Company and the Subsidiaries carries general liability insurance coverage comparable to other companies of its size and similar business.

Section 4.20 Except as disclosed in the Disclosure Documents, each of the Company and the Subsidiaries maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, (C) access to its material assets is permitted only in accordance with management's authorization and (D) the values and amounts reported for its material assets are compared with its existing assets at reasonable intervals.

Section 4.21 Other than the fee to Credit Suisse First Boston set forth in the Prospectus Supplement, the Company does not know of any claims for services, either in the nature of a finder's fee or financial advisory fee, with respect to the offering of the Registered Stock and the transactions contemplated by this Agreement.

Section 4.22 The Common Stock is traded on the Principal Market. Except as described in the Disclosure Documents, the Company currently is not in violation of, and the consummation of the transactions contemplated by this Agreement will not violate, any rule of the Principal Market.

Section 4.23 Set forth in the Prospectus Supplement is the Company's intended use of the proceeds from this transaction.

Section 4.24 To the Company's knowledge, none of the officers or directors of the Company (i) has been convicted of any crime (other than traffic violations or misdemeanors not involving fraud) or is currently under investigation or indictment for any such crime, (ii) has been found by a court or governmental agency to have violated any securities or commodities law or to have committed fraud or is currently a party to any legal proceeding in which either is alleged, (iii) has been the subject of a proceeding under the bankruptcy laws or any similar state laws, or (iv) has been an officer, director, general partner, or managing member of an entity which has been the subject of such a proceeding.

ARTICLE V
INDEMNIFICATION

Section 5.1 INDEMNIFICATION.

(a) In consideration of the Investor's execution and delivery of this Agreement, and in addition to all of the Company's other obligations under this Agreement, the Company shall defend, protect, indemnify and hold harmless the Investor, and all of its officers, directors, partners, employees and agents (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "INVESTOR INDEMNITEES") from and against any and all actions, causes of action, suits, claims, losses, costs, penalties, fees, liabilities and damages, and expenses in connection therewith (irrespective of whether any such Investor Indemnitee is a party to the action for which indemnification hereunder is

sought), and including reasonable attorneys' fees and disbursements (the "INDEMNIFIED LIABILITIES"), incurred by the Investor Indemnitees or any of them as a result of, or arising out of, or relating to (i) any misrepresentation or breach of any representation or warranty made by the Company in this Agreement or any other certificate, instrument or document contemplated hereby or thereby, or (ii) any breach of any covenant, agreement or obligation of the Company contained in this Agreement or any other certificate, instrument or document contemplated hereby or thereby. To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities, which is permissible under applicable law.

(b) In consideration of the Company's execution and delivery of this Agreement, and in addition to all of the Investor's other obligations under this Agreement, the Investor shall defend, protect, indemnify and hold harmless the Company and all of its officers, directors, shareholders, employees and agents (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "COMPANY INDEMNITEES") from and against any and all Indemnified Liabilities incurred by the Company Indemnitees or any of them as a result of, or arising out of, or relating to (i) any misrepresentation or breach of any representation or warranty made by the Investor in this Agreement or the Prospectus Supplement, or (ii) any breach of any covenant, agreement or obligation of the Investor contained in this Agreement or any other certificate, instrument or document contemplated hereby or thereby. To the extent that the foregoing undertaking by the Investor may be unenforceable for any reason, the Investor shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities, which is permissible under applicable law.

(c) The obligations of the parties to indemnify or make contribution under this Section 5.1 shall survive termination.

ARTICLE VI
COVENANTS OF THE COMPANY

Section 6.1 LISTING OF COMMON STOCK. The Company shall maintain the Common Stock's authorization for quotation on the Principal Market.

Section 6.2 EXCHANGE ACT REGISTRATION. The Company will cause its Common Stock to continue to be registered under Section 12(g) of the Exchange Act, will file in a timely manner all reports and other documents required of it as a reporting company under the Exchange Act and will not take any action or file any document (whether or not permitted by Exchange Act or the rules thereunder) to terminate or suspend such registration or to terminate or suspend its reporting and filing obligations under said Exchange Act.

Section 6.3 TRANSFER AGENT INSTRUCTIONS. The Company shall deliver or cause the Escrow Agent to deliver instructions to the Company's transfer agent to transfer shares of Registered Stock equal to the Daily Advance Amount divided by the per share Purchase Price to the Investor on each Advance Date.

Section 6.4 CORPORATE EXISTENCE. The Company will take all steps necessary to preserve and continue the corporate existence of the Company.

Section 6.5 NOTICE OF CERTAIN EVENTS AFFECTING REGISTRATION; SUSPENSION OF RIGHT TO MAKE AN ADVANCE. The Company will immediately notify the Investor upon its becoming aware of the occurrence of any of the following events in respect of a registration statement or related prospectus relating to an offering of Registrable Securities: (i) receipt of any request for additional information by the SEC or any other federal or state governmental authority during the period of effectiveness of the registration statement for amendments or supplements to the registration statement or related prospectus; (ii) the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings for that purpose; (iii) receipt of any notification with respect to the suspension of the qualification or exemption from qualification of any of the registrable securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; (iv) the happening of any event that makes any statement made in the registration statement or related prospectus of any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in the registration statement, related prospectus or documents so that, in the case of the registration statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the related prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (v) the Company's reasonable determination that a post-effective amendment to the registration statement would be appropriate; and the Company will promptly make available to the Investor any such supplement or amendment to the related prospectus. The Company shall not deliver to the Investor any Advance Notice during the continuation of any of the foregoing events.

Section 6.6 RESTRICTION ON SALE OF CAPITAL STOCK. During the Offering Period, the Company shall not, without the prior written consent of the Investor, (i) issue or sell any Common Stock or preferred stock without consideration or for a consideration per share less than the Bid Price of the Common Stock determined immediately prior to its issuance, (ii) issue or sell any preferred stock, warrant, option, right, contract, call, or other security or instrument granting the holder thereof the right to acquire Common Stock without consideration or for a consideration per share less than such Common Stock's Bid Price determined immediately prior to its issuance, or (iii) file any registration statement on Form S-8.

Section 6.7 CONSOLIDATION; MERGER. The Company shall not, at any time after the date hereof, effect any merger or consolidation of the Company with or into, or a transfer of all or substantially all the assets of the Company to another entity (a "CONSOLIDATION EVENT") unless the resulting successor or acquiring entity (if not the Company) assumes by

written instrument the obligation to deliver to the Investor such shares of stock and/or securities as the Investor is entitled to receive pursuant to this Agreement.

ARTICLE VII
CONDITIONS FOR ADVANCE AND CONDITIONS TO ADVANCES

Section 7.1 CONDITIONS PRECEDENT TO THE OBLIGATIONS OF THE COMPANY. The obligation hereunder of the Company to issue and sell the shares of Common Stock to the Investor incident to each Advance is subject to the satisfaction, or waiver by the Company, at or before each Advance Date, of each of the conditions set forth below.

(a) ACCURACY OF THE INVESTOR'S REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Investor contained herein shall be true and correct in all material respects.

(b) PERFORMANCE BY THE INVESTOR. The Investor shall have performed, satisfied and complied in all respects with all covenants, agreements and conditions required by this Agreement the Commencement Date to be performed, satisfied or complied with by the Investor at or prior to the Commencement Date.

Section 7.2 CONDITIONS PRECEDENT TO THE RIGHT OF THE COMPANY TO SELL REGISTERED STOCK AND THE OBLIGATION OF THE INVESTOR TO PURCHASE REGISTERED STOCK. The right of the Company to receive an Advance and the obligation of the Investor hereunder to acquire and pay for shares of the Company's Common Stock incident to an Advance is subject to the fulfillment by the Company, of each of the following conditions on each Advance Date:

(a) ACCURACY OF COMPANY'S REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Company contained herein shall be true and correct in all material respects.

(b) REGISTRATION OF THE COMMON STOCK WITH THE SEC. The Shelf Registration Statement shall have previously become effective and shall remain effective on each Advance Date and (i) neither the Company nor the Investor shall have received notice that the SEC has issued or intends to issue a stop order with respect to the Shelf Registration Statement or that the SEC otherwise has suspended or withdrawn the effectiveness of the Shelf Registration Statement, either temporarily or permanently, or intends or has threatened to do so (unless the SEC's concerns have been addressed and the Investor is reasonably satisfied that the SEC no longer is considering or intends to take such action), and (ii) no other suspension of the use or withdrawal of the effectiveness of the Shelf Registration Statement or related prospectus shall exist. The Prospectus Supplement must have been filed with the SEC on or prior to the Commencement Date.

(c) AUTHORITY. The Company shall have obtained all permits and qualifications required by any applicable state for the offer and sale of the

shares of Common Stock, or shall have the availability of exemptions therefrom. The sale and issuance of the shares of Common Stock shall be legally permitted by all laws and regulations to which the Company is subject.

(d) FUNDAMENTAL CHANGES. There shall not exist any fundamental changes to the information set forth in the Shelf Registration Statement which would require the Company to file a post-effective amendment to the Shelf Registration Statement.

(e) PERFORMANCE BY THE COMPANY. The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to each Advance Date.

(f) NO INJUNCTION. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits or directly and adversely affects any of the transactions contemplated by this Agreement, and no proceeding shall have been commenced that may have the effect of prohibiting or adversely affecting any of the transactions contemplated by this Agreement.

(g) NO SUSPENSION OF TRADING IN OR DELISTING OF COMMON STOCK. The trading of the Common Stock is not suspended by the SEC or the Principal Market. The issuance of shares of Common Stock with respect to the applicable Advance, if any, shall not violate the shareholder approval requirements of the Principal Market. The Company shall not have received any notice threatening the continued listing of the Common Stock on the Principal Market.

(h) MAXIMUM DAILY ADVANCE AMOUNT. The amount of an Advance requested by the Company shall not exceed the Maximum Daily Advance Amount. In addition, notwithstanding anything to the contrary contained herein, in no event shall the number of shares the Investor is required or permitted to purchase pursuant to an Advance equal or exceed the number of shares that would cause the aggregate number of shares of Common Stock that are acquired as a result of the transactions contemplated hereby and beneficially owned by the Investor and its affiliates to exceed nine and 99/100 percent (9.99%) of the then outstanding Common Stock of the Company. Shares owned by any other investor pursuant to a Subscription Agreement referenced in this Agreement will not be aggregated with shares owned by the Investor for purposes of determining beneficial ownership. For the purposes of this Section beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act.

(i) NO KNOWLEDGE. The Company has no knowledge of any event which would be more likely than not to have the effect of causing the Shelf Registration Statement to be suspended or otherwise ineffective.

ARTICLE VIII
NON-DISCLOSURE OF NON-PUBLIC INFORMATION

Section 8.1 NON-DISCLOSURE OF NON-PUBLIC INFORMATION.

Nothing herein shall require the Company to disclose non-public information to the Investor or its advisors or representatives, and the Company represents that it does not disseminate non-public information to any investors who purchase stock in the Company in a public offering, to money managers or to securities analysts, provided, however, that notwithstanding anything herein to the contrary, the Company will, as hereinabove provided, immediately notify the advisors and representatives of the Investor of any event or the existence of any circumstance (without any obligation to disclose the specific event or circumstance) of which it becomes aware, constituting non-public information (whether or not requested of the Company specifically or generally during the course of due diligence by such persons or entities), which, if not disclosed in the prospectus included in the Shelf Registration Statement would cause such prospectus to include a material misstatement or to omit a material fact required to be stated therein in order to make the statements, therein, in light of the circumstances in which they were made, not misleading. Nothing contained in this Section 8.1 shall be construed to mean that such persons or entities other than the Investor (without the written consent of the Investor prior to disclosure of such information) may not obtain non-public information in the course of conducting due diligence in accordance with the terms of this Agreement and nothing herein shall prevent any such persons or entities from notifying the Company of their opinion that based on such due diligence by such persons or entities, that the Shelf Registration Statement contains an untrue statement of material fact or omits a material fact required to be stated in the Shelf Registration Statement or necessary to make the statements contained therein, in light of the circumstances in which they were made, not misleading.

ARTICLE IX
CHOICE OF LAW/JURISDICTION

Section 9.1 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS. THE PARTIES FURTHER AGREE THAT ANY ACTION BETWEEN THEM SHALL BE HEARD IN AND EXPRESSLY CONSENT TO THE JURISDICTION AND VENUE OF THE STATE AND FEDERAL COURTS LOCATED IN THE CITY OF LOS ANGELES, CALIFORNIA FOR THE ADJUDICATION OF ANY CIVIL ACTION ASSERTED PURSUANT TO THIS PARAGRAPH.

ARTICLE X
ASSIGNMENT; TERMINATION

Section 10.1 ASSIGNMENT. Neither this Agreement nor any rights of the Company hereunder may be assigned to any other Person.

Section 10.2 TERMINATION. Except for provisions which expressly survive termination, this Agreement shall terminate upon the earliest to occur of the following:

(i) The expiration of the Offering Period;

(ii) Investor provides written notice to the Company that Investor is terminating the Agreement due to a material inaccuracy of any representation or warranty of the Company or its failure to comply with any covenant or obligation hereunder, or the Company provides written notice to the Investor that the Company is terminating the Agreement due to a material inaccuracy of any representation or warranty of the Investor or its failure to comply with any covenant or obligation hereunder;

(iii) immediately without further action by either party if the sale of Common Stock hereunder is prohibited or enjoined by applicable law or governmental or self-regulatory body; and

(iv) by written agreement of the parties.

ARTICLE XI
NOTICES

Section 11.1 NOTICES. Any notices, consents, waivers, or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile or by other electronic transmission (including email); (iii) three (3) days after being sent by U.S. certified mail, return receipt requested, or (iv) one (1) day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company, to:	Capstone Turbine Corporation 21211 Nordhoff Street Chatsworth, CA 91311 Attention: John R. Tucker Telephone: 818-407-3611 Facsimile: 818-734-5321 Email: jtucker@capstoneturbine.com
With a copy to:	Waller Lansden Dortch & Davis, PLLC 511 Union Street, Suite 2700 Nashville, TN 37219 Attention: J. Chase Cole, Esq.

Telephone: (615) 850-8476
Facsimile: (615) 244-6804
Email: chase.cole@wallerlaw.com

If to the Investor(s):

Asset Managers International Ltd
c/o Olympia Capital (Ireland) Ltd. Harcourt Center 6th Floor, Block 3
Harcourt Road Dublin 2, Ireland
Attention: Andrew Bennett
Facsimile: +353 (1) 478 6298
Email: abennett@olympiacapital.ie

With a Copy to:

Pentagon Capital Management Plc
88 Baker Street, London W1U 6TQ
Attention: Lewis Chester
Telephone: +44 20 7 299 9922
Facsimile: +44 20 7 299 9988
Email: lchester@pentagoncapital.com

Each party shall provide two (2) days' prior written notice to the other party of any change in address or facsimile number.

ARTICLE XII
MISCELLANEOUS

Section 12.1 COUNTERPARTS. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. In the event any signature page is delivered by facsimile transmission, the party using such means of delivery shall cause four (4) additional original executed signature pages to be physically delivered to the other party within five (5) days of the execution and delivery hereof, though failure to deliver such copies shall not affect the validity of this Agreement.

Section 12.2 ENTIRE AGREEMENT; AMENDMENTS. This Agreement supersedes all other prior oral or written agreements between the Investor, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Investor makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the party to be charged with enforcement.

Section 12.3 REPORTING ENTITY FOR THE COMMON STOCK. The reporting entity relied upon for the determination of the trading price or trading volume of the Common Stock on any given Trading Day for the purposes of this Agreement shall be Bloomberg, L.P. or any successor thereto. The written mutual consent of the Investor and the Company shall be required to employ any other reporting entity.

Section 12.4 SURVIVAL. The representations and warranties of the Company set forth in this agreement shall survive until the first (1st) anniversary of the Commencement Date.

Section 12.5 BROKERAGE. Each of the parties hereto represents that it has had no dealings in connection with this transaction with any finder or broker who will demand payment of any fee or commission from the other party except as indicated in the Disclosure Documents. The Company on the one hand, and the Investor, on the other hand, agree to indemnify the other against and hold the other harmless from any and all liabilities to any person claiming brokerage commissions or finder's fees on account of services purported to have been rendered on behalf of the indemnifying party in connection with this Agreement or the transactions contemplated hereby.

Section 12.6 CONFIDENTIALITY. If for any reason the transactions contemplated by this Agreement are not consummated, each of the parties hereto shall keep confidential any information obtained from any other party (except information publicly available or in such party's domain prior to the date hereof, and except as required by court order) and shall promptly return to the other parties all schedules, documents, instruments, work papers or other written information without retaining copies thereof, previously furnished by it as a result of this Agreement or in connection herein.

Section 12.7 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party or parties shall be entitled to receive from the other party or parties reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which the prevailing party or parties may be entitled.

Section 12.8 SUCCESSORS. This Agreement shall inure to the benefit of and be binding upon Investor and the Company and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person.

Section 12.9 NO WAIVER. No failure or delay on the part of the Company or Investor in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Company or Investor at law or in equity or otherwise. No waiver of or consent to any departure by the Company or Investor from any provision of this Agreement shall be effective unless signed in writing by the party entitled to the benefit thereof, provided that notice of any such waiver shall be given to each party hereto as set forth below.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by the undersigned, thereunto duly authorized, as of the date first set forth above.

COMPANY:
CAPSTONE TURBINE CORPORATION

By: /s/ John R. Tucker
Name: John R. Tucker
Title: President and Chief Executive Officer

INVESTOR:
ASSET MANAGERS INTERNATIONAL LTD

By: /s/ Carolynn D. Hiron
Name: Carolynn D. Hiron
Title: Director

EXHIBIT A

ADVANCE NOTICE

The undersigned, _____ hereby certifies, with respect to the sale of shares of Common Stock of CAPSTONE TURBINE CORPORATION (the "COMPANY"), issuable in connection with this Advance Notice dated _____ (the "NOTICE"), delivered pursuant to the Subscription Agreement (the "AGREEMENT"), as follows:

1. The undersigned is the duly elected _____ of the Company.

2. The representations and warranties of the Company contained in the Agreement are true and correct in all material respects and the Company is in compliance with each of its obligations under such Agreement as of the date hereof.

3. The Daily Advance Amount requested on _____, 2005, is $_____.

The undersigned has executed this Notice this _____day of _____, 2005.

COMPANY:
CAPSTONE TURBINE CORPORATION

By: _____
Name: _____
Title: _____

EXHIBIT B

WRITTEN DIRECTION TO DISBURSE

The undersigned, _____, hereby certifies as follows, on behalf of ASSET MANAGERS INTERNATIONAL LTD (the "INVESTOR"), pursuant to the Subscription Agreement dated as of even date herewith (the "AGREEMENT").

1. The undersigned is the duly elected _____of the Investor.

2. The Investor received an Advance Notice from Capstone Turbine Corporation (the "Company") on _____, 2005, requesting a Daily Advance Amount of $_____.

3. The VWAP of the shares of Common Stock is $_____, and the Purchase Price per share for such shares is $_____.

4. Pursuant to the Agreement, the Investor shall acquire the number of shares of Registered Stock equal to $_____ [amount from 2 above] divided by the per share Purchase Price.

5. The Escrow Agent is directed to disburse immediately $_____ to the account designated by the Company in the Escrow Agreement.

6. The Escrow Agent is directed to effect immediately the transfer of _____ shares of Registered Stock to the Investor's account set forth in the Escrow Agreement.

The undersigned has executed this Written Direction this _____ day of _____, 2005.

ASSET MANAGERS INTERNATIONAL LTD

By: _____
Name: _____
Title: _____

The signature below manifests the Company's agreement as to numbers 3, 4, 5 and 6 set forth above.

CAPSTONE TURBINE CORPORATION

By: _____
Name: _____
Title: _____

Schedule 4.2(A)

Capstone Turbine International, Inc.

Exhibit 31.1

CERTIFICATION

I, John R. Tucker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capstone Turbine Corporation (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: February 9, 2006

By: /s/ JOHN R. TUCKER
John R. Tucker
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Walter J. McBride, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capstone Turbine Corporation (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: February 9, 2006

By: /s/ WALTER J. McBRIDE
Walter J. McBride
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
RULE 13a-14(b)/RULE 15d-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Capstone Turbine Corporation (the "Company") on Form 10-Q for the quarterly period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John R. Tucker, Chief Executive Officer of the Company and Walter J. McBride, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), that the Report complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JOHN R. TUCKER
John R. Tucker
President and Chief Executive Officer

By: /s/ WALTER J. McBRIDE
Walter J. McBride
Chief Financial Officer

Date: February 9, 2006