AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 22, 2000

REGISTRATION STATEMENT NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

<TABLE>
<S> <C> <C>

CALIFORNIA	3629	95-4180883
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

6430 INDEPENDENCE
WOODLAND HILLS, CALIFORNIA 91367
(818) 716-2929
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICE)

DR. AKE ALMGREN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
CAPSTONE TURBINE CORPORATION
6430 INDEPENDENCE
WOODLAND HILLS, CALIFORNIA 91367
(818) 716-2929

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

<TABLE>
<S> <C>

BRIAN CARTWRIGHT	ROBERT E. BUCKHOLZ, JR.
LATHAM & WATKINS	SULLIVAN & CROMWELL
633 WEST 5TH STREET, SUITE 4000	125 BROAD STREET
LOS ANGELES, CALIFORNIA 90071	NEW YORK, NEW YORK 10004
(213) 485-1234	(212) 558-4000

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

<TABLE>
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TITLE OF CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock.....		$	$115,000,000	$30,360

</TABLE>

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SEC, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

Subject to Completion. Dated March 22, 2000.

Shares

CAPSTONE TURBINE CORPORATION

Common Stock

This is an initial public offering of shares of common stock of Capstone Turbine Corporation. All of the shares of common stock are being sold by Capstone.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $ and $. Application will be made for quotation of the common stock on the Nasdaq National Market under the symbol "WATS".

See "Risk Factors" beginning on page 6 to read about factors you should consider before buying shares of the common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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	Per Share	Total
<S>	<C>	<C>
Initial public offering price.....	$	$
Underwriting discount.....	$	$
Proceeds, before expenses, to Capstone.....	$	$

</TABLE>

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from Capstone at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2000.

GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO.

MORGAN STANLEY DEAN WITTER

Prospectus dated , 2000.

[ARTWORK TO COME]

PROSPECTUS SUMMARY

The following summarizes information in other sections of our prospectus, including our financial statements, the notes to those financial statements and the other financial information appearing elsewhere in this prospectus. You should read the entire prospectus carefully.

CAPSTONE TURBINE CORPORATION

CAPSTONE

We develop, design, assemble and sell Capstone(TM) MicroTurbines for worldwide applications in the multibillion dollar distributed power generation and hybrid electric vehicle markets. We are the first company to sell a proven, commercially available power source using microturbine technology. The Capstone MicroTurbine combines sophisticated design, engineering and technology to produce a highly reliable and flexible power production system that generates electricity and heat for many commercial and industrial applications, including resource recovery, combined heat and power, hybrid electric vehicles, standby/backup power and peak shaving. We believe the simple and flexible design of our microturbines will enable our distributors and end users to develop an increasingly broad range of applications to fit their particular power needs.

PRODUCT

The Capstone MicroTurbine is a compact, environmentally friendly generator of electricity and heat. Our state-of-the-art microturbines combine patented air-bearing technology, advanced turbo-engineering and sophisticated power electronics to produce an efficient, highly reliable electricity and heat production system that requires little on-going maintenance. Our microturbines can operate by remote control and use a broad range of gaseous and liquid fuels, including previously unusable fuels such as low btu and high sulfur (sour) gas. Our microturbines are easily transportable and designed to allow multiple units to run together to meet an end user's specific needs.

We also have applied our technology to hybrid electric vehicles such as buses and industrial use vehicles. Buses using Capstone MicroTurbines have demonstrated greater range, less maintenance and lower cost than other low emission buses. Our microturbines are currently being used in prototype buses operating in Los Angeles, Nashville and Tucson.

We currently sell a system which produces approximately 30 kilowatts of electricity. We expect our next model, a 60+ kilowatt system, to be available by the third quarter of 2000.

TARGET MARKETS

The fundamental need for power, along with global deregulation of the electric power industry, an increasing need for better power quality and reliability and significant advances in power technology, are creating many new opportunities for Capstone MicroTurbine systems.

STATIONARY

We believe the stationary applications for our microturbines are extremely broad, either on a stand-alone basis or connected to the electric utility grid, because of our microturbines' ability to adapt to fuels, load variations, and various climates while operating in an environmentally friendly manner. We have initially targeted markets which we believe will identify and employ our product

attributes quickly. As levels of acceptance and volumes increase, we expect to enter larger, more diverse markets. Our initial target markets are:

Resource Recovery

Oil and gas production creates fuel byproducts that traditionally have been vented or flared into the atmosphere. Capstone MicroTurbines can burn these waste gases with minimal emissions (thereby avoiding pollution penalties) and produce on-site electricity for these activities. Our microturbines can also burn high sulfur (sour) gas and low energy content gas such as landfill and digester gas.

Combined Heat and Power

Using both the heat and electricity from the combustion of fuel improves the overall efficiency of the energy generation process and can provide a comprehensive solution to a customer's energy needs. Uses for the heat include space heating, air conditioning and heating and cooling water. We have identified the Japanese market as the most receptive for these applications in the near term.

Backup and Standby/Peak Shaving

Many commercial and small industrial customers in developed countries could reduce their electricity costs and/or improve their quality and reliability of electric power supply by installing a Capstone MicroTurbine to meet some or all of their needs. Utilities could install Capstone MicroTurbines at the end of the electric utility grid to avoid costly build-out of power lines. In addition, end

users also can use our microturbines to avoid temporary spikes in power prices.

Developing Regions

Much of the world's population does not have access to electric power. Our microturbine can be a primary, stand-alone power source which burns the gas or liquid fuel of choice.

HYBRID ELECTRIC VEHICLES

We believe that the hybrid electric vehicle market represents a significant near term opportunity and will expand as governments and consumers demand cost-efficient, reliable and environmentally friendly vehicles, particularly in urban areas.

COMPANY STRENGTHS

TECHNOLOGY LEADERSHIP

Our leadership position in microturbine technology stems from over ten years of innovative research and development. This experience has resulted in our unique ability to successfully integrate turbo-engineering with control and power electronics for commercial applications.

FIRST TO MARKET WITH COMMERCIAL PRODUCT

We are the first company to sell a proven, commercially available microturbine system.

CURRENTLY AVAILABLE FOR HYBRID ELECTRIC VEHICLE APPLICATIONS

The Capstone MicroTurbine was originally designed to be sufficiently durable for vehicular applications, and has been in commercial use in hybrid electric buses for over two years.

PROPRIETARY AIR-BEARING TECHNOLOGY

Capstone's patented air-bearing technology is critical to the low-maintenance and high reliability of our microturbine system.

STRONG MANAGEMENT TEAM IN PLACE

Led by Dr. Ake Almgren, we have a strong management team in place with significant industry experience covering all principal functional areas.

OUR STRATEGY

Our objective is to maintain our position as the leading worldwide developer and supplier of microturbine technology for the stationary distributed generation and hybrid electric vehicle markets. The key elements of our strategy are:

FOCUS ON NEAR TERM MARKET OPPORTUNITIES

We have targeted resource recovery, combined heat and power in Japan and hybrid electric vehicles as markets which can quickly adopt our unique products. We have established strategic relationships with direct end users and/or distribution partners in each of these markets.

DEVELOP LONG TERM MARKET OPPORTUNITIES

We expect the North American market for both combined heat and power and standby and backup/peak shaving to develop more slowly than our near term market opportunities. We are establishing distribution alliances to penetrate the North American markets for these long term opportunities.

ENHANCE OUR DISTRIBUTION ALLIANCES

We believe the most effective way to penetrate our target markets is with a business-to-business distribution strategy. We are forging alliances with key distribution partners worldwide. These partners include Williams Distributed Power Services Inc., PanCanadian Petroleum Ltd., Mitsubishi Corporation, Takuma Co., Meidensha Corporation, Sumitomo Corporation and Alliant Energy Corp. We have developed alliances with Advanced Vehicular Systems and DesignLine to develop the hybrid electric bus market.

BROADEN AND ENHANCE OUR PRODUCT LINE

We are currently developing a 60+ kilowatt microturbine system for expected commercial shipments in the third quarter of 2000. We intend to develop a family of microturbines with power outputs of up to 125+ kilowatts. We also intend to continue our research and development efforts to enhance our current products.

AGGRESSIVELY PROTECT OUR INTELLECTUAL PROPERTY

We believe that a policy of actively protecting our patents and other intellectual property is an important component of our strategy to remain the leader in microturbine technology and will provide us a long-term competitive

advantage.

ACHIEVE PRODUCTION EFFICIENCIES

We expect our unit production costs and prices to decline substantially as volumes increase. Our strategy is to use low cost materials and to outsource all non-proprietary hardware and electronics to achieve high volume, low cost production targets. We are pursuing a "tier one" supply strategy and are working with vendors that can scale up quickly to significant quantities. We will retain manufacturing control over our proprietary air-bearing and combustion components.

OUR EXISTING SHAREHOLDER BASE

Prior to this offering, we have raised over $260 million of private equity. Through our investor base we have access to extensive knowledge and experience in the electric utility industry, gas utility industry and application engineering throughout the world.

THE OFFERING

Shares offered by us.....	*shares*
Common stock to be outstanding after this offering.....	*shares*
Use of proceeds.....	*We plan to use the proceeds for purchasing tooling and manufacturing equipment, expanding sales and marketing activities, continuing product development, payment to Fletcher Challenge Limited as part of a buyback of marketing rights, and for general corporate purposes, including research and product development, manufacturing and market development, capital expenditures and potential acquisitions. See "Use of Proceeds".*
Proposed Nasdaq National Market symbol....	*WATS*

The number of shares of our common stock that will be outstanding after this offering:

- *includes 5,884,431 shares outstanding as of February 29, 2000, plus 86,223,198 shares of common stock to be issued upon the conversion of preferred stock into common stock immediately before this offering, plus shares of common stock to be issued in this offering; and*

- *excludes up to shares of common stock issuable upon exercise of the overallotment option granted to the underwriters and up to 10,755,169 shares of common stock either issued or available for issue under our stock option plans and shares reserved for issuance under our employee stock purchase plans.*

Unless otherwise indicated, all information in this prospectus:

- *assumes the underwriters option to purchase additional shares in the offering will not be exercised; and*

- *gives effect to the conversion of all outstanding shares of preferred stock and warrants into shares of common stock.*

We were incorporated in California in 1988. We intend to reincorporate in Delaware prior to the completion of this offering. Our principal executive offices are located at 6430 Independence, Woodland Hills, California 91367. Our telephone number at that location is (818) 716-2929. Our internet address is www.capstoneturbine.com.

The name Capstone and the Turbine Blade logo are trademarks that belong to us. This prospectus also contains the names of other entities which are the property of their respective owners.

SUMMARY FINANCIAL INFORMATION

<TABLE>
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	YEAR ENDED DECEMBER 31,				
	1995	*1996*	*1997*	*1998*	*1999*
	(in thousands)				

<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS:					
Total revenues	$ 920	$ 1,462	$ 1,623	$ 84	$ 6,694
Cost of goods sold	199	2,179	8,147	5,335	15,629
Gross profit (loss)	721	(717)	(6,524)	(5,251)	(8,935)
Operating costs and expenses:					
Research and development	4,796	8,599	13,281	19,019	9,151
Selling, general and administrative	1,878	3,585	10,946	10,257	11,191
Income (loss) from operations	(5,953)	(12,901)	(30,751)	(34,527)	(29,277)
Net income (loss)	$(5,957)	$(12,595)	$(30,553)	$(33,073)	$(29,530)

</TABLE>

The pro forma balance sheet data at December 31, 1999 reflects our receipt of the estimated net proceeds from the sale of million shares of common stock in this offering (at an assumed initial public offering price of $ per share), less underwriting fees, estimated expenses and the application of the estimated net proceeds. Other than the capitalized lease obligations, we have no borrowings.

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	YEAR ENDED DECEMBER 31,					PRO FORMA AS ADJUSTED DECEMBER 31,
	1995	1996	1997	1998	1999	1999
	(in thousands)					(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:						
Cash and cash equivalents	$ 525	$ 1,464	$ 44,563	$ 4,943	$ 6,858	
Working capital	255	1,773	41,431	6,919	6,294	
Total assets	1,351	6,820	56,989	25,770	36,927	
Capital lease obligations	--	846	1,885	4,449	5,899	
Long term debt	--	--	--	--	--	
Redeemable preferred stock	11,242	25,975	99,720	101,624	156,469	
Stockholders' (deficiency)/equity	(11,371)	(24,176)	(56,057)	(91,151)	(144,225)	
Total liabilities and stockholders' equity	$ 1,351	$ 6,820	$ 56,989	$ 25,770	$ 36,927	

</TABLE>

RISK FACTORS

You should carefully consider the following risks and all other information in this prospectus before deciding to invest in our common stock.

RISKS RELATING TO OUR BUSINESS

OUR TARGETED CUSTOMERS MAY NOT ACCEPT OR PURCHASE OUR TECHNOLOGY AT SUFFICIENT RATES TO GROW OUR BUSINESS, WHICH COULD IMPAIR OUR PROFITABILITY

We target well positioned and well capitalized early adopters as our initial customers. However, we cannot guarantee that our targeted customers will purchase our microturbines at all or in sufficient quantities to grow our business. Also, the market for sales to our targeted customers is increasingly competitive and is characterized by rapidly changing technologies, extensive research and new product introductions. Some of our competitors may have greater resources or better formed relationships with early adopters than we have. Also, early adopters worldwide who helped make the Model 330 commercially viable may not purchase our 60+ kilowatt unit.

WE MAY NOT BE ABLE TO OBTAIN RECUPERATOR CORES FROM SOLAR TURBINE CORPORATION, OUR SOLE SUPPLIER, AND OUR ASSEMBLY AND PRODUCTION OF MICROTURBINES MAY SUFFER DELAYS AND INTERRUPTIONS

Solar Turbine Corporation is our sole supplier of recuperator cores. Solar is a wholly-owned subsidiary of one of our competitors, Caterpillar Corporation. At present we are not aware of any other suppliers which could produce these cores to our specifications within our time requirements. We cannot assure you that Solar will be able to furnish us with a sufficient number of recuperator cores to meet customer demand, that we will be able to purchase recuperator cores from Solar at commercially acceptable prices or, if Solar stops making recuperator cores, that we will be able to procure recuperator cores from another supplier or manufacture them ourselves on a timely basis and at commercially acceptable prices. Although we have a license agreement that would permit us to produce the recuperator cores on our own in the event Solar terminates production, we would not be able to initiate production without significant delay and interruptions. Also, we cannot assure you that Solar will honor the license agreement, that a court would enforce it, or that we will be able to meet our obligations under it. If we had to develop and produce our own recuperator cores without using Solar's intellectual property, we estimate it could take up to three years to be in production.

WE MAY NOT BE ABLE TO RETAIN EXISTING MANAGEMENT AND THE EFFECTIVE IMPLEMENTATION OF OUR EXPANSION PLAN WOULD SUFFER

Our success depends in significant part upon the continued service of key management personnel, such as Dr. Ake Almgren, our Chief Executive Officer, Mr. Jeffrey Watts, our Chief Financial Officer and Mr. William Treece, our Senior Vice President of Strategic Technology Development. Currently, the competition for qualified personnel is intense and we cannot assure you that we can retain our existing management team. The loss of Dr. Almgren, Mr. Watts, Mr. Treece or any other key management personnel could materially adversely affect our operations. In addition, in anticipation of the commercial roll out of our products, we have begun to hire new management team members to provide more sales and marketing expertise. Since these management team members will not have a proven track record with us, we cannot assure you that they will be successful in overseeing their functional areas.

WE MAY NOT BE ABLE TO HIRE AND RETAIN NECESSARY PERSONNEL AND OUR ABILITY TO EFFECTIVELY BUILD AND MARKET OUR PRODUCT WOULD SUFFER

We have historically experienced delays in filling personnel positions. We expect to experience continued difficulty in filling our needs for qualified engineers and other personnel. Competition is intense for qualified technical, sales, marketing and management personnel, and in particular skilled

engineers. As a result, we may not be able to hire and retain engineering personnel, or individuals to head any of our departments, and our failure to do so could delay product development cycles, affect the quality of our products and/or otherwise significantly affect our business.

WE MAY NOT EFFECTIVELY IMPLEMENT OUR SALES AND MARKETING EXPANSION PROGRAM AND OUR SALES WOULD SUFFER

We will need to substantially enhance our internal sales and marketing staff in order to increase our sales efforts. We cannot assure you that the expense of such internal expansion will not exceed the net revenues generated, or that our sales and marketing team will successfully compete against the more extensive and well-funded sales and marketing operations of our current and future competitors. We are in the early stages of developing our distribution network. Also, key sales and marketing team members are new employees. Our sales and marketing force may not successfully sell and market our products. Our inability to recruit, or our loss of, important sales and marketing personnel or distribution partners, or the inability of new sales personnel to effectively sell and market our microturbine system could materially adversely affect our business and results of operations.

JAPANESE COMPETITORS MAY DEVELOP ALTERNATIVE TECHNOLOGY OR MAY CEASE TO PURCHASE OUR PRODUCTS AND OUR SALES MAY DECLINE

We believe that the greatest competitive threat we face in the long-term will most likely arise from Japanese competitors, many of which have unique design capabilities for advanced combined heat and power units and have greater resources than us. Over time, these competitors may include our current Japanese partners. Our Japanese partners may pursue alternative technologies or develop alternative products in addition to or in lieu of our products either on their own or in collaboration with others. They may develop products or components better suited for integration with their systems than our products. They possess an advantage in marketing to potential purchasers or distributors in the Pacific Rim, a prime market for various applications of the Capstone MicroTurbine. If we are not able to achieve our expected penetration and growth in Japan and Asia, our sales, operations and business may be materially adversely affected.

WE MAY NOT BE ABLE TO ESTABLISH COLLABORATIVE MARKETING RELATIONSHIPS AND OUR SALES WOULD NOT INCREASE AS EXPECTED

We believe that we must enter into strategic marketing alliances or similar collaborative relationships in order to expand our customer base. Providing volume price discounts and other allowances along with significant costs incurred in customizing our products may reduce the potential profitability of these relationships. We may not be able to identify appropriate distributors on a timely basis, and we cannot assure you that the distributors with which we partner will be successful. In addition, we cannot assure you that we will be able to negotiate collaborative relationships. The lack of success of our collaborators in marketing any products may also adversely affect our financial condition and results of operations.

THE 60+ KILOWATT CAPSTONE MICROTURBINE'S PRODUCTION MAY BE DELAYED, IT MAY BE POORLY SUITED TO THE MARKET, OR IT MAY ERODE SALES OF THE MODEL 330

A necessary part of our market penetration strategy is the timely and successful launch of our 60+ kilowatt microturbine. While the 60+ kilowatt unit is not essential to all microturbine applications, it is very important to our strategy for further penetrating markets. Factors which could delay or hinder the successful launch of our next generation 60+ kilowatt microturbine include:

- *research or development problems;*
- *difficulties in adjusting the current production assembly system to produce and assemble the 60+ kilowatt unit; or*
- *an unstable supply or unsatisfactory quality of components from vendors.*

We cannot guarantee you that demand for our 60+ kilowatt unit will exist and not diminish or cease at the time we are prepared to commercially produce the 60+ kilowatt unit. It is also possible that production of the 60+ kilowatt unit could replace or diminish the market for our Model 330.

WE DO NOT HAVE EXPERIENCE IN INTERNATIONAL SALES AND MAY NOT SUCCEED IN GROWING OUR INTERNATIONAL SALES

We do not have experience in international sales and will depend on our international marketing partners for these sales. Most of these partnerships are recently created and may not achieve the results that we expect. Also, if a dispute arises between us and any of our partners, we may not achieve our desired sales results and we may be delayed or completely fail to penetrate some international markets, and our revenue and operations could be materially adversely affected. Any inability to obtain foreign regulatory approvals or quality standard certifications on a timely basis could negatively impact our business and results of operations. Also, as we seek to expand into the international markets, customers may have difficulty or be unable to integrate our products into their existing systems. As a result, our products may require additional redesigning. In addition, our international business may be subject to a variety of additional risks, including:

- *delays in establishing international distribution channels;*
- *difficulties in collecting international accounts receivables;*
- *difficulties in complying with foreign regulatory and commercial requirements;*
- *increased costs associated with maintaining international marketing efforts;*
- *compliance with U.S. Department of Commerce export controls;*
- *increases in duty rates;*
- *the introduction of non-tariff trade barriers;*
- *fluctuations in currency exchange rates;*
- *political and economic instability; and*
- *difficulties in enforcement of intellectual property rights.*

WE HAVE A HISTORY OF NET LOSSES, WE ANTICIPATE CONTINUED LOSSES THROUGH AT LEAST 2001 AND WE MAY NEVER BECOME PROFITABLE

Since our inception in 1988, we have reported net losses for each year. We have made limited sales to date and have a total stockholders' deficiency of $144.2 million since inception through December 31, 1999. Our net losses were $30.6 million in 1997, $33.1 million in 1998 and $29.5 million in 1999. We anticipate incurring additional net losses through at least 2001. Even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future.

WE HAVE A SHORT OPERATING HISTORY AND THEREFORE YOUR BASIS FOR EVALUATING US IS LIMITED

We were organized in 1988, but we have only been commercially producing the Capstone MicroTurbine since December 1998. Also, because we are in the early stages of selling our products, with relatively few customers, we have had uneven order flow from period to period. Accordingly, we have a limited operating history from which you can evaluate our present business and future prospects. We may not succeed given the technological and marketing challenges involved in producing and marketing the Capstone MicroTurbine. When deciding whether to invest in our common stock, you must consider the expenses, difficulties, complications, and delays frequently encountered in connection with the growth of a new business, the development of new technology, and the competitive and regulatory environment in which we operate. Also, many of our partnerships with local

country partners are new arrangements and may not succeed in increasing sales and penetrating markets as predicted.

WE MAY BE UNABLE TO FUND OUR FUTURE OPERATING REQUIREMENTS

We are a capital intensive company and will need additional financing to fund our operations. We averaged approximately $2.0 million per month of cash outflows in 1999, and we expect these expenses to continue at present levels or increase in the future. As of December 31, 1999, we had approximately $6.9 million in cash and cash equivalents on hand. Our future capital requirements will depend on many factors, including our ability to successfully market and sell our products. To the extent that the funds generated by this offering are insufficient to fund our future operating requirements, we will need to raise additional funds, through further public or private equity or debt financings. These financings may not be available or, if available, may be on terms that are

not favorable to us and could result in further dilution to our shareholders. In addition, downturns in worldwide capital markets may further impede our ability to raise additional capital on favorable terms or at all. If adequate capital is not available to us, we would likely be required to significantly curtail or possibly even cease our operations.

WE MAY NOT BE ABLE TO EFFECTIVELY PREDICT OR REACT TO RAPID TECHNOLOGICAL CHANGE AND OUR SALES MAY DECLINE

The market for our products is characterized by rapidly changing technologies, extensive research and new product introductions. We believe that our future success will depend in large part upon our ability to enhance our existing products and to develop, introduce and market new products. As a result, we expect to continue to make a significant investment in product development. We have in the past experienced setbacks in the development of our products and our anticipated roll out of our products has accordingly been delayed. Although we believe that we have overcome the principal technical hurdles experienced in the past, we may not be able to develop and introduce new products or enhancements to our existing products in a timely manner that satisfies customer needs, achieves market acceptance or addresses technological changes in target markets. In addition, products or technologies developed by others may adversely affect our competitive position or render our products or technologies noncompetitive or obsolete.

WE MAY NOT BE ABLE TO EFFECTIVELY MANAGE OUR GROWTH, WHICH WOULD IMPAIR OUR PROFITABILITY

If we are successful in executing our business plan, we will experience growth in our business that could place a significant strain on our management and other resources. We cannot assure you that we will be able to implement our growth strategy successfully. Our ability to manage our growth will require us to continue to improve our operational, financial and management information systems, to implement new systems and to motivate and effectively manage our employees. We cannot assure that our management will be able to effectively manage this growth.

WE MAY NOT EFFECTIVELY EXPAND OUR PRODUCTION CAPABILITIES, WHICH WOULD NEGATIVELY IMPACT OUR SALES

We anticipate a significant increase in our business operations which will require expansion of our internal and external production capabilities. We may experience delays or problems in our expected production expansion that could significantly impact our business. Several factors could delay or prevent our expected production expansion, including our:

- *inability to purchase parts or components in adequate quantities or sufficient quality;*
- *failure to increase our assembly and test operations;*
- *failure to hire and train additional personnel;*
- *failure to develop and implement manufacturing processes and equipment;*

- *inability to find and train proper local country partners with capabilities to produce, assemble, test and develop our products; and*
- *inability to acquire new space for additional production capacity.*

WE MAY NOT ACHIEVE PRODUCTION COST REDUCTIONS NECESSARY TO COMPETITIVELY PRICE OUR PRODUCT, WHICH WOULD IMPAIR OUR SALES

We believe that we will need to reduce the unit production cost of our products over time to maintain our ability to offer competitively priced products. Our ability to achieve this cost reduction will depend on low cost design enhancements, obtaining necessary tooling and favorable vendor contracts, as well as obtaining economies of scale resulting from high sales volumes. We cannot assure you that we will be able to achieve these production cost reductions.

OUR SUPPLIERS AND MANUFACTURERS 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

Although we generally attempt to use standard parts and components for our products, some of our components are currently available only from a single source or from limited sources. For example, the recuperator core used in our products is only available from Solar Turbine Corporation, a wholly-owned subsidiary of Caterpillar, one of our competitors. Also, we cannot guarantee that any of the parts or components that we purchase will be of adequate quality. We may experience delays in production of our Capstone MicroTurbine if we fail to identify alternate vendors, or any parts supply is interrupted or reduced or there is a significant increase in production costs, each of which could materially adversely affect our business and operations.

WE MAY NOT BE ABLE TO CONTROL OUR WARRANTY EXPOSURE, WHICH COULD IMPAIR OUR FINANCIAL CONDITION

We sell our products with warranties. However, these warranties vary from product to product, such as the years covered, and the extent of the warranty protection. Any malfunction of our product could expose us to significant warranty expenses. Because we vary the warranties available and our history of warranty expenses is limited, we cannot assure you that we can control or reasonably predict these warranty expenses. Although we attempt to reduce our risk of warranty claims through warranty disclaimers, we cannot assure you that our efforts will effectively limit our liability. Any significant incurrence of warranty expense could have a material adverse effect on our financial condition.

WE FACE POTENTIAL SIGNIFICANT FLUCTUATIONS IN OPERATING RESULTS, WHICH COULD IMPACT STOCK PRICES

A number of factors could affect our operating results and thereby impact our stock prices, including:

- *the timing of the introduction or enhancement of products by us or our competitors;*
- *our reliance on a small number of customers;*
- *the size, timing and shipment of individual orders;*
- *market acceptance of new products;*
- *customer order deferrals in anticipation of new products;*
- *changes in our operating expenses, the mix of products sold, or product pricing;*
- *factors affecting suppliers;*
- *development of our direct and indirect channels;*
- *personnel changes; and*
- *general political, economic and regulatory conditions.*

Because we are in the early stages of selling our products, with relatively few customers, we expect our order flow to continue to be uneven from period to period. Because a significant portion of our expenses are fixed, a small variation in the timing of recognition of revenue can cause significant variations in operating results from quarter to quarter.

OUR RELOCATION INTO NEW FACILITIES COULD DISRUPT OUR OPERATIONS

We plan to relocate our corporate headquarters, sales, marketing and distribution centers and manufacturing facility beginning in the third quarter of 2000. This transition could disrupt our sales efforts and the manufacturing and distribution of our products, particularly if there are unforeseen delays or interruptions in our transition process. Any disruption in our ability to sell, produce or distribute our products could impede our business operations, resulting in reduced profitability. In addition, if we are unable to generate increased sales and profit sufficient to absorb increased overhead and other costs associated with our relocation, we would likely experience lower operating profit margins. Also, any delay in relocating our headquarters or disruption to our operations as a result of the move could have a negative impact on our business.

OUR PRODUCTS INVOLVE A LENGTHY SALES CYCLE AND WE MAY NOT ANTICIPATE SALES LEVELS APPROPRIATELY, WHICH COULD IMPAIR OUR PROFITABILITY

The sale of our products typically involves a significant commitment of capital by customers, with the attendant delays frequently associated with large capital expenditures. We are targeting, in part, customers in the utility industry, which generally commit to a larger number of products when ordering and which have a lengthy process for approving capital expenditures. We have also targeted the hybrid electric vehicle market, which requires a significant amount of lead time due to implementation costs incurred. For these and other reasons, the sales cycle associated with our products is typically lengthy and subject to a number of significant risks over which we have little or no control. We expect to plan our production and inventory levels based on internal forecasts of customer demand, which is highly unpredictable and can fluctuate substantially. If sales in any period fall significantly below anticipated levels, our financial condition and results of operations could suffer. In addition, our operating expenses are based on anticipated sales levels, and a high percentage of our expenses are generally fixed in the short term. As a result of these factors, a small fluctuation in timing of sales can cause operating results to vary from period to period.

POTENTIAL LITIGATION MAY ADVERSELY IMPACT OUR BUSINESS

Because of the nature of our business, we may face litigation relating to intellectual property matters, labor matters, product liability and shareholder disputes. Any litigation could be costly, divert management attention or result in increased costs of doing business. As an example, two of our shareholders have indicated that they may assert various claims against us and some of our

present and former officers and directors arising out of representations which they allege were made by us in connection with our 1997 offering of Series E Preferred Stock. We had previously entered into a number of agreements tolling any statutes of limitation that otherwise would have been applicable. The shareholder has indicated an intention to bring a claim in Superior Court for the County of Los Angeles, California. We continue discussions in an effort to resolve the dispute. Although we intend to vigorously defend any lawsuit, we cannot assure you that we would ultimately be successful. An adverse judgment could negatively impact the price of our common stock and our ability to obtain future financing on favorable terms or at all.

WE MAY BE EXPOSED TO LAWSUITS AND OTHER CLAIMS IF OUR PRODUCTS FAIL, WHICH COULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS

Potential customers will rely upon our products for critical energy needs. A malfunction or the inadequate design of our products could result in tort or warranty claims. Our engines run at high speeds and high temperatures which could lead to personal injury or physical damage. Although we

attempt to reduce the risk of these types of losses through warranty disclaimers and liability limitation clauses in our agreements, we cannot assure you that our efforts will effectively limit our liability. Any liability for damages resulting from malfunctions could be substantial and could materially adversely affect our business and results of operations. In addition, a well-publicized actual or perceived problem could adversely affect the market's perception of our products. This could result in a decline in demand for our products, which would materially adversely affect our financial condition and results of operations.

THE CAPSTONE MICROTURBINE USES FLAMMABLE FUELS WHICH ARE INHERENTLY DANGEROUS SUBSTANCES AND MAY SUBJECT US TO LIABILITY

Our Capstone MicroTurbine uses natural gas, high sulfur content (sour) gas, methane, propane, gasoline, diesel, kerosene, and other similar fuels. These substances are flammable fuels that could leak and combust if ignited by another source. Since our Capstone MicroTurbine is a new product, any accidents involving our systems or other microturbine products could impede demand for our products.

RISKS RELATING TO OUR INDUSTRY

WE FACE INTENSE COMPETITION FROM OTHER POWER PROVIDERS

The market for our products is highly competitive and is changing rapidly. We believe that the primary competitive factors affecting the market for our products include:

- *operating efficiency;*
- *reliability;*
- *product quality and performance;*
- *life cycle costs;*
- *development of new products and features;*
- *quality and experience of sales, marketing and service organizations;*
- *availability and price of fuel;*
- *product price;*
- *name recognition; and*
- *quality of distribution channels.*

Several of these factors are outside our control. We cannot assure you that we will be able to compete successfully in the future with respect to these or any other competitive factors.

We currently compete with existing technologies such as the electric utility grid and reciprocating engines, as well as emerging distributed generation technologies, including other microturbines and fuel cells. Existing distributed generation technologies are provided by well established companies with huge economies of scale and worldwide presence. Also, our competitors include several well established companies with substantially greater resources than we have. A number of major automotive and industrial companies have in-house microturbine development efforts, including Honeywell (AlliedSignal), Elliott/General Electric, NREC (Ingersoll Rand), Toyota, Mitsubishi Heavy Industries, Volvo/ABB, Turbo Genset and Williams International. We expect all of these companies to enter into commercial production of microturbines in the future.

Our Capstone MicroTurbine also competes with other currently available distributed generation technologies, including reciprocating engines, fuel cells, photovoltaics and wind powered systems. Many of the competitors producing these technologies also have greater resources than we have. For instance, reciprocating engines are produced in part by Caterpillar, Detroit Diesel and

Cummins. We

cannot assure you that the market for microturbine products will not ultimately be dominated by approaches other than ours or those of our competitors will not able to achieve a significantly greater market share of potential customers.

OUR COMPETITORS WHO HAVE SIGNIFICANTLY GREATER RESOURCES THAN WE HAVE MAY BE ABLE TO ADAPT MORE QUICKLY TO NEW OR EMERGING TECHNOLOGIES OR TO DEVOTE GREATER RESOURCES TO THE PROMOTION AND SALE OF THEIR PRODUCTS

Our competitors who have significantly greater resources than we have may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products. Competition could increase further if new companies enter the market or if existing competitors expand their product lines. We believe that developing and maintaining a competitive advantage will require continued investment by us in product development, manufacturing capability and sales and marketing. We cannot assure you that we will have sufficient resources to make the necessary investments to do so. In addition, current and potential competitors have established or may in the future establish collaborative relationships among themselves or with third parties, including third parties with whom we have strategic relationships, to increase the ability of their products to address the needs of our prospective customers. Accordingly, new competitors or alliances may emerge and rapidly acquire significant market share.

A MASS MARKET FOR THE MICROTURBINE MAY NEVER DEVELOP OR MAY TAKE LONGER TO DEVELOP THAN WE ANTICIPATE, WHICH WOULD ADVERSELY IMPACT OUR REVENUES

Our products represent an emerging market, and we do not know whether our targeted customers will want to use them. If a mass market fails to develop or develops more slowly than we anticipate, we may be unable to recover the losses we will have incurred to develop our product, we may be unable to meet our operational expenses and may be unable to achieve profitability. The development of a mass market for our systems may be impacted by many factors which are out of our control, including:

- *the cost competitiveness of the microturbine;*
- *the future costs and availability of fuels used by the microturbine;*
- *consumer reluctance to try a new product;*
- *consumer perceptions of the microturbine's safety;*
- *regulatory requirements; and*
- *the emergence of newer, more competitive technologies and products.*

UTILITY COMPANIES COULD PLACE BARRIERS TO OUR ENTRY INTO THE MARKETPLACE AND WE MAY NOT BE ABLE TO EFFECTIVELY SELL OUR PRODUCT

Utility companies commonly charge fees to industrial customers for disconnecting from the grid, for using less electricity, or for having the capacity to use power from the grid for back up purposes. These types of fees could increase the cost to our potential customers of using our systems and could make our systems less desirable, thereby harming our revenue and profitability.

WE MAY NOT BE ABLE TO PROTECT OUR INTELLECTUAL PROPERTY, WHICH COULD IMPAIR OUR PROFITABILITY

We rely on a combination of patent, trade secret, copyright and trademark law, and nondisclosure agreements to establish and protect our intellectual property rights in our products. At March 15, 2000, we possessed 24 United States patents and two international patents. In particular, we believe that our patent for our air-bearing systems and our patent pending for our combustion systems are key to our business. We believe that, due to the rapid pace of technological innovation in turbine products, our ability to establish and maintain a position among the technology leaders in the

industry depends on both our patents and other intellectual property and the skills of our development personnel. We cannot assure you that any patent, trademark, copyright or license owned or held by us will not be invalidated, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to us or that any of our future patent applications will be issued with the scope of the claims asserted by us, if at all. Further, we cannot assure you that third parties or competitors will not develop technologies that are similar or superior to our technology, duplicate our technology or design around our patents. Also, another party may be able to reverse engineer our technology and discover our intellectual property and trade secrets. We may be subject to or may initiate proceedings in the U.S. Patent and Trademark Office, which can require significant financial and management resources. In addition, the laws of foreign countries in which our products are or may be developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as the laws of the United States. Our inability to protect our intellectual property adequately could have

a material adverse effect on our financial condition or results of operations.

OUR BUSINESS MAY BE HARMED IF WE ARE FOUND TO INFRINGE UPON THE PROPRIETARY RIGHTS OF OTHERS

Third parties may claim infringement by us with respect to past, current or future proprietary rights. In particular, Honeywell (AlliedSignal), Sundstrand and Solar Turbine Corporation have patents in areas related to our business. Any infringement claim, whether meritorious or not, could be time-consuming, result in costly litigation or arbitration and diversion of technical and management personnel or require us to develop non-infringing technology or to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all, and could significantly harm our business and operating results. Litigation may also be necessary in the future to enforce our patent or other intellectual property rights, to protect our trade secrets, to determine the validity and scope of proprietary rights of others. For example, in 1997, we were involved in a dispute with Honeywell (Allied Signal) regarding various disputed intellectual property rights. We entered into a settlement agreement regarding these issues. These types of disputes could result in substantial costs and diversion of resources and could materially adversely affect our financial condition and results of operations.

FUTURE REGULATION OF OUR BUSINESS MAY IMPACT OUR ABILITY TO MARKET OUR PRODUCT

Our products are subject to federal, state, local and foreign laws and regulations, governing, among other things, emissions to air as well as laws relating to occupational health and safety. Regulatory agencies may impose special requirements for implementation and operation of our products (e.g. connection with the electric grid) or may significantly impact or even eliminate some of our target markets. We may incur material costs or liabilities in complying with government regulations. In addition, potentially significant expenditures could be required in order to comply with evolving environmental and health and safety laws, regulations and requirements that may be adopted or imposed in the future. Furthermore, our potential utility customers must comply with numerous laws and regulations. The deregulation of the utility industry may also create challenges for our marketing efforts. For example, as part of electric utility deregulation, federal, state and local governmental authorities may impose transitional charges or exit fees which would make it less economical for some potential customers to switch to our products.

YEAR 2000 DISRUPTIONS COULD IMPAIR OUR OPERATIONS

As of March 15, 2000, we had not experienced any Year 2000-related disruption in the operation of our systems. Although most Year 2000 problems should have become evident on January 1, 2000, additional Year 2000-related problems may become evident only after that date. Although we implemented a Year 2000 program intended to ensure our computer systems and applications function properly beyond 1999 and requested assurances from our suppliers that their products are Year 2000 compliant and have not experienced any significant Year 2000 issues to date, we cannot be sure that we will be able to promptly or correctly address all relevant Year 2000 issues, especially

where third-party customers or suppliers are involved. Such issues, if triggered, could disrupt our systems or those of our third-party customers or suppliers for a period of time. These disruptions could cause a loss of revenues and damage our business reputation, as well as expose us to lawsuits for damages.

RISKS RELATING TO THIS OFFERING

FUTURE SALES BY OUR CURRENT SHAREHOLDERS MAY ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK

The market price of our common stock could decline as a result of sales of a large number of shares in the market after this offering or the perception that these sales could occur. These factors also could make it more difficult for us to raise funds through future offerings of our common stock.

There will be shares of common stock outstanding immediately after this offering. Of these shares, the shares sold by us in this offering and additional shares will be freely transferable without restriction or further registration under the Securities Act of 1933, except for any shares held by our affiliates. The remaining shares will be restricted and may be sold in the future only pursuant to an exemption under the Securities Act. The holders of shares of common stock have agreed not to sell those securities for 180 days after the date of this prospectus without the prior written consent of Goldman, Sachs & Co. Goldman Sachs may, however, in its sole discretion, release all or any portion of the securities subject to those lock-up agreements.

The holders of approximately 91.8 million shares of common stock, all of which must comply with the lock-up agreements described above, have registration rights. If they exercise such rights, shares covered by a registration statement can be sold in the public market. We also intend to register approximately million shares of common stock that we have issued or may issue under our benefit plans or pursuant to option agreements. After that registration statement is effective, shares issued upon exercise of stock

options to persons other than affiliates will be eligible for resale in the public market without restriction, which could adversely affect our stock price. Absent registration, those shares could nevertheless be sold, subject to limitations on the manner of sale. Sales by affiliates could also occur, subject to limitations, under Rule 144 of the Securities Act.

INVESTORS WILL BE SUBJECT TO MARKET RISKS TYPICALLY ASSOCIATED WITH INITIAL PUBLIC OFFERINGS

There has not been a public market for our common stock. We cannot predict the extent to which a trading market will develop or how liquid that market might become. If you purchase shares of common stock in this offering, you will pay a price that was not established in the public trading markets. The initial public offering price will be determined by negotiations between the underwriters and us. You may not be able to resell your shares at or above the initial public offering price and may suffer a loss on your investment.

The market price of our common stock is likely to be highly volatile as the stock market in general has been highly volatile. Factors that could cause fluctuation in the stock price may include, among other things;

- *actual or anticipated variations in quarterly operating results;*
- *changes in financial estimates by securities analysts;*
- *conditions or trends in our industry;*
- *changes in the market valuations of other technology companies;*
- *announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;*
- *capital commitments;*

- *additions or departures of key personnel; and*
- *sales of common stock.*

Many of these factors are beyond our control. These factors may cause the market price of our common stock to decline, regardless of our operating performance.

BECAUSE A SMALL NUMBER OF SHAREHOLDERS OWN A SIGNIFICANT PERCENTAGE OUR COMMON STOCK, THEY MAY CONTROL ALL MAJOR CORPORATE DECISIONS AND OUR OTHER SHAREHOLDERS MAY NOT BE ABLE TO INFLUENCE THESE CORPORATE DECISIONS

Following this offering, our executive officers and directors will beneficially own approximately % of our outstanding common stock. In addition, a small number of our investors will beneficially own approximately % of our outstanding capital stock after this offering. If these parties act together, they can elect all directors and approve actions requiring the approval of a majority of our shareholders. The interests of our management or these investors could conflict with the interests of our other shareholders.

YOU WILL SUFFER IMMEDIATE AND SUBSTANTIAL DILUTION

The initial public offering price per share significantly exceeds our net tangible book value per share immediately after the offering. If you purchase common stock in this offering, you will incur dilution of $ per share from the price per share you paid based on pro forma as adjusted net book value at March 1, 2000.

WE ARE SUBJECT TO ANTI-TAKEOVER PROVISIONS THAT COULD DELAY OR PREVENT AN ACQUISITION OF OUR COMPANY

Provisions in our certificate of incorporation, by-laws and Delaware corporate law could make it more difficult and expensive for a third party to acquire us, even if doing so would be beneficial to our shareholders. We will also have a staggered board of directors which makes it difficult for shareholders to change the composition of the board of directors in any one year. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control or change our management and board of directors.

WE HAVE SUBSTANTIAL DISCRETION AS TO HOW TO USE THE PROCEEDS FROM THIS OFFERING

Our management has broad discretion as to how to spend the proceeds of this offering and may spend the proceeds in ways with which our shareholders may not agree. Investors will be relying on the judgment of our management regarding the application of the net proceeds of this offering.

FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Prospectus Summary", "Risk Factors", "Use of Proceeds", "Management's Discussion and Analysis of Financial

Condition and Results of Operations", "Business" and elsewhere in this prospectus that are forward-looking statements. You can identify these statements by forward-looking words such as "may", "will", "expect", "anticipate", "believe", "estimate" and "continue" or similar words. Forward-looking statements may also use difference phrases. Forward-looking statements address, among other things:

- *our future expectations;*
- *projections of our future results of operations or of our financial condition; and*
- *other "forward looking" information.*

We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to accurately predict or which we do not fully control that could cause actual results to differ materially from those expressed or implied by our forward-looking statements, including:

- *our inability to manage our growth;*
- *our inability to manufacture our products, including our development of the 60+ kilowatt unit;*
- *our inability to expand in new and existing markets;*
- *changes in general economic and business conditions and in the technology industry in particular;*
- *actions by our competitors;*
- *the level of demand for our products;*
- *changes in our business strategies;*
- *product development delays;*
- *changing environmental and governmental regulations;*
- *the ability to attract and retain employees and business partners;*
- *future levels of government funding;*
- *evolving markets for generating electricity and power;*
- *the ability to provide the capital required for product development; operations and marketing; and*
- *other factors discussed under "Risk Factors" and elsewhere.*

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of shares of our common stock in this offering will be $ million, at an assumed initial public offering price of $ per share, after deducting the estimated underwriting discounts and commissions and our estimated offering expenses. We estimate that our total net proceeds of $ million will be used as follows:

- *approximately $ million will be used for purchasing tooling and manufacturing equipment;*
- *approximately $ million will be used for expanding sales and marketing activities;*
- *approximately $ million will be used for continuing product development efforts;*
- *approximately $11 million will be paid to Fletcher Challenge Limited as part of a buyback of marketing rights;*
- *approximately $ million will be used for general corporate purposes, including working capital, funds for operations, research and product development, market development, capital expenditures and potential acquisitions.*

Pending their use, we will invest these proceeds in government securities and other short-term, investment-grade securities. Although we currently intend to use the proceeds as set forth above, management has broad discretion to vary the uses as it deems fit.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the expansion of our business and do not expect to pay any dividends in the foreseeable future.

Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion.

CAPITALIZATION

The following table sets forth our actual and pro forma, as adjusted capital lease obligations, long-term debt and total capitalization at December 31, 1999. Our pro forma, as adjusted, capitalization gives effect to:

- the conversion of all outstanding shares of preferred stock into 86,223,198 shares of common stock upon the consummation of this offering;
- the issuance and sale of the shares of common stock offered by us in this offering;
- the application of the estimated net proceeds from the sale of our common stock payable to us based on an initial public offering price of $ per share and after deducting underwriting fees and estimated offering expenses.

<TABLE>
<CAPTION>

	AT DECEMBER 31, 1999	
	ACTUAL	PRO FORMA, AS ADJUSTED
	(in thousands)	
<S>	<C>	<C>
Capitalized lease obligations	$ 5,899	
Long-term debt	0	
Redeemable preferred stock,	156,469	
Stockholders' (deficiency)/equity:		
Common stock	4	
Additional paid-in capital	0	
Accumulated deficit	(144,229)	
Total stockholders' (deficiency)/equity	(144,225)	
Total capitalization	$	$

</TABLE>

- ----------

The outstanding share information set forth above excludes:

- - 2,702,893 shares issuable upon exercise of stock options that are currently issued, outstanding and exercisable within 60 days of February 29, 2000, plus an additional 5,847,562 shares issuable upon exercise of stock options that are currently issued and outstanding, plus an additional 2,204,714 shares reserved for issuance in connection with future stock options and other awards under our 1993 stock incentive plan; and
- - 15,616,488 shares issuable upon exercise of warrants outstanding as of February 29, 2000, all of which are currently exercisable at a weighted average exercise price of $0.35 per share.

DILUTION

Our pro forma net tangible book value as of February 29, 2000 was $ million, or $ per share. Our pro forma net tangible book value per share is determined by subtracting the total amount of our liabilities from the total amount of our tangible assets and dividing the remainder by the number of shares of our common stock outstanding after giving effect to the conversion of preferred stock into 86,223,198 shares of common stock. The pro forma net tangible book value per share after this offering will be $. Therefore, purchasers of shares of common stock in this offering will realize immediate dilution of $ per share. The following table illustrates this dilution.

<TABLE>

<S>	<C>	<C>
Assumed initial public offering price per share		$
Net tangible book value per share before this offering	$	
Increase per share attributable to this offering	$	
Pro forma tangible book value per share after this offering		$
Dilution per share to new investors		$

</TABLE>

The following table presents, as of March 1, 2000 and utilizing an initial public offering price of $ per share, for our existing shareholders and our new investors:

- the average number of shares of our common stock purchased from us;

- the total cash consideration paid; and

- the average price per share paid by the existing holders of common stock including the holders of common stock after giving effect to the conversion of preferred stock into shares of common stock.

<TABLE>
<CAPTION>

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
<S>	<C>	<C>	<C>	<C>	<C>
Existing shareholders		%	$	%	$
New investors					
Total		100.0%		100.0%	

</TABLE>

The table excludes:

- up to shares of common stock that may be issued by us pursuant to the underwriters' overallotment option;

- 2,702,893 shares of common stock issuable upon exercise of stock options that are currently issued, outstanding and exercisable within 60 days of February 29, 2000 at a weighted average exercise price of $0.49 per share;

- 5,847,562 shares of common stock issuable upon exercise of stock options that are currently issued and outstanding at February 29, 2000.

- 2,204,714 shares of common stock available for future grant under our stock option plan as of February 29, 2000; and

- shares of common stock reserved for purchase after this offering under our employee stock purchase plan.

To the extent these shares are issued, there will be further dilution to new investors. See "Management" and the notes to our financial statements included elsewhere in this prospectus.

SELECTED HISTORICAL FINANCIAL DATA

The selected financial data shown below for, and as of the end of, each of the years in the five-year period ended December 31, 1999, have been derived from the audited financial statements of Capstone. The income statement data for the years ended December 31, 1998 and 1999 and the balance sheet data at December 31, 1998 and 1999 have been derived from financial statements that have been audited by Deloitte & Touche LLP, independent auditors. The income statement data for the years ended December 31, 1995, 1996, and 1997 and the balance sheet data at December 31, 1995, 1996 and 1997 have been derived from financial statements that have been audited by other independent auditors. The summary financial data should be read in conjunction with "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this prospectus for the statement of operations for the years ended December 31, 1997, 1998, and 1999 and for the balance sheet data at December 31, 1998 and 1999.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1995	1996	1997	1998	1999
	(in thousands, except for per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS:					
Total revenues	$ 920	$ 1,462	$ 1,623	$ 84	$ 6,694
Cost of goods sold	199	2,179	8,147	5,335	15,629
Gross profit (loss)	721	(717)	(6,524)	(5,251)	(8,935)
Operating costs and expenses:					
Research and development	4,796	8,599	13,281	19,019	9,151
Selling, general and administrative	1,878	3,585	10,946	10,257	11,191
Income (loss) from operations	(5,953)	(12,901)	(30,751)	(34,527)	(29,277)
Net income (loss)	$(5,957)	$(12,595)	$(30,553)	$(33,073)	$(29,530)
Net income (loss) per share of common stock -- basic and diluted	$ (2.92)	$ (5.38)	$ (11.29)	$ (10.65)	$ (14.72)

</TABLE>

The Pro Forma Balance Sheet at December 31, 1999 is adjusted to reflect our receipt of the estimated net proceeds from the sale of million shares of

common stock in this offering (at an assumed initial public offering price of $ per share), less underwriting fees, estimated expenses and the application of the estimated net proceeds. Other than the capitalized lease obligations, we have no borrowings.

<TABLE>
<CAPTION>

	ACTUAL YEAR ENDED DECEMBER 31,					DECEMBER 31, 1999	
	1995	1996	1997	1998	1999	PRO FORMA	PRO FORMA, AS ADJUSTED
			(in thousands)			(unaudited)	(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:							
Cash and cash equivalents	$ 525	$ 1,464	$ 44,563	$ 4,943	$ 6,858	$	
Working capital	255	1,773	41,431	6,919	6,294		
Total assets	1,351	6,820	56,989	25,770	36,927		
Capital lease obligations	--	846	1,885	4,449	5,899		
Long-term debt	--	--	--	--	--		
Redeemable preferred stock	11,242	25,975	99,720	101,624	156,469	$10,834	
Stockholders' (deficiency)/equity	(11,371)	(24,176)	(56,057)	(91,151)	(144,225)	7,585	
Total liabilities and stockholders' equity	$ 1,351	$ 6,820	$ 56,989	$ 25,770	$ 36,927	$36,927	

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Capstone is the first company to produce commercially available distributed power generation systems using microturbine technology. Our products are derived from over 300 man-years of research and development, supported by over $260 million in private-equity investment. Since inception, we have generated cumulative operating losses of approximately $120 million and we expect to continue to sustain operating losses through fiscal year 2001.

From our founding in 1988 through 1998, we focused primarily on research and development, culminating with the commercial release of our Model 330. With commercial sales beginning in December 1998 and increasing to over 200 units in 1999, our focus has shifted beyond research and development and to commercial production. We are developing, manufacturing and marketing microturbine technology for use in stationary distributed power generation, combined heat and power generation, resource recovery, hybrid electric vehicle and other power and heat applications. In order to achieve our goals we will expand our sales and marketing activities by hiring additional sales staff and entering into new distribution agreements. We intend to achieve long-run profitability through production efficiencies and economies of scale. Specifically, we are consolidating our administrative and production operations into one building, we are entering into new supplier contracts to reduce overall unit costs, and we are developing new higher profit margin products.

Since the commercial release of the Capstone MicroTurbine, demand has continued to grow and is anticipated to accelerate as successful results from early adapters and new applications are recognized in the distributed generation market. To accommodate this increased demand we are increasing the scale of our operations, including the hiring of additional personnel, resulting in higher operating expenses. We believe these increased operating expenses will enable us to realize accelerated revenue growth. As a result of our expansion, the anticipated increase in our operating expenses, and the difficulty in forecasting revenue levels, we expect to continue to experience fluctuations in our results of operations. See "Risk Factors".

We currently manufacture a 30 kilowatt unit and sell complete microturbine units, subassemblies and components that can be fueled in part by natural gas, propane, sour gas, kerosene and diesel. We will continue investing significant resources in new product development and enhancements, including greater kilowatt power production, additional fuel capabilities and additional distributed power generation solutions such as co-generation applications. Our new products should achieve increased efficiencies utilizing our existing technology which will allow us to command higher unit prices while keeping costs relatively low.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues

Revenues in 1999 were derived from unit sales for commercial applications. All of our sales are based on our standard 30 kilowatt unit, which is a modular unit that is manufactured in order to accommodate the customer specific application and fuel type. Many of our sales are made to large, well-positioned energy service providers that distribute our products individually or in conjunction with their own power solutions. Sales in 1999 increased $6.6 million to $6.7 million from $84,000 for 1998. Commercial sales began in December of

1998, and 1999 was the first complete fiscal year that commercial units were available. During 1999, we shipped 211 units on customer orders totaling 521 units. Our backlog of orders at December 31, 1999 was 310 units.

Gross Profit (Loss)

Cost of goods sold includes direct material costs, assembly and testing, compensation and benefits, overhead allocations for facilities and administration, and warranty reserve charges. In 1999, our gross loss increased $3.6 million, or 70%, to ($8.9) million for 1999 from a loss of ($5.3) million for 1998. Costs for replacement of systems under warranty are charged against our warranty reserve, which is accrued through charges to cost of goods sold. During 1999, our warranty reserve rate is based on our estimates of future warranty costs and the early stage of commercial production and product life cycles. As of December 31, 1999, a warranty reserve of approximately $3.2 million had been accrued. With respect to unit costs, we anticipate component costs to decline as we attain better economies of scale for purchased components and greater production efficiencies from a larger manufacturing facility.

Research and Development

Research and development expense includes ongoing engineering compensation and related expenses, overhead allocations for administration and facilities, and material costs associated with development. In addition to research and development expenses on existing products, we have expenses associated with the next generation production units and associated components. Research and development expenses decreased $9.9 million, or 52%, to $9.1 million for 1999 from $19.0 million for 1998. With the beginning of commercial production in 1999, a substantial portion of overhead allocable to research and development decreased along with other general research and development expenses associated with hardware and design. We intend to continue to invest resources for the development of new systems and enhancements, including higher power microturbines, expanded operating features, multi-fuel capabilities, and related software. We expect that research and development expenses in 2000 will be higher than those incurred in 1999.

Selling, General and Administrative

Selling, general and administrative expenses include compensation and related expenses in support of our general corporate functions, which include human resources, finance and accounting, information systems and legal services. Sales, general and administrative expenses increased $934,000, or 9%, to $11.2 million for 1999 from $10.3 million for 1998. This increase resulted primarily from higher compensation and overhead expenses associated with our general growth including the development of our sales and marketing division. At December 31, 1999 we had 156 full-time employees, up from 115 at December 31, 1998. The growth in employees was primarily in operations which added 26 people and sales, general and administrative which added 13 people.

Interest and Other Income (Expense)

Other income (expense) consists principally of interest income earned on our cash and cash equivalents and interest charges in connection with our capital leases. Other income (expense) decreased $1.7 million, or 117%, to ($252,000) for 1999 from $1.5 million for 1998. This decrease was due to lower interest earned on lower average investment balances available during 1999. In addition, higher outstanding capital lease balances resulted in higher interest expense charges.

Income Tax Provision

We account for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires us to record an asset with respect to the expected future value of its net operating loss carry forwards; however, our history of operating losses makes the realization of our net operating loss carry forwards uncertain. Accordingly, we have provided a valuation allowance for 100% of our net deferred tax asset of $51.0 million at December 31, 1999. No provision for federal and state income taxes (other than the minimum state income taxes) have been recorded as we incurred net operating losses through December 31, 1999.

At December 31, 1999, we had federal and state net operating loss carry forwards of approximately $105.7 million and $88.2 million, respectively, which may be utilized to reduce future federal taxable income through the year 2019, subject to limitations. Under the Tax Reform Act of 1996, the amounts of and benefit from net operating losses that can be carried forward may be impaired or limited in some circumstances.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues

Revenues in 1998 and 1997 were derived from unit sales and contract revenues. Unit sales were primarily to customers for beta testing applications, while contract revenues were derived from reimbursements for government sponsored programs associated with engineering research and development. Sales

decreased $1.5 million, or 95%, to $84,000 for 1998 from $1.6 million for 1997. Revenues in 1997 consisted of 40 units sold for new beta applications. Once we had a sufficient number of beta units running, we reduced new shipments to monitor and improve beta performance. As a result, we only shipped three units in the first eleven months of 1998. Following the completion of our beta testing, we began selling commercial units in December 1998.

Gross Profit (Loss)

Cost of goods sold includes direct material costs, assembly and testing, compensation and benefits, overhead allocations for facilities and administration, and warranty reserve charges. In 1998, gross loss decreased $1.3 million, or 20%, to ($5.3) million for 1998 from ($6.5) million for 1997. Absent inventory adjustments, our 1998 gross loss would have been $345,000, since we reduced shipments to focus on beta testing. During 1998, we recognized a charge of $4.2 million to writedown inventory to its net realizable value.

Research and Development

Research and development expense includes compensation and benefits for the engineering and related staff, contract and consulting expenses, materials and supplies for prototypes. Research and development expense increased $5.7 million, or 43%, to $19.0 million for 1998 from $13.3 million for 1997. The increase in 1998 resulted primarily from expanded research and development efforts to initiate commercial development. In addition, lower hardware expenses were offset by higher engineering compensation costs.

Selling, General and Administrative

Selling, general and administrative expenses include compensation and related expenses in support of our general corporate functions, which include human resources, finance and accounting, information systems and legal services. Sales, general and administrative expenses decreased $689,000, or 6%, to $10.3 million for 1998 from $10.9 million for 1997. This decrease is primarily a result of higher shared cost expenses allocated to the engineering and production cost centers rather than to general and administrative cost centers. Shared costs expenses are allocated based on cost center personnel counts. The decrease was partially offset by higher compensation and facility expenses.

Interest and Other Income (Expense)

Other income (expense) consists principally of interest income earned on our cash and cash equivalents and interest charges in connection with our capital leases. Other income (expense) increased $1.3 million to $1.5 million for 1998 from $199,000 for 1997. This increase resulted primarily from $564,000 in higher interest income from higher average investment balances due to the timing of funds received in an equity issuance.

QUARTERLY RESULTS OF OPERATIONS AND SEASONALITY

The following table presents unaudited quarterly financial information for the eight quarters ended December 31, 1999. This information was prepared in accordance with generally accepted accounting principles, and, in the opinion of management, contains all adjustments necessary for a fair presentation of such quarterly information when read in conjunction with the financial statements included elsewhere herein. As we increase commercial production, our operating results for any prior quarters may not necessarily indicate the results for any future periods.

<TABLE>
<CAPTION>

	1998				1999			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
				(in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total revenues	$ 30	$ 8	$ --	$ 46	$ 222	$ 334	$ 759	$ 5,379
Costs of goods sold	60	36	104	5,135	1,233	1,347	1,990	11,059
Gross profit (loss)	(30)	(28)	(104)	(5,089)	(1,011)	(1,013)	(1,231)	(5,680)
Operating costs and expenses:								
Research and development	4,089	3,872	6,523	4,535	2,264	2,158	2,259	2,470
Selling, general and administrative	2,209	2,173	3,291	2,584	2,502	2,568	2,748	3,373
Income (loss) from operations	(6,328)	(6,073)	(9,918)	(12,208)	(5,777)	(5,739)	(6,238)	(11,523)
Net income (loss)	$ (5,726)	$(5,640)	$(9,609)	$(12,098)	$(5,785)	$(5,825)	$(6,253)	$(11,667)

</TABLE>

The increase in cost of goods sold in the fourth quarter of 1998 is primarily the result of a charge to writedown inventory to its net realizable value. The increase in sales, and respective cost of goods sold, in the third and fourth quarters of 1999 resulted from our increased sales efforts to bring our commercial units to market.

LIQUIDITY AND CAPITAL RESOURCES

Our cash requirements depend on many factors, including our product development activities, our production expansion and our commercialization efforts. We expect to devote substantial capital resources to continue the development of our sales and marketing programs, to hire and train production staff, and to expand our research and development activities. We intend to incur approximately $1 million of expenditures in connection with relocating to our new facility and making tenant improvements. We believe that our current cash balances and the net proceeds from this offering will provide us with sufficient capital to fund operations at least through 2001.

We have financed our operations primarily through private equity offerings. We raised $125.6 million through December 31, 1999 and an additional $137.5 million in February 2000. Our primary cash requirements have been to fund research and development, capital expenditures and production costs. Net cash used in operating activities was $24.5 million, $36.2 million, and $25.7 million for 1999, 1998 and 1997. Proceeds from the issuances of preferred and common stock are currently held in government securities to provide liquidity for operations. In addition, we use capital lease commitments to sell and leaseback various fixed assets.

We have a commitment letter in place with Transamerica Business Credit Corporation in which Transamerica extends to us a lease line of up to $10 million to lease equipment, including manufacturing equipment, machine tools, furniture and computer related equipment. We also have a leasing arrangement with Finova Capital whereby we utilized a $2 million equipment lease line. Pursuant to these arrangements, as of December 31, 1999, we have $4.9 million outstanding under our lease line with Transamerica, $1.0 million outstanding to Finova and $22,000 outstanding to other leasing institutions.

At December 1999, we had commitments of $132.0 million with Solar Turbines under a long-term purchase agreement for components and subassembly units which expires August 2007. In

addition we have established a $1.0 million irrevocable letter of credit in favor of Solar Turbines as a guarantee of payment for our purchase contract for recuperator cores.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY

We currently develop products in the United States and market our products in North America, Europe and Asia. As a result, factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets could affect our financial results. As all of our sales and supplies are currently made in U.S. dollars, we do no utilize foreign exchange contracts to reduce our exposure to foreign currency fluctuations. We also have no foreign currency translations in our reported financial statements. In the future, as our customers and vendor bases expand, we anticipate transactions that are in foreign currencies.

INTEREST

We have no long-term debt outstanding and do not use any derivative instruments.

INFLATION

We do not believe that inflation has had a material effect on our financial position of results of operations during the past three years. However, we cannot predict the future effects of inflation, including interest rate fluctuations and market fluctuations.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instrument and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments. It requires the recognition of all derivatives as either assets or liabilities in the statement of position and measurement of the instruments at fair value. We are required to adopt SFAS No. 133, as amended by Financial Accounting Standards Board Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133") on January 1, 2001 and we are currently evaluating the impact on the financial statements.

BUSINESS

Capstone develops, designs, assembles and sells Capstone MicroTurbines for worldwide applications in distributed power generation and hybrid electric vehicle markets. We are the first company to offer a proven, commercially available power source using microturbine technology. The Capstone MicroTurbine is a state-of-the-art system that produces approximately 30 kilowatts of electricity for commercial and small industrial users. Our microturbine combines patented air-bearing technology, advanced turbo-engineering and sophisticated

power electronics to produce an efficient, highly reliable electricity and heat production system that requires little on-going maintenance. Also, because of our advanced technology, our microturbines can operate by remote control and can use a broad range of gaseous and liquid fuels in an environmentally friendly manner.

We are the leading worldwide developer and supplier of microturbine technology. As of February 29, 2000 we shipped 289 commercial units on 673 orders, creating a backlog of 384. We expect our next model, a 60+ kilowatt system, to be commercially available by the third quarter of 2000. We believe stationary applications for our microturbines, both independent of or connected to the electric utility grid, are extremely broad. The primary stationary markets that we intend to target include:

- *resource recovery -- using natural gas that is otherwise flared or vented to the environment to produce power;*
- *combined heat and power -- using both electricity and heat (for example, for space heating air conditioning, and chilling water) to maximize use of available energy;*
- *standby/backup power -- providing highly reliable protection for increasingly electricity-dependent enterprises; and*
- *peak shaving -- self-generation during hours when electricity prices spike.*

We also have applied our technology to hybrid electric vehicles such as buses and industrial use vehicles. Capstone MicroTurbine subassemblies are currently used in prototype buses operating in Los Angeles, Nashville and Tucson, and in tunnel carts and garbage trucks currently being deployed in Japan.

Since our microturbine systems and subassemblies can be used as a power source within larger energy "solutions" for our customers, we envision our distributors and end users developing more applications over time. Our marketing strategy includes partnering with major corporations with strong connections to local markets. Where appropriate, primarily in resource recovery applications, we intend to sell directly to the end user.

OUR PRODUCT

The Capstone MicroTurbine is a compact, environmentally friendly generator of electricity and heat. It operates on the same principle as a jet engine but can use a variety of commercially available fuels, such as natural gas, diesel, kerosene and propane, as well as previously unusable or underutilized fuels including low btu and high sulfur (sour) gas. The small size and relative lightweight modular design allows for easy transportation and installation with minimal site preparation.

The Capstone MicroTurbine incorporates three major design features:

- *patented air-bearing technology;*
- *digital power electronics; and*
- *advanced combustion technology.*

The air-bearing system allows the Capstone MicroTurbine's single moving part to produce power without the need for lubrication, thereby reducing maintenance and improving reliability. The digital power controller manages a number of critical functions and monitors over 200 features of the

microturbine. The digital power controller optimizes performance resulting in lower emissions, higher reliability and consistent efficiency over a variable power demand range.

Approximately the size of a large refrigerator, our Model 330 generates approximately 30 kilowatts of electrical power and approximately 300,000 kilojoules per hour of heat. We have the ability to vary and modify our basic microturbine model to accommodate a variety of applications and needs. The Capstone Microturbine can operate:

- *connected to the electric utility grid;*
- *on a stand-alone basis; or*
- *in dual mode, where the microturbine operates connected to the grid or, when the grid is unavailable, the microturbine automatically disconnects itself from the grid and operates on a stand-alone basis.*

We offer various accessories including rotary gas compressors with digital controls, batteries with digital controls for stand-alone or grid connected operations, packaging options, and miscellaneous parts such as frames and exhaust ducting and installation hardware if required. We also sell microturbine components and subassemblies.

Our microturbine systems have accumulated over 300,000 hours of operation under varying climates and operating conditions. Our product is highly reliable

with a target availability of 98% (i.e. the unit will be available to operate 98% of any given year). During 1999, we shipped 211 units and as of February 29, 2000 had a backlog of 384. Additionally, as of February 29, 2000 there were approximately 1,500 units for which customers contracted to acquire and are subject to penalties if they do not.

We expect our next microturbine system, a 60+ kilowatt unit, to be available for commercial sales in the third quarter of 2000.

PRODUCT DEVELOPMENT

We have spent more than ten years and 300 man years of research and development to create a highly reliable, efficient generating system with broad fuel capabilities and power applications. Some of our important milestones and noticeable accomplishments include:

<TABLE>
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DATE	MILESTONE
1988	Capstone was organized to develop small single shaft gas turbines for heat and electricity generation applications in vehicles
1993	Ben Rosen, chairman of Compaq and brother Harold Rosen, vice president of Hughes Aircraft, invested which resulted in a focus on microturbines for vehicle applications
1994	Expanded development of microturbine toward stationary distributed generation applications
1995	Shipped first prototype microturbine to customers
1996	Developed second generation microturbine and began field testing
1997	First installation of a Capstone MicroTurbine subassembly set in a hybrid electric bus First microturbine subassembly operated with compressed natural gas in a hybrid electric vehicle Began development of the digital power controller
1998	Shipped first commercial product, the Model 330
1999	Achieved the ability to operate in stand-alone and dual mode and to burn sour gas Had approximately $7 million in revenue with 211 systems shipped and over 150 employees
2000	Achieved multipooling software which allowed for scalability

</TABLE>

TARGET MARKETS

STATIONARY POWER APPLICATIONS

Worldwide stationary power generation applications vary from huge central stationary generating facilities, above 1,000 megawatts, down to back-up uses below 10 kilowatts. Historically, power generation in most developed countries such as the United States has been part of a regulated system. A number of developments related primarily to the deregulation of the industry as well as significant technology advances has broadened the range of power supply choices to customers. We believe our microturbine will be used in a variety of innovative electric power applications requiring less than 2 megawatts and more immediately in those requiring less than 300 kilowatts. Capstone has identified several markets with characteristics that we believe would value our inherently flexible, distributed electricity generating system. Stationary power applications for the Capstone MicroTurbine include:

- *resource recovery;*

- *combined heat and power;*

- *backup and standby power and peak shaving; and*

- *other stationary power sources*

Each of these markets will adopt our products at different rates depending upon several factors. We believe the resource recovery market generally and the combined heat and power market in Japan have properties that are conducive to the rapid acceptance of our microturbines. However, the combined heat and power market in North America as well as the backup and standby power and peak shaving markets will take longer to penetrate due to changing competitive conditions and the deregulating electric utility environment.

Resource Recovery

On a worldwide basis there are thousands of locations where the production of fossil fuels and other extraction and production processes creates fuel byproducts which traditionally have been vented or flared (burned into the atmosphere). The Capstone MicroTurbine can burn these waste gases with minimal emissions thereby avoiding the imposition of pollution penalties, while

simultaneously producing electricity for use in the oil fields themselves. Our Model 330 has demonstrated effectiveness in this application. The unit outperforms conventional combustion engines in a number of circumstances, including when the gas contains a high amount of sulfur.

During 2000, we expect a substantial portion of our units sold into the resource recovery market to be used at oil and gas exploration and production sites. We have also identified landfill and digester gas as well as seam gas from coal deposits as near term target markets for our product. Our microturbine has demonstrated its ability to run on low btu gas from landfill sites. As of February 29, 2000 Interstate Detroit Diesel has ordered 40 microturbines, of which we have shipped 10 units, for use in seam gas recovery from coal deposits.

Combined Heat and Power

Combined heat and power is an extensive market that seeks to use both the heat energy and electric energy produced in the generation process. Using the heat and electricity created from a single combustion process increases the efficiency of the system from 30% to 70% or more. The increased operating efficiency reduces overall emissions and, through displacement of other separate systems, reduces variable production costs. The most prominent uses of heat energy include space heating and air conditioning, heating and cooling water, as well as drying and other applications.

There are substantial existing markets for combined heat and power applications in western Europe, Japan, and other parts of Asia, in addition to an emerging market in North America. Many governments have encouraged more efficient use of the power generation process to reduce pollution and the cost of locally produced goods. Japan, which has some of the highest electric power costs in the world, has been particularly active in exploring innovative ways to improve the efficiency of generating electricity. To access this market, we have entered into agreements with various distributors including Takuma, which has engineered a combined heat and power package that utilizes the hot exhaust air of the microturbine for heating water.

We believe that the Capstone MicroTurbine provides an economic solution in markets similar to Japan for delivering clean power when and where it is needed without requiring a large capital investment. The Capstone MicroTurbine and/or subassemblies incorporated into a more comprehensive energy package should allow us to penetrate these large and growing markets. In particular, we believe our microturbine's ability to accept a wide range of fuel options will enhance our market position and accelerate acceptance in these locations. The ability of our microturbines to use a location's fuel of choice, for example kerosene, diesel or propane, will allow countries to use their available fuel source infrastructure more efficiently.

Backup and Standby Power/Peak Shaving

With the trends of continuing deregulation in the electric utility industry and increased reliance on sensitive digital electronics in day-to-day life, industrialized societies are increasingly demanding high quality, high reliability power. End customers with greater freedom of choice are investigating

alternative power sources to protect their business operations and equipment from costly interruptions. Recent brown-outs and black-outs have demonstrated the need to ensure high reliability. Along with deregulation has come the initiation of competition in electric generation and substantially increased electricity price volatility. Spot electricity prices in the midwest United States reached $8,000 per megawatt-hour in 1998 and $5,000 per megawatt-hour during the summer of 1999. We believe an increasing number of power marketers, energy service providers, and end users will use alternative power sources to protect against temporary price spikes by "peak shaving" or self-generating when the local grid price gets too high. These load management applications give the user a unilateral opportunity to reduce energy costs.

Our 60+ kilowatt Capstone MicroTurbine, which we expect to be the primary product in these markets, will provide users great flexibility in this market. The Capstone MicroTurbine system architecture allows any user to determine its interface with the local electric grid with minimal disruption. In applications where emissions, weight or vibration are important considerations, the microturbine also has a competitive advantage due to its low emissions and flexibility in siting. In addition, microturbines can be managed and monitored remotely, thereby reducing on-site maintenance costs.

Utilities also can take advantage of Capstone MicroTurbines to avoid costly transmission and distribution system expansion or upgrades in uncertain growth or "weak" areas in the grid. These companies can place our microturbines at the load to run parallel with the grid or to provide peaking power. Rural electric cooperatives and electric utilities may use our microturbines as a stand-alone system to provide temporary or backup power for specific applications or to provide primary power for remote needs.

Developing Regions and Other Stationary Power Applications

Many people in less developed countries do not have access to electric power. The fuels of choice in these countries generally tend to be liquid fuels like kerosene, diesel and propane. The Capstone MicroTurbine's multi-fuel capability should be a significant benefit and competitive advantage in these

regions. We also have designed our microturbine to be a competitive, reliable primary power source alternative compared to diesel generators and other technologies that currently provide power to remote areas or areas with unreliable central generation. Remote commercial and industrial applications, including offshore oil and gas platform power, pipeline cathodic protection, as well as resort and rural area electrification can use our microturbine effectively. The Capstone MicroTurbine is the only commercially available microturbine that has demonstrated the ability to operate on a stand-alone basis, a feature that is attractive in locations lacking significant transmission infrastructure. In addition, while emissions have not been a large market issue in these developing regions, we believe any increases in environmental concerns or stricter emissions requirements would benefit us in the long run.

HYBRID ELECTRIC VEHICLE POWER MARKET

We are actively pursuing the hybrid electric bus and industrial electric vehicle market and have supplied microturbine subassemblies for hybrid electric vehicles. Hybrid electric vehicular applications of our microturbine are competitive due to low emissions and low cost per mile of operation. Using vehicles which recharge batteries at night reduces the cost of electricity consumed and helps to load balance the grid.

We believe that the hybrid electric vehicle market segment represents a significant opportunity and will expand as governments and consumers demand cost-efficient, reliable and environmentally friendly mobile electric power, particularly in urban areas. Transit authorities have already demonstrated hybrid electric buses as a viable alternative to pure electric buses and to diesel buses which emit relatively high levels of emissions.

Instead of working purely on a battery or other energy storage device, hybrid electric vehicles combine the primary source battery with an auxiliary power source, such as a Capstone MicroTurbine, to enhance performance. The hybrid electric vehicles use electricity from the battery and the Capstone MicroTurbine recharges the battery on an as needed basis while in operation. These vehicles have many of the positive attributes of pure electric vehicles but provide the added benefits of longer operating periods and longer ranges than pure electric vehicles at the current level of technology.

The Capstone MicroTurbine has been tested for over two years in vehicle applications. Our system has been designed into four different manufacturers' general production hybrid electric vehicle platforms which were put into service in the United States in 1999. The Capstone MicroTurbine, in one such hybrid electric vehicle application, has logged more than 23,000 miles of operation in a municipal bus without significant maintenance while providing a cost-efficient, low emission alternative to higher cost pure electric vehicles and higher emissions reciprocating engines. As of March 1, 2000, we had shipped 33 microturbines for vehicular use on 76 orders. The two significant advantages of the microturbine as compared to the internal combustion engine are very low emissions and very low maintenance.

Hybrid electric vehicles using the microturbine can recharge their batteries using power from the electric grid at night when demand for electricity is lowest, and use power generated by the microturbine during the day when demand for grid power is highest. Electric utilities can therefore benefit from the implementation of Capstone MicroTurbine-equipped hybrid electric vehicles as a means of balancing intra-day demand for electricity. We will pursue a strategy of partnering with electric utilities in promoting hybrid electric buses.

MICROTURBINE BENEFITS

HIGH AVAILABILITY AND RELIABILITY

The Capstone MicroTurbine provides both high availability and reliability when compared to other power generation alternatives. We designed the microturbine for a target availability of 98%. We expect the reliability of our 60+ kilowatt model to be similar to that of the existing 30 kilowatt model.

MULTI-FUEL CAPABILITY

The Capstone MicroTurbine operates on a broad range of both gaseous and liquid fuels. Current compatible gas fuels include, low pressure natural gas, high pressure natural gas, low btu gas (for example, methane), high sulfur content (sour) gas and compressed natural gas. Currently compatible liquid fuels include diesel, kerosene and propane. Multi-fuel capability increases the number of applications and geographic locations in which the Capstone MicroTurbine may be used.

COST COMPETITIVE

The Capstone MicroTurbine is cost competitive in its target markets. In the exploration and production markets environmental penalties incurred for flaring gas can be avoided by using our microturbine. Our low maintenance microturbine can burn wellhead, gas directly off the wellhead avoiding any intermediary devices, while competing devices require extra maintenance and additional intermediary devices to do the same. In the landfill digestor market, the microturbine can burn low btu and sour gas while requiring minimal maintenance

relative to competing technologies, like reciprocating engines. In the coal seam gas market, our microturbines require substantially less maintenance than reciprocating engines. The ability of the microturbine to operate on a stand-alone basis allows for less capital expenditures compared to the electric utility grid, which requires up-front capital expenditures for additional distribution and transmission lines. In combined heat and power applications the microturbine's efficiency is approximately 60-70% compared to approximately 30% efficiency when used only to generate electricity in typical technology. In the hybrid electric vehicle

market the microturbine results in lower cost per mile, lower emissions, and load balancing of the grid for the utility.

ENVIRONMENTALLY FRIENDLY

In stationary power generation configurations, our digital power controlled combustion system produces less than nine parts per million per volume of emissions of NOx and unburned hydrocarbons at full power when burning natural gas or propane, and less than 25 parts per million per volume when using diesel fuel. We believe that these emission levels are less than the emissions of any fossil fuel combustor without catalytic combustion or other emissions reduction equipment. Due to our patented air-bearing technology, the Capstone Microturbine requires no lubricants of any kind, avoiding potential ground contamination of petroleum based lubricants used by conventional reciprocating engines, turbines and other similar technologies. Also, because our system is air cooled, we avoid the use of toxic liquid coolants, such as glycol.

MINIMAL MAINTENANCE

Our patented air-bearing system, digital power controller and air cooled design significantly reduce the maintenance cost of the Capstone MicroTurbine. The air bearings eliminate the need for lubrication, avoiding the need to change oil and individually lubricate ball bearings or other similar devices. The digital power controller's ability to continuously and remotely monitor our microturbine performance avoids regularly scheduled diagnostic maintenance costs. The air cooled design eliminates all of the maintenance related to liquid cooling systems utilized with conventional power electronics technology and generator cooling. Currently, the only scheduled maintenance is periodic changing of the intake air filter and fuel filters every 8,000 hours of operation and thermocouple, igniter and fuel injector replacement every 12,000 hours of operation.

REMOTE MONITORING AND OPERATING

The digital power controller allows users to efficiently monitor the Capstone MicroTurbine's performance, fuel input, power generation and time of operation in the field from off-site locations by telephonic hook-up. In addition, the operator can remotely turn the microturbine on and off, control the fuel flow and vary the power output.

FLEXIBLE CONFIGURATION

The Capstone MicroTurbine can be customized to serve a wide variety of operating requirements. It can be connected to the electric utility grid or operate on a stand-alone or dual mode basis. It can use a variety of fuel sources and can be readily integrated into combined heating and power applications. The microturbine can be sold either as a ready to use unit, or in component and subassembly form for repackaging to the ultimate end user. The microturbine can be operated as a single unit, or several units can be installed together and operated in parallel as one unit.

SCALEABLE POWER SYSTEM

The Capstone MicroTurbine is designed to allow multiple units to run together to meet each customer's specific needs. This feature enables users to meet more precisely their growing demand requirements and thereby manage their capital costs more efficiently.

RELATIVE EASE OF TRANSPORTATION AND INSTALLATION

Our microturbine is easy to transport, install and relocate, and its small size allows great flexibility in siting. The system is approximately six feet tall and weighs approximately 900 pounds. Relative to competing technologies, the Capstone MicroTurbines are designed to minimize installation costs by simplifying and standardizing installation procedures. Our microturbine requires a fuel source hook-up, a hook-up for the power generated, and proper venting or utilization of exhaust. Larger multi-

pack microturbine configurations may require concrete pads to support the additional weight, but the hook-ups are similar.

PROTECTION RELAY FUNCTIONALITY

The Capstone MicroTurbine has protective relay functions built into the digital power controller such that in grid-connect or dual mode, the microturbine will not send power out over the grid if grid voltage is not present. This feature minimizes the potential damage to the local electric grid

and one of incumbent utilities major concerns regarding the interconnection of distributed generation technologies.

BUSINESS STRATEGY

Our goal is to maintain our position as the leading worldwide developer and supplier of microturbine technology for the distributed generation market both in stationary and hybrid electric vehicular applications. The following are key elements of our strategy to achieve this objective:

FOCUS ON NEAR TERM MARKET OPPORTUNITIES

We have targeted resource recovery, combined heat and power in Japan and hybrid electric vehicles as markets which can quickly adopt our unique product offerings. We have established strategic relationships with direct users and/or distribution partners in each of these markets.

In the resource recovery market, the Capstone MicroTurbine is a key component of the Williams Energy Conversion Unit (ECU(TM)), a total power generation, management and storage package. At a Williams ECU test installation in an oilfield near Denver, two Capstone MicroTurbine power generators convert untreated wellhead waste gas into clean, useable power. The power is transferred to a Powercell PowerBlock(TM) system which stores, conditions and delivers the power to the pump-jacks.

For example, in the combined heat and power market, we have entered into a strategic marketing alliance with Active Power Corporation of Tokyo that will allow Active Power to provide a much cleaner, lower-maintenance alternative to older technology power generators in a variety of applications ranging from small shops to residential buildings to construction sites.

In the hybrid electric vehicle market, we have supplied subassemblies and other components for hybrid electric buses to various customers, including bus manufacturers and electric utilities, as well as for industrial hybrid electric uses, such as garbage trucks and tunnel service locomotives.

DEVELOP LONG TERM MARKET OPPORTUNITIES

We expect the North American market for both combined heat and power and standby and backup/peak shaving to develop more slowly than our near term market opportunities. We are establishing distribution alliances to penetrate these markets as they develop. For example, we recently entered into an agreement with Williams Distributed Power Services, Inc. with the goal of penetrating the combined heat and power and backup and standby power markets in North America. This agreement allows Williams to combine the Capstone MicroTurbine systems with other equipment, tools or services for power generation supply or storage, sold or leased by Williams. This will enable Williams to offer customers in the United States and other international markets a suite of products and specialized power supply packages incorporating the Capstone MicroTurbine. We believe the Capstone MicroTurbine is an important addition to Williams' portfolio of practical and leading edge technologies and will enable Williams to offer a wide range of services to a diversified customer base.

ENHANCE DISTRIBUTION ALLIANCES

We believe the most effective way to penetrate our target markets is with a business-to-business distribution strategy. We are forging alliances with key distribution partners worldwide. Some of our

key distribution partners are Williams Distributed Power Services Inc., PanCanadian Petroleum Ltd., Mitsubishi Corporation, Takuma Co., Meidensha Corporation, Sumitomo Corporation and Alliant Energy Corp. Capstone has developed alliances with, among others, Advanced Vehicular Systems and DesignLine to develop the hybrid electric bus market.

BROADEN AND ENHANCE OUR PRODUCT LINE

We intend to broaden our product line by developing additional microturbine products. We are currently developing a 60+ kilowatt microturbine system for expected commercial shipments in the third quarter of 2000. We intend to develop a family of microturbines with power output up to approximately 125+ kilowatts. We expect to leverage our scaleable design architecture by developing microturbines and digital power controllers to provide a superior performance-price ratio while simultaneously improving our profitability.

We also intend to continue our research and development efforts to enhance our current products by increasing performance and efficiency, and adding features and functionality to our microturbines. Research and development activities have also focused on development of related products and applications, including gas compressors that enhance the microturbines' multi-fuel capability and integration with energy storage devices like battery packs for stand-alone applications.

AGGRESSIVELY PROTECT OUR PROPRIETARY INTELLECTUAL PROPERTY

We seek to identify and to protect aggressively our key intellectual property, primarily through the use of patents. We believe that a policy of actively protecting intellectual property is an important component of our strategy of being the technology leader in microturbine system technology and

will provide us with a long-term competitive advantage. In addition, we implement very tight security procedures at our plant and facilities and have confidentiality agreements with each of our vendors, employees and visitors to our facilities.

ACHIEVE PRODUCTION EFFICIENCIES

Our efforts to be a low cost provider begin with the design process, where our microturbine products are designed to facilitate high volume, low-cost production targets. We manufacture only proprietary microturbine components, including our air-bearing systems and combustion system components. Our operating strategy is to outsource all non-proprietary hardware and electronics, and we continue to establish a limited number of high volume supplier alliances with companies that can quickly scale up to significant quantities. We are pursuing a "tier one" supply strategy whereby we contract with a few suppliers who are responsible for integrating various subassemblies.

SALES, MARKETING AND DISTRIBUTION

We are focused on selling microturbines in the worldwide stationary and hybrid electric vehicular markets. We anticipate that our microturbines will be used in a variety of electric power applications requiring less than 2 megawatts and more immediately in applications requiring less than 300 kilowatts. Specific early applications include combined heat and power, resource recovery, remote and onsite power generation and hybrid electric vehicles. Focusing on these target markets should help us build significant sales volume and reduce our unit production costs. The current list price of our Model 330 translates into approximately $900/kilowatt. As we achieve greater cost competitiveness which we believe is under $600/kilowatt, we plan to enter into mainstream markets, such as peak shaving, backup/standby power and base load power generation.

We believe the most effective way to penetrate these target markets is a business-to-business distribution strategy. The four distribution agreements that we have entered into with Japanese entities are typical of this approach. These agreements allow our local country partners to distribute complete Capstone MicroTurbine systems in Japan. They can also incorporate subassemblies and components into uniquely designed combined heat and power units and packages for distribution

within Japan and the rest of the world, excluding the United States. Capstone has the right to distribute these uniquely designed packages exclusively in the United States and nonexclusively in the rest of the world excluding Japan.

Elsewhere, this general type of distribution agreement will be tailored to the particular strengths of partners in various local country markets. In some target markets, we will distribute our uniquely designed product solutions to major corporations which will use the products directly.

Our approach for distribution within the hybrid electric vehicles market has been to identify early adopters who can demonstrate the feasibility of the microturbine technology. We initially developed sales relationships with smaller bus companies, such as Advanced Vehicular Systems, DesignLine and E-Bus. Having demonstrated the performance of our technology, we have established relationships with larger regional bus companies, like Eldorado National. Eldorado National is now delivering hybrid electrical buses to the Los Angeles Department of Water & Power for use in the Los Angeles basin.

Early adopters in the industrial hybrid electrical vehicle market are currently implementing the technology into the marketplace. Capstone Micro Turbine subassemblies are currently used in tunnel service locomotives being deployed by Tomoi and in garbage trucks being deployed by Mitsuit Fuji in Japan.

NORTH AMERICA

Our near-term focus in North America is to continue to sell into the exploration and production segment of the resource recovery market. We are developing strategic distribution partners in other distributed generation markets which we believe will begin to generate significant sales in the next three to five years. Our current strategic partners include electric utilities like Hydro Quebec, gas utilities like New Jersey Resources and Southern Union Company, propane companies such as Suburban Propane as well as energy service providers such as Williams Companies and distributors of reciprocating engines such as Interstate Detroit Diesel.

Current resource recovery customers/partners include, Pan Canadian Petroleum and the Williams Companies. We currently have entered into distribution agreements with both of these companies to distribute Capstone MicroTurbine systems. Pan Canadian distributes our products in Canada. The Williams Companies is an energy solution provider selling into a variety of markets. The Capstone MicroTurbine is a key component of the Williams ECU(TM), a total power generation, management and storage package. At a Williams ECU test installation in an oilfield near Denver, two Capstone MicroTurbine power generators are currently converting and treating wellhead waste gas into clean, useable power.

In 1999 we sold 151 units in the North American market which generated approximately $4.8 million in revenue.

ASIA

Our sales and marketing strategy in Asia is to first enter the Japanese market by developing significant corporate distribution partnerships within Japan which will subsequently enable us to quickly enter other selected markets along the Pacific Rim.

Our primary market focus in Japan is combined heat and power applications. Within Japan, there is great demand for economic energy solutions seeking to lower both the existing high cost of electricity and meet the greenhouse gas emissions guidelines of the Kyoto accords. Our local partners recognize the quickest and most practical way to accomplish this is through combined heat and power applications which raise efficiencies from approximately 30% for pure electrical generation to approximately 60-70% or more in combined heat and power applications. Each of our partners is seeking to design applications using our microturbines and/or subassemblies and components for their particular target combined heat and power market.

We currently have substantially similar distribution agreements with Mitsubishi Corporation, Kanamoto/Active Power, Sumitomo-Meidensha, and Takuma Co. Ltd. All four companies can distribute complete Capstone MicroTurbine units within Japan or can incorporate Capstone MicroTurbine subassemblies and components into individually designed combined heat and power packages for distribution both within Japan and the rest of the world. We have exclusive distribution rights for these individually designed units in the United States and have non-exclusive distribution rights in the rest of the world, excluding Japan. All four companies have purchased on a prepaid basis 100 Capstone Model 330 MicroTurbine systems for delivery within 12 months from the signing of the agreement. We expect all 400 units to be delivered on or before December 31, 2000.

In 1999 we sold 51 units in the Asian market which generated approximately $1.6 million in revenue.

EUROPE

We currently have agreements in Europe with British Gas to investigate the U.K. and Ireland markets, and with GAS Energietechnik to investigate the German market primarily for combined heat and power applications. We intend to broaden our distribution alliances in Europe in 2000 and 2001. In 1999 we sold nine units in Europe which generated approximately $275,000 in revenue.

HYBRID ELECTRIC VEHICLES MARKET

The hybrid electric vehicles market segment represents a significant opportunity for the Capstone MicroTurbine. This microturbine system was put into production platforms used by four different manufacturers for hybrid electric vehicles placed into service in 1999. The Capstone MicroTurbine, in one such hybrid electric vehicle application, has logged more than 23,000 miles of operation in a municipal bus without significant maintenance. Electric utilities can benefit from the implementation of Capstone MicroTurbine-equipped hybrid electric vehicles as a means of balancing intra-day demand for electricity. We intend to pursue a strategy of partnering with electric utilities in promoting hybrid electric buses.

DISTRIBUTION AGREEMENTS

As stated above, we intend to continue to enter into distribution arrangements with knowledgeable distributors in the various target markets. We do not expect to market directly to end users, except in the resource recovery market. Our general strategy will be to enter into nonexclusive distribution agreements with interested and qualified third parties who will use our Capstone MicroTurbine and/or subassemblies in their products and energy solutions. We intend to become a supplier of critical components to the distributed energy solution industry as a whole.

As part of this strategy and to increase the speed of adoption of our products, we have entered into five distribution agreements, one with the Williams Companies and four with various Japanese entities. The Japanese distribution agreements are substantially similar and provide that these distributors will promote, market, sell, distribute and service our complete microturbine units or some subassemblies, or both generally in connection with stationary applications. Typically, these agreements have a term of approximately three years and allow the distributors to distribute complete Capstone MicroTurbine systems in Japan. They can also incorporate subassemblies and components into uniquely designed combined heat and power units and packages for distribution within Japan and the rest of the world, excluding the United States. Capstone has the right to distribute these uniquely designed packages exclusively in the United States and nonexclusively in the rest of the world, excluding Japan.

Under these agreements, each distributor prepaid for 100 complete microturbine systems. We have granted to the distributor the right to use some of our intellectual property, including our trademarks. In addition to promoting, selling and distributing our products, the distributor must provide specific services to end users including on-going maintenance and prompt warranty services in

accordance with the warranty then in effect. Also, each employee of a distributor who is to provide services to end users must attend our service certification seminars and receive our services certification.

We entered into a supply agreement with Williams Distributed Power Services, Inc. in June 1999 whereby Williams agreed to purchase 1,989 Capstone MicroTurbine Systems over three years depending upon annual forecasts. Williams may resell or enter into sale-leaseback arrangements with its customers and may integrate our product into Williams' products or services. Williams acquired the exclusive right to sell to its affiliated entities. If at any time we commence negotiations with another party for exclusive distribution rights in a territory, Williams will also have the right to negotiate with us to distribute our products in that territory. Williams may not distribute any microturbine generating less than 250 kilowatts of electricity other than the Capstone MicroTurbines during the agreement's three year term.

SOURCING AND MANUFACTURING

The Capstone MicroTurbine is designed to achieve high volume, low-cost production objectives and offers significant manufacturing advantages through the use of commodity materials and conventional manufacturing processes. Our manufacturing designs use conventional technology which has been proven in high volume automotive and turbocharger production for many years. The microturbines are designed for simple assembly and testing and to facilitate automated production techniques using less-skilled labor.

Our strategy of out-sourcing the manufacturing of primarily all but our air-bearing systems and components of the combustion system to a proven vendor base allows for attractive pricing, quick ramp-up and the use of just-in-time inventory management techniques. We believe that we can realize both purchase economies from existing vendors and economies of scale related to our product development costs as unit volume increases. We manufacture the air-bearings and combustion system components at our facilities in Woodland Hills, California. We also assemble the units at that location. We have primary and secondary sources for all of our components other than the recuperator.

Solar Turbine Corporation, a wholly owned subsidiary of Caterpillar Corporation, is our sole supplier of recuperator cores. At present we are not aware of any other suppliers who could produce these cores according to our specifications and within our time requirements. Accordingly, our dependence upon Solar is substantial. We have entered into a license agreement with Solar that would permit us to produce the recuperator cores at our option at any time. The license agreement allows our use of Solar's intellectual property to produce the recuperator core. We are required to make payments to Solar pursuant to the license at varying rates. If we had to develop and produce our own recuperator cores without using Solar's intellectual property, we estimate it could take up to three years to be in production. See "Risk Factors -- We may not be able to obtain recuperator cores from Solar Turbine Corporation, our sole supplier, and our assembly and production of microturbines may suffer delays and interruptions".

Senior management has recognized the importance of quality control by appointing a vice president of quality to oversee the implementation of a rigorous quality control program, which includes the use of outside consultants. Before a system is shipped, 100% of all systems go through assembly test procedures lasting over one hour. In addition, key subassemblies such as the digital power controller undergo up to 15 hours of burn-in. All center section subassemblies undergo complete spin test checks where they are spun up to over 96,000 revolutions per minute to ensure perfect balance and operation. When a microturbine is completely assembled, it is tested in one of our two fully automated test cells.

Currently, we have the capability to produce approximately 10,000 units per year at our facilities. During the second quarter of 2000, we plan to move to a new assembly and test location in the

neighboring town of Chatsworth, California where we expect to be able to produce approximately 20,000 units per year.

INTELLECTUAL PROPERTY RIGHTS AND PATENTS

We rely on a combination of patent, trade secret, copyright and trademark law, and nondisclosure agreements to establish and protect our intellectual property rights in our products. As of March 15, 2000, we had 24 issued United States patents and two international patents and several U.S. and international patent applications on file. These pending patent applications are directed to various important aspects of our technology. In particular, we believe that our patents and patents pending for air-bearing systems, combustor systems and digital control systems are key to our business. Our patents are due to expire from 2010 to 2017.

RESEARCH AND DEVELOPMENT

Our research and development activities have enabled us to become one of the first companies to develop a commercially available microturbine that operates in parallel with the grid. We are the first company to successfully demonstrate a commercially available microturbine that operates on a stand-alone basis. We believe that our more than ten years and over 300 man years of

research and development activities provides us with a significant advantage relative to our competitors.

We have successfully integrated turbo-engineering and control and power electronics. This is a direct result of the turbo-engineering research and development and the electronics research and development occurring in the same location. This has allowed us to immediately discover and solve integration issues in-house without relying on outsourced research and development. We believe that our continued in-house research and development, incorporating turbo-engineering and control with power electronics, will provide us with a competitive advantage relative to competitors that outsource research and development of components that are critical to a viable microturbine.

CUSTOMERS

In 1999, sales to Williams, worth $1.9 million, accounted for 28% of our sales revenue. We had accounts receivable due from Williams and Advanced Vehicular Systems of approximately $275,000 and $277,000, respectively, and each represented approximately 11% of total accounts receivable at the end of 1999. Additionally, in 1999 and 2000, we entered into agreements whereby each of our Japanese distributors, Mitsubishi, Takuma, Active Power, and Meidensha-Sumitomo is required to prepay for 100 microturbine units. These prepaid orders account for approximately 25% of our contractual purchase commitments. Further, in June of 1999 we entered into a supply agreement with Williams in which Williams agreed to purchase a maximum of 1,989 Capstone MicroTurbine systems over three years, depending upon annual forecasts.

COMPETITION

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

We compete with the power grid in instances in which the costs of connecting to the grid from remote locations are high, reliability and power quality are of critical importance, or in situations where peak shaving could be economically advantageous due to highly variable electricity prices. Since the Capstone MicroTurbine provides a highly reliable source of power and can operate on multiple fuel

sources, we believe it offers a level of flexibility and reliability not currently offered by other current technologies such as reciprocating engines.

Our competitors which produce reciprocating engines have products and markets that are well developed and technologies that have been proven for some time. A reciprocating engine is similar in design to internal combustion engines used in automobiles. Reciprocating engines are popular for back-up power applications but are not typically intended for primary use due to high levels of emissions, noise and low reliability. These technologies are currently produced in part by Caterpillar, Interstate Detroit Diesel and Cummins.

Our microturbine may also compete with other distributed generation technologies, including photovoltaics (solar power) and wind powered systems. The main drawbacks to photovoltaics and wind powered systems are their dependence on weather conditions and their high capital costs.

Although the market for fuel cells is still developing, a number of companies are focused on the residential and vehicular fuel cell markets including Plug Power, Avista Labs, H Power and Ballard Power Systems. Another developer of fuel cell technology, United Technologies, is focused on developing fuel cell solutions for large stationary power plants. We believe that none of these fuel cell technologies will compete directly with our microturbines in the short run. However, over the medium-to-long term, fuel cell technologies that compete directly with our products may be introduced.

We may also compete with several well established companies developing microturbines. We believe a number of major automotive and industrial companies have in-house microturbine development efforts, including in part Honeywell (AlliedSignal), Elliott/General Electric, NREC (Ingersoll Rand), Toyota, Mitsubishi Heavy Industries, Volvo/ABB, Turbo Genset and Williams International. DTE Energy Co., Pratt & Whitney Canada Corp. and The Turbo Genset Co. recently formed a joint venture for developing a miniturbine. Although we believe these companies have established microturbine development programs, we also believe we are the only company currently producing commercial units. We expect our first mover advantage to allow us to quickly develop the market for Capstone MicroTurbines, however we expect all of these companies to enter into commercial production of microturbines in the future.

In the long-term we believe that the greatest competitive threat will arise from Japanese competitors, many of which have unique design capabilities and have greater resources than us. Our Japanese partners may be able to produce microturbines or develop alternative technologies, either on their own or in

collaboration with others, including our competitors. They may develop products or components better suited to integration with their systems than our products. Our Japanese partners and/or competitors possess a natural advantage in marketing to potential purchasers or distributors in the Pacific Rim, a prime market for various applications of the Capstone MicroTurbine.

COMPANY BACKGROUND

We were organized in 1988. In April 1993, Benjamin M. Rosen, Chairman of Compaq Computer Corporation, and his brother, Dr. Harold A. Rosen, former Vice President of Hughes Aircraft Company, became interested in our Company for vehicular applications. Since then, the Rosens, together with the Sevin Rosen Funds and Canaan Partners, were joined by other investors including Rho Management, Fletcher Challenge Limited (a leading New Zealand corporation), Vulcan Ventures, Inc. (an affiliate of Paul Allen), Cascade Investments (an affiliate of Bill Gates), Southern Union Company, Mitsubishi Corporation, Takuma Co., Ltd., Sumitomo Corporation, Meidensha Corporation, Active Power Corporation, Hydro-Quebec, Kyushya Electric EDPC and Star Ventures of Munich, Germany. Prior to this offering, we had raised over $260 million from our investors.

DETAILED MICROTURBINE DESCRIPTION

The current Model 330 Capstone MicroTurbine is a reliable, compact, low emission, power generation system which generates approximately 30 kilowatts of electric power as a stand-alone

power source or in conjunction with traditional power sources. We are developing a microturbine which will generate 60+ kilowatts of power. As an alternative power source, our microturbines may replace or efficiently supplement existing sources of electric power.

The Capstone MicroTurbine consists of a turbogenerator and digital power controller combined with ancilliary systems such as a fuel system as shown below:

System Overview Graphic

The turbogenerator includes a mechanical combustor system and a single moving assembly rotating on our patented air-bearings at up to 96,000 revolutions per minute. The combustor system operates on a variety of fuels and at full power achieves NOx emissions levels in the exhaust of less than nine parts per million per volume of NOx and unburned hydrocarbons for natural gas and less than 25 parts per million per volume for diesel, significantly less than the 1,000 to 3,000 parts per million emission standard of a reciprocating diesel fuel generator set. As a result of our patented air-bearings, microturbines do not require lubrication and do not utilize liquid cooling, keeping maintenance costs throughout the microturbine's estimated 40,000 hour life extremely low.

The digital power controller is a state-of-the-art, air cooled, insulated gate bipolar transistor based inverter with advanced digital signal processor based micro-electronics. The advantages of digital electronics over analog electronics include accuracy, flexibility, and repeatability. In addition, we are taking advantage of the example set by the computer industry: digital data processing results in higher reliability with increasingly lower cost. The digital power controller controls and manages the microturbine using proprietary software and advanced algorithms. The digital power controller:

- *starts the turbogenerator and controls its load;*
- *manages the speed, fuel flow, and exhaust temperature of the microturbine;*
- *converts the variable frequency (1,600 hertz maximum) and variable voltage power produced by the generator into a usable output of either 50/60 hertz AC or option DC; and*
- *provides digital communications to externally maintain and control the equipment.*

In addition, the digital power controller's application software provides an advantage to end users by allowing them to remotely operate and manage the microturbine. Unlike the technology of other power sources that require manual monitoring and maintenance, the microturbine allows end users to remotely and efficiently monitor performance, fuel input, power generation and time of operation using our proprietary communications software which can interface with standard personal computers using our application software. This remote capability provides end users with power generation flexibility and cost savings.

The Model 330 was initially designed to operate connected to an electric utility grid and uses a high pressure, natural gas fuel source. We can easily vary and modify the basic microturbine to

accommodate a variety of applications and needs. We have operated with different fuels including a variety of carbon-based fuels such as propane, sour gas,

kerosene and diesel. The combustor system remains the same for all fuels, except for the fuel injectors, which currently vary between liquid and gaseous fuels. The Capstone MicroTurbine's multi-fuel capability provides significant competitive advantages with respect to the markets in which we may operate. We offer other accessories including rotary gas compressors with digital controls, batteries with digital controls for stand-alone or grid connected operations, packaging options, and miscellaneous parts such as frames and exhaust ducting and installation hardware where required.

TURBOGENERATOR AIR FLOWS

[CAPSTONE'S MICROTURBINE GENERATOR]

TYPICAL OPERATION OF A MICROTURBINE

Air is drawn into the air inlet by the compressor impeller. The compressor impeller increases the pressure of the air and ejects it into the recuperator. The recuperator is a heat exchanger that heats the air as it passes through it to approximately 1,000 degrees fahrenheit. Preheating the air substantially lessens the amount of fuel needed, thus increasing the efficiency of the unit. The preheated air leaves the recuperator and enters the combustion chamber where it is mixed with the fuel and burned. The fuel is controlled and delivered to the combustion chamber for ignition and combustion by injectors and the combustor system. The mixture of combusted gas enters the turbine where it is then expanded. As the mixture expands, it causes the turbine to rotate. The turbine is directly coupled to the compressor and generator shaft, and as the turbine rotates, the compressor and generator rotate at a speed of up to 96,000 revolutions per minute, and generate up to approximately 30 kilowatts of electricity. The combusted gas mixture leaves the turbine in the form of exhaust at a temperature of up to approximately 1,200 degrees fahrenheit and flows through the recuperator where it heats the cooler air brought into the compressor through the impeller. As the combusted gas mixture mixes with that cooler air, the exhaust cools to a temperature of approximately 500 degrees fahrenheit and is discharged through the exhaust pipe. In order to improve the energy efficiency further, we are testing higher operating temperatures.

There is only one moving assembly in the entire turbogenerator, which consists of the rotating generator shaft, the compressor wheel, and the turbine rotor. This rotating assembly is supported by three radial air bearings and one double acting air bearing. Air bearings avoid the need for oil lubrication resulting in low maintenance requirements and high reliability. The entire system is air-cooled, which avoids liquid cooling, thereby resulting in low maintenance requirements.

We have achieved Underwriters' Laboratories certification for our initial product and will continue to qualify our products under Underwriters' Laboratories approval. We plan to achieve ISO 9001 certification in the future. The International Organization for Standardization provides a methodology by which manufacturers can obtain quality certification.

EMPLOYEES

At March 15, 2000 we employed 169 regular employees. No employees are covered by any collective bargaining arrangements with respect to his or her employment by us. We believe that our relationships with our employees are good.

FACILITIES

Currently, our principal administrative, sales and marketing, research and development and support facilities consist of an aggregate of approximately 89,000 square feet of office space, warehouse space and assembly and test space in and around Woodland Hills, California. We occupy these spaces under nine separate leases. However, we plan on relocating our corporate headquarters and the majority of our operations to 21211 Nordhoff Street in Chatsworth during the year 2000. We entered into a lease for that premise that expires on December 31, 2009 or ten years following our possession of the property and the expiration of an early possession period of 60 days exclusive of extensions. The square footage for our new property is approximately 98,370 square feet and our payment under that lease will be $30,000 per month for the first six months, and will rise to $60,000 on the seventh month with incremental increases thereafter. As a result of our decision to relocate, we will have allowed eight of our nine leases to expire at the end of their extended terms, and we will permit these eight leases to expire at different times during the period from May 1, 2000 to September 1, 2000. Management is attempting to sublet certain of these leases prior to the termination date. We have renewed one lease for our property at 6025 Yolanda Avenue in Tarzana which consists of 12,120 square feet. This property will serve as our microturbine testing facility. This lease will expire on July 31, 2001 and our payment under this lease is $9,084 a month.

LEGAL PROCEEDINGS

A shareholder, Craig Drill Capital, L.P. with Craig Drill Capital Limited, has asserted fraud and misrepresentation claims arising out of the purchase of $15 million of our Series E Preferred Stock. In the course of the discussions concerning the claims, the shareholder's attorneys have given us a draft complaint to be filed in the Superior Court for the County of Los Angeles, California, asserting various state law claims against us and some of our present and former officers and directors arising out of alleged

misrepresentations and omissions in connection with our 1997 offering of Series E Preferred Stock. In the past, we and the shareholder had entered into a number of agreements tolling any statutes of limitation that otherwise would have been applicable. We and representatives of the shareholder have had discussions in an effort to resolve the dispute and these discussions continue. We are currently evaluating our options in connection with this potential litigation and intend to vigorously defend these claims.

On February 11, 1998, we filed a complaint against Michael Irvine, a former employee, alleging trade secret misappropriation, breached contract and other related causes of action in the Superior Court for the County of Orange, California. The former employee filed a cross-complaint alleging wrongful termination, breach of contract, and other related causes of actions. The relief requested in the cross complaint included declaratory relief as well as lost earnings and incidental, general, special, and punitive damages, but none of these amounts were specified in the cross-complaint. We settled our claims against the former employee receiving a permanent injunction that prevents that former employee from disclosing or using any confidential information. With respect to the cross-complaint, we prevailed on summary judgment in February 1999. The former employee has since filed a notice of appeal and the parties have filed briefs on the issue. We intend to vigorously defend these claims.

MANAGEMENT

DIRECTOR, EXECUTIVE OFFICERS AND KEY EMPLOYEES

Our executive officers, directors and key employees, their positions and their ages as of March 16, 2000, are as follows:

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Ake Almgren	53	President, Chief Executive Officer and Director
Jeffrey Watts	49	SVP Finance & Administration, CFO, Secretary
William Treece	59	SVP, Strategic Technology Development
Paul Chancellor	46	Senior Vice President, Engineering
Gabriel Tashjian	34	Senior Vice President, Sales
Mark Kuntz	37	Vice President, Marketing
Joel Wacknov	30	Vice President, Power Electronics Group
Daniel Callahan	52	Vice President, Quality
Lloyd Kirchner	36	Vice President, Supply Management
Paul Berner	39	Director of Operations
Richard Aube	31	Director
John Jaggers	49	Director, Vice Chairman of the Board
Jean-Rene Marcoux	55	Director
Benjamin M. Rosen	67	Director
Peter Steele	41	Director
Eric Young	43	Director

</TABLE>

AKE ALMGREN Dr. Almgren joined us in July 1998 as President and Chief Executive Officer after a 26 year career at ASEA Brown Boveri Limited, a worldwide power solutions company. While there, Dr. Almgren held the position of Business Area Manager for Distribution Transformers worldwide where he managed the operation of 36 plants in 28 countries. He has also been President of ABB Power T&D Company, President of ABB Power Distribution, and President of ABB Power Systems during his tenure at ABB. In addition, Dr. Almgren has also been President of Autoliv, an automotive restraint company. Dr. Almgren holds a Ph.D. in Engineering from Linkopings Tekniska Hogskola in Sweden and a Masters of Mechanical Engineering from the Royal Institute of Technology in Stockholm, Sweden. He is a citizen of Sweden and has worked and lived in the United States during the last nine years.

JEFFREY WATTS Mr. Watts has been our Chief Financial Officer since 1995 and also serves as our Senior Vice President of Finance and Administration and Secretary. Mr. Watts has over 20 years experience in financial management and strategic planning for companies including IBM Corporation, Deloitte & Touche LLP, a professional services firm, and McKinsey & Company, Inc. Prior to joining us, he was Senior Vice President and Chief Financial Officer of P-Com, Inc., a telecommunications equipment supplier, where he led it through various private financings, an initial public offering and its first secondary offering. He holds a BA degree in Economics from the University of California Berkeley and an MBA from the University of Chicago.

WILLIAM TREECE Mr. Treece joined us in 1997 as our Vice President of Engineering and in 1998 became our Senior Vice President of Engineering. Prior to joining us, Mr. Treece had a 24 year career with Sundstrand Aerospace, a large aerospace company, where he held a number of positions including Director of Engineering, Director of Operations, and Director of Commercial programs. During his career, Mr. Treece has worked on all aspects of turbine development, manufacturing and marketing. He holds a BS in Mechanical Engineering from Indiana Institute of Technology and has done graduate work in engineering and business at the University of Southern California and San Diego State University.

PAUL CHANCELLOR Mr. Chancellor joined us in 2000 as Senior Vice President of Engineering. From July, 1996 until the time he joined Capstone, Mr. Chancellor served as Vice President of Support Services for ABB, Power Generation Inc., whose key products are gas and steam turbine generators. In this capacity he led a group that included supply management, information systems, quality, and document management through its formation period. Prior to this, from January 1995 through July of 1996, Mr. Chancellor was Vice President of Engineering for Power Generation Inc. where he led a group of 80 people and was responsible for over $10 million in engineering time and $150 million in purchased materials and equipment, annually. Mr. Chancellor earned his BS in Mechanical Engineering and his MSME at Auburn University, as well as a diploma from the Von Karman Institute in Brussels, Belgium.

GABRIEL TASHJIAN Mr. Tashjian joined us in March of 2000 as Senior Vice President of Sales. From 1988 to March, 2000 Mr. Tashjian worked in sales and operations for General Electric in a number of its divisions including GE Power Systems and GE Energy Services. Most recently, Mr. Tashjian served as Manager, Commercial Operations for GE Energy Services. Mr. Tashjian's career with General Electric has included extensive international experience, including his term as Sales Director for Central and Eastern Europe, from October 1995 to March of 1998, where he led the sales, marketing and business development activities in 23 central and eastern European countries. Mr. Tashjian received his BS in Electrical Engineering from the University of Southern California.

MARK KUNTZ Mr. Kuntz joined us in 2000 as Vice President of Marketing. Prior to joining Capstone, Mr. Kuntz served as Vice President and General Manager of Unicom Distributed Energy, a holding company for the utility Commonwealth Edison, where he was responsible for bringing that company's turbogenerator power system to market and for developing new business opportunities in distributed generation. Before his position at Unicom, Mr. Kuntz was Director of National Accounts for Lennox Industries, where he provided sales, marketing and customer service, as well as distribution and technical support to retail, restaurant and institutional customers. Mr. Kuntz received a BS in Mechanical Engineering from Cal Poly, San Luis Obispo, and a MBA from Southern Methodist University.

JOEL WACKNOV Mr. Wacknov joined us in 1996 as an electrical engineer and was subsequently promoted to Vice President in 1999. He previously worked with AeroVironment, an electrical control company. Mr. Wacknov holds a BSEE from UCLA and a MSEE from the University of Wisconsin.

DANIEL CALLAHAN Mr. Callahan joined us in 2000 as Vice President of Quality. Prior to his start with Capstone, Mr. Callahan spent over 16 years in quality control for a number of companies, including over ten years with Hewlett Packard and its related companies. From 1994 until 2000, Mr. Callahan was Quality and Reliability Manager, Optoelectronics Division, for LumiLeds Lighting, which was recently spun off from Hewlett Packard as part of Agilent Technologies. In this capacity, Mr. Callahan achieved annual budget reductions from $6 million to $900,000 over a three year period, implemented an electronic documentation system for a worldwide network, and implemented industry quality control standards, including ISO 9000, TQM and TQC. Mr. Callahan received a BS in Systems Engineering from the United States Naval Academy and a MS in Physics from the U.S. Naval Postgraduate School.

LLOYD KIRCHNER Mr. Kirchner joined us in 1997 as mechanical systems engineer and was subsequently promoted to Vice President of Supply Management in 1999. Previously he was with Amoco Power Resources Corporation, an integrated oil company, for over ten years. Mr. Kirchner holds a BSME from Rice University and an MBA from the University of Chicago.

PAUL BERNER Mr. Berner joined us in 1995 as a design engineer. He has held a variety of engineering and operations assignments since then. He was formerly with Sundstrand Aerospace, a large aerospace company, in a variety of engineering and operations assignments. Mr. Berner holds a BS in Mechanical Engineering from San Diego State University.

RICHARD AUBE Mr. Aube became our director in 2000. Mr. Aube is currently a Managing Director of The Beacon Group, LLC, a private investment and strategic advisory firm based in New York. Mr. Aube joined The Beacon Group in 1993, focusing on the firm's investment activities in the energy sector. Prior to joining The Beacon Group, Mr. Aube was an investment banker in the Natural Resources Group at Morgan Stanley & Co, Incorporated. Mr. Aube is a director of Generac Portable Products.

JOHN JAGGERS Mr. Jaggers has been our director since 1993. Mr. Jaggers is also a general partner and the Chief Financial Officer of Sevin Rosen Funds, a group of venture capital funds. Mr. Jaggers joined Sevin Rosen, a current stockholder, in 1988, focusing on software and information services. Prior to joining Sevin Rosen, Mr. Jaggers spent eight years in the venture capital and corporate financing activities of Rotan Mosle Inc., where he specialized in new technologies and small, rapidly growing companies. Mr. Jaggers received his Bachelors and Masters degrees in Electrical Engineering from Rice University. He received his MBA from Harvard University.

JEAN-RENE MARCOUX Mr. Marcoux became our director in 2000. Mr. Marcoux first joined Hydro-Quebec in 1969 and for over ten years occupied several positions in IREQ, its research institute. Mr. Marcoux returned in 1997 to serve

as President and Chief Executive Officer of Hydro-Quebec CapiTech and General Manager Technology Marketing and Affiliates for Hydro-Quebec, the fourth largest utility in the world. Prior to that, he held positions related to business development with GEC-Althom and ABB.

BENJAMIN M. ROSEN Mr. Rosen has been our director since 1993. Mr. Rosen is Chairman of the Board of Directors of Compaq Computer Corporation, a personal computer manufacturer, and is also a co-founder of Sevin Rosen Funds, a venture capital firm managing a several hundred million dollar portfolio. Mr. Rosen is also a member of the Board of Directors of Ask Jeeves. Mr. Rosen is vice-chairman of the Board of Trustees of the California Institute of Technology, a member of the Board of Managers of Memorial Sloan-Kettering Cancer Center, and a member of the Board of Overseers of Columbia Business School. Mr. Rosen received a BS degree in Electrical Engineering from Caltech, an MS in Electrical Engineering from Stanford University and an MBA from Columbia University.

PETER STEELE Mr. Steele is the Director of International New Ventures within Fletcher Challenge Energy. In this capacity Mr. Steele is responsible for leading the companies international growth ambitions. In his 18 years of experience with Fletcher Challenge Energy, a New Zealand based energy, construction and pulp and paper company, Mr. Steele has managed operations in several Asian countries including: Indonesia, Thailand, Philippines, China and most recently held the position of Chief Operating Officer for Fletcher Challenge Energy Brunei. Mr. Steele is a professional engineer and resides in Auckland, New Zealand.

ERIC YOUNG Mr. Young has been our director since 1993. Mr. Young is a cofounder of Canaan Partners, a venture capital investment firm, and has served as a general partner since its inception in 1987. From 1979 to 1987 Mr. Young held various management positions with General Electric Co. and G.E. Venture Capital, a venture capital investment firm and subsidiary of General Electric. Mr. Young is also a director of several private entities. Mr. Young holds an MBA from Northwestern University and a BS in Mechanical Engineering from Cornell University.

BOARD COMPOSITION

Effective upon the closing of this offering, the number of our directors will be fixed at seven. Our board of directors will be divided into three classes, each of whose members will serve for a staggered three-year term. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring.

BOARD COMMITTEES

Effective upon the closing of this offering, we will have an Audit Committee and a Compensation Committee. The members of the Audit Committee will be made up of Messrs. Aube, Marcoux and Steele. The Audit Committee will be responsible for recommending to the board of directors the engagement of our outside auditors and reviewing our accounting controls and the results and scope of audits and other services provided by our auditors. The Compensation Committee will be made up of Messrs. Jaggers, Rosen and Young. The Compensation Committee will be responsible for reviewing and recommending to the board of directors the amount and type of non-stock compensation to be paid to senior management and establishing and reviewing general policies relating to compensation and benefits of employees.

DIRECTOR COMPENSATION

Directors who are employees and non-employee directors receive no compensation for their services as directors. However, they are reimbursed for the expenses they incur in attending the board or committee meetings.

All directors are eligible to participate in our 2000 stock option plans. Non-employee directors are eligible to participate in our 2000 stock incentive plan. Upon initial election or appointment to the board of directors, new non-employee directors will receive stock options to purchase shares of common stock which will become exercisable in cumulative monthly installments and will become fully vested on the fourth anniversary of the date of grant. Each year of a non-employee director's tenure, the director will receive stock options to purchase shares. These annual options will become exercisable in cumulative monthly installments starting after one year and will become fully vested on the fourth anniversary of the date of grant. Employee directors are eligible to participate in our 2000 employee stock purchase plan as long as they meet eligibility requirements, including not owning, immediately after an option is granted, five percent or more of the voting power of all classes of stock. Our 1993 stock incentive plan does not provide for grants of stock options to directors.

ACCELERATED VESTING

The board has adopted an accelerated vesting schedule with respect to options granted to Dr. Almgren, our chief executive officer, and Mr. Watts, our chief financial officer, such that these executive officers' options immediately vest upon an acquisition of Capstone or an acquisition of 50% of the voting power or economic interest of Capstone.

LIMITATIONS OF LIABILITY AND INDEMNIFICATION MATTERS

Our certificate of incorporation that will be in effect at the time of this offering limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for any of the following:

- *any breach of their duty of loyalty to the corporation or its stockholders;*
- *acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;*
- *unlawful payments of dividends or unlawful stock repurchases or redemptions; or*
- *any transaction from which the director derived an improper personal benefit.*

This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our bylaws that will be in effect at the time of this offering will provide that we shall indemnify our directors and executive officers and may indemnify our other officers and employees and other agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether the bylaws would permit indemnification.

We will enter into agreements to indemnify our directors and executive officers, in addition to indemnification provided for in our bylaws. These agreements, among other things, indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by us arising out of such person's services as our director or executive officer, any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us as described above, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

EXECUTIVE COMPENSATION

The following table sets forth the total compensation paid in the year ended December 31, 1999, to the following executive officers:

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
NAME	YEAR	SALARY($)	BONUS($)	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>
Ake Almgren	1999	$200,000	$100,000	2,075,000	--
President and Chief Executive Officer	1998	106,154	125,000	1,300,000	
Jeffrey Watts	1999	$153,462	$ --	475,500	--
Senior Vice President Finance &	1998	145,000	--	--	--
Administration, CFO, Secretary	1997	136,222	--	--	--
William Treece	1999	$146,338	$ --	200,000	--
Senior Vice President, Engineering	1998	145,000	--	--	--
	1997	94,135	--	150,000	--

</TABLE>

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information regarding stock options granted during 1999 to our executive officers listed in the Summary Compensation Table. During 1999, we granted options to purchase an aggregate of 4,921,200 shares of common stock to employees. The exercise price per share for these options was less than the fair market value of the common stock as of the grant date.

OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

	INDIVIDUAL GRANTS					
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE	MARKET PRICE	EXPIRATION DATE	GRANT DATE PRESENT VALUE(2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ake Almgren.....	2,075,000	42%	$0.20	$0.34	5/1/2009	$371,010
Jeffrey Watts.....	475,500	10%	$0.20	$0.34	5/1/2009	$ 85,019
William Treece.....	200,000	4%	$0.20	$0.34	5/1/2009	$ 35,760

</TABLE>

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(1) All options were granted under our stock option plan and have a ten-year term. Of the options shown in this table, 100% vest 05/01/2003. Vested options become immediately exercisable upon a sale of the company or an initial public offering.

(2) The grant date present value was calculated using a minimum value option valuation model, using the assumptions set forth in note 6 to the notes of our financial statements.

FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning the number and value of unexercised options to purchase common stock held as of December 31, 1999 by our executive officers listed in the Summary Compensation Table. There was no public trading market for our common stock as of December 31, 1999. Accordingly, the values of the unexercised in-the-money options have been calculated on the basis of $3.60 per share, the fair market value of our common stock at the end of fiscal year 1999, less the applicable exercise price multiplied by the number of shares that may be acquired on exercise.

FISCAL YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT DECEMBER 31, 1999(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT DECEMBER 31, 1999($)	
NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ake Almgren.....	--	--	762,481	2,612,519	2,408,269	8,546,731
Jeffrey Watts.....	--	--	315,453	434,797	1,080,992	1,478,596
William Treece.....	--	--	87,500	262,500	262,500	867,500

<CAPTION>

	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS BASED ON PUBLIC OFFERING PRICE($)	
NAME	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>
Ake Almgren.....		
Jeffrey Watts.....		
William Treece.....		

</TABLE>

STOCK OPTION PLANS

1993 INCENTIVE STOCK PLAN

We have a 1993 incentive stock option plan that allows some of our employees and consultants the ability to acquire an ownership interest in our company. Under this plan, we have reserved for issuance 13,000,000 shares of common stock. The 1993 plan allows us to grant:

- incentive stock options;

- nonstatutory stock options; and

- stock purchase rights.

Options and stock purchase rights may be granted to employees and consultants, while incentive stock options may be granted only to employees. As of February 29, 2000, 10,795,286 options had been granted under this plan.

Options that were granted under this plan that subsequently have expired or have been canceled may be reissued under this plan. As of February 29, 2000, there were under our 1993 plan outstanding options for 8,550,445 shares. In addition, the options previously granted under this plan will continue to vest in accordance with this plan and vested options will be exercisable for shares of common stock upon completion of the offering.

The exercise price of common stock underlying an option may be greater, less than or equal to fair market value. The exercise price of an incentive stock option granted to an employee who owns:

- *10% or less of the voting power of all classes of stock, may not be less than 100% of the fair market value of the underlying shares of common stock on the date of the grant; and*

- *more than 10% of the voting power of all classes of stock, may not be less than 110% of the fair market value of the underlying shares of common stock on the date of the grant.*

The exercise price of common stock underlying a nonstatutory stock option granted to an employee or consultant who owns:

- *10% or less of the voting power of all classes of stock, may not be less than 85% of the fair market value of the underlying shares of common stock on the date of the grant; and*

- *more than 10% of the voting power of all classes of stock, may not be less than 110% of the fair market value of the underlying shares of common stock on the date of the grant.*

In the case of a stock purchase right, the per share exercise price of the common stock underlying the right granted to a person who owns:

- *10% or less of the voting power of all classes of stock, may not be less than 85% of the fair market value of the underlying shares of common stock on the date of the grant; and*

- *more than 10% of the voting power of all classes of stock, may not be less than 100% of the fair market value of the underlying shares of common stock on the date of the grant.*

The maximum term of an option is 10 years from the date of the grant, though the option agreement may set forth a shorter term. The term is five years for an option granted to an employee who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock. Options are typically subject to vesting schedules, which do not exceed five years. Options may be exercised for specified periods, generally 30 days, after the termination of the optionee's employment or other service relationship with us, and are generally non-transferable. The term of a nonstatutory stock option may be extended under some circumstances for a period of six months upon the death of the optionee. If the board determines to grant a stock purchase right, a stock purchase agreement or stock bonus agreement must be executed no later than six months from the date of the grant. In some instances, we have a repurchase option upon the purchaser's voluntary or involuntary termination. The repurchase price is the fair market value for such shares on the date the right of repurchase is triggered.

Upon the exercise of options or the grant of purchase right, the board determines the method of payment, and may consist of:

- *cash;*

- *check;*

- *promissory note or other deferred payment arrangement;*

- *delivery of shares of common stock that have a fair market value on the date of surrender equal to the aggregate exercise price; or*

- *any combination of methods above or other method to the extent permitted by sections 408 or 409 of the California General Corporation Law.*

The 1993 plan may be administered by the board of directors or a committee appointed by the board. Subject to the provisions of the plan, the board may select the individuals eligible to receive awards, determine or modify the terms and conditions of the awards granted, determine fair market value and exercise price within specific parameters, waive vesting provisions, and generally administer and interpret the plan.

Upon specified events, including a stock split, reverse stock split, stock dividend, combination or reclassification, we will adjust proportionately:

- *the number of shares of common stock covered by each outstanding option or purchase right;*

- *the number of shares of common stock that have been authorized under the plan but as to which no options or purchase rights have been granted or which have been returned to the plan or repurchased upon a holder's*

termination or otherwise; and

- *the price per share of common stock covered by each outstanding option or purchase right.*

In the event of our dissolution or liquidation, all options and purchase rights not previously exercised will terminate immediately prior to the consummation of that action. In the event of certain transactions, we and the other parties to the transactions may agree to treat all the outstanding awards in a different manner. These transactions include a merger or consolidation in which we are not the survivor or in which shares of our stock are converted into cash, securities or other property; the sale of all or substantially all of our assets; a liquidation or dissolution that we initiate; and a transaction in which any person becomes the beneficial owner, directly or indirectly, of 30% or more of our outstanding capital stock on a fully diluted and as-converted basis.

2000 EQUITY INCENTIVE PLAN

Our 2000 equity incentive plan was adopted by our board of directors on , 2000 and approved by our stockholders on , 2000 as a successor plan to our 1993 incentive stock plan. Under the 2000 plan, a total of shares of common stock have been reserved for issuance.

The 2000 plan is substantially the same as the 1993 plan, except that it contemplates the issuance of stock after the initial public offering of our common stock being made by this prospectus. The 2000 plan provides for the discretionary grant of incentive stock options (as defined in Section 422 of the Internal Revenue Code), nonstatutory stock options, stock purchase rights and stock bonus rights to employees, consultants and members of the board of directors. The 2000 Plan provides that our non-employee directors will be granted options to purchase shares of common stock on the date our stock begins public trading or on their initial election to the board of directors if after the date our stock begins public trading. The 2000 plan also provides for formula grants to our non-employee directors of options to purchase shares of common stock on the date of each annual meeting of our stockholders following which the non-employee director will continue to serve on our board of directors.

Our board of directors or a committee thereof may administer the 2000 Plan. Starting with the date our stock begins public trading, the 2000 plan will be administered by a committee composed of two or more independent directors. The administrator determines the terms of the options or other awards granted, including the exercise price of the options or other awards, the number of shares subject to each option or other award (up to per year per participant), the exercisability thereof, and the form of consideration payable upon exercise. In addition, the administrator may amend, suspend or terminate the 2000 plan, provided that no action may affect any share of common stock previously issued and sold or any option previously granted under the 2000 plan without the consent of the holder. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must be at least equal 110% of the fair market value on the

grant date and the term must not exceed five years. The term of all other options granted under the 2000 plan may not exceed ten years.

In the case of restricted stock, unless the administrator determines otherwise, the restricted stock purchase agreement will grant us a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment or consulting relationship with our company for any reason, including death or disability. The purchase price for shares repurchased pursuant to a restricted stock purchase agreement must be the original price paid by the purchaser. Options and other awards granted under the 2000 plan are generally not transferable by the optionee, and each option and other award is exercisable during the lifetime of the optionee only by the optionee. Options granted under the 2000 plan must generally be exercised within three months after the end of optionee's status as an employee, director or consultant, or within one year after the optionee's termination by disability or death, respectively, but in no event later than the expiration of the option's term. If an optionee is terminated for cause, the option terminates immediately. The 2000 Plan provides that, in the event of a merger with or into another corporation, the administrator will have the authority, but not the obligation to accelerate the vesting of each outstanding option and other award.

EMPLOYEE STOCK PURCHASE PLAN

2000 EMPLOYEE STOCK PURCHASE PLAN

The 2000 employee stock purchase plan was adopted by our board of directors on , 2000 and by our stockholders on , 2000. A total of shares of common stock may be sold under the purchase plan. As of the date of this prospectus, no shares have been issued under the purchase plan. The purchase plan is administered by a committee composed of not less than two members of the board of directors who are "non-employee directors" within the meaning of Rule 16b-3 adopted by the SEC under Section 16(b) of the Securities Exchange Act.

The purchase plan, which is intended to qualify under section 423 of the

Internal Revenue Code, contains consecutive offer periods that are generally months in duration. The offer periods start on and end on the last day of , except for the first offer period, which will commence on the date immediately preceding the first date on which a share of common stock is traded on an exchange or quoted on Nasdaq or a successor quotation system and end on , 200 . Employees are eligible to participate if they are customarily employed by us or any participating subsidiary for more than twenty hours per week and more than five months per year. However, no employee may be granted a right to purchase stock under the purchase plan (1) to the extent that, immediately after the grant of the right to purchase stock, the employee would own, or be treated as owning, stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or (2) to the extent that his or her rights to purchase stock under all of our employee stock purchase plans accrues at a rate which exceeds $25,000 worth of stock for each calendar year.

The purchase plan permits participants to purchase common stock through payroll deductions of up to 15% of the participant's base compensation. Base compensation is defined as the participant's total base compensation which he or she receives on each payday as compensation for services to our company, excluding overtime payments, sales commissions, incentive compensation, bonuses, expense reimbursements, fringe benefits and other special payments. The maximum number of shares a participant may purchase with respect to a single purchase period is shares. Amounts deducted and accumulated by the participant are used to purchase shares of common stock at the end of each purchase period. The price of stock purchased under the purchase plan is 85% of the lesser of the fair market value of the common stock (1) the first day of the purchase period or (2) the last day of the purchase period. Participants may end their participation at any time other than the final 15 days of an offer period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with us.

Rights to purchase stock granted under the purchase plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the purchase plan. The purchase plan provides that, upon certain specified events, including a recapitalization, reclassification, stock split, reverse stock split, stock dividend, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or disposition of all or substantially all of our assets, the board has discretion to adjust the exercise price of any option as well as the number and kind of shares for which options may be granted or which are subject to outstanding options. Our board of directors has the authority to amend or terminate the purchase plan, except that a shareholder vote is required to amend the purchase plan either to change the number of shares of stock that may be sold pursuant to options under the purchase plan, or to alter the requirements for eligibility to participate in the purchase plan, or in any manner that would cause the plan to no longer be an "employee stock purchase plan" within the meaning of Section 423(b) of the Internal Revenue Code. The purchase plan will terminate in , 2010, unless terminated earlier in accordance with its provisions.

EMPLOYMENT AGREEMENTS

We have entered into a letter agreement with Ake Almgren, our President and Chief Executive Officer. During his employment Dr. Almgren will receive a base salary plus a bonus of up to $100,000 based on the achievement of annual objectives and stock options under Capstone Turbine Corporation's Stock Option Plan, originally granted in the amount of 1,300,000 shares vesting over four years. Upon termination of his employment, Dr. Almgren will receive an amount equaling the monthly rate of the base salary for the six months following termination. For 1999, Dr. Almgren's base salary was $200,000.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On May 16, 1995, we entered into a Preferred Stock Purchase Agreement for Series B Preferred Stock pursuant to which Fletcher Challenge Distributed Generation, Inc. purchased 3,333,334 shares of Series B Preferred. In connection with the Series B preferred financing, we and Fletcher Challenge Power Marketing Limited, a New Zealand corporation and an affiliate of Fletcher Challenge, entered into a Marketing and Licensing Agreement dated May 16, 1995. This agreement provided that Fletcher Challenge Power Marketing have the exclusive marketing rights for seven years with respect to our products throughout the world outside of the United States, Canada, Mexico, Europe and Africa. We have subsequently reacquired these marketing and licensing rights under the terms of the Marketing Rights Buyback Agreement, dated as of July 14, 1999, entered into by us, Awatea Holdings Limited, Fletcher Challenge and Fletcher Challenge Power Marketing. Among other things, the Buyback Agreement provides for our repurchase of Fletcher Challenge's Power Marketing marketing rights. As part of the repurchase agreement we paid $9 million and will pay an additional $11 million from the proceeds of this offering. On February 24, 2000 we also issued 1,250,000 shares of Series G preferred for no additional consideration to Awatea. Peter Steele is a director designee of Fletcher Challenge to our board. Sales made to Fletcher Challenge and an affiliate were $247,000 in 1999.

On January 17, 1997, we issued 3,125,000 shares of our Series D Preferred to various investors, some of whom were our officers, directors or 5%

shareholders. On August 22, 1997 we issued 5,865,814 shares of our Series E Preferred Stock to various investors. An additional 4,587,331 shares of Series E Preferred Stock were issued on November 19, 1997. On May 31, 1999, we issued 11,095,496 shares of Series F Preferred Stock, in addition to warrants to acquire 6,250,004 shares of common stock, to various investors, some of whom were our directors or 5% shareholders. On February 24, 2000, we issued 35,683,979 shares of Series G preferred stock to various investors some of whom were our officers, directors or 5% shareholders.

We have sold several of our products to Fletcher Challenge Energy, Canada and Fletcher Challenge Power Marketing, New Zealand for aggregate proceeds of approximately $357,000. Fletcher Challenge Power Marketing, New Zealand purchased one microturbine in 1995 and three units in 1996 for proceeds of approximately $109,000. In 1999 we sold six units to Fletcher Challenge Power Marketing, New Zealand for resale to Japanese customers for approximately $178,000. Fletcher Challenge Energy Canada purchased two microturbines in 1999 for aggregate proceeds of approximately $69,000, the same price other customers paid.

During 1997 and 1998, Fletcher Challenge reimbursed us $137,000 and $39,000, respectively, for the use of our office facilities as well as for other expenses. As of December 31, 1998, we had a $17,000 receivable for these expenses.

During 1997, we purchased from Rosen Motors, of which our present and former directors Benjamin Rosen and Dr. Harold Rosen, respectively, were principal officers, equipment and improvements in the amount of $590,000 and assumed several leases.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock by:

- *all persons known by us to own beneficially 5% or more of the common stock;*
- *each of our directors;*
- *the executive officers listed in the Summary Compensation Table; and*
- *all directors and executive officers as a group.*

Unless otherwise indicated, the address for each stockholder on this table is c/o Capstone Turbine Corporation, 6430 Independence, Woodland Hills, CA 91367. A person has beneficial ownership of shares if he has the power to vote or dispose of the shares. This power can be exclusive or shared, direct or indirect. In addition, a person is considered by SEC rules to beneficially own shares underlying options that are presently exercisable or will become exercisable within 60 days. The shares listed in this table below under "Number of Shares Underlying Options" include shares issuable upon the exercise of options that are presently exercisable or will become exercisable within 60 days of February 29, 2000.

As of February 29, 2000, there were 110,369,379 shares of our common stock outstanding, after giving effect to the conversion of all shares of preferred stock into common stock. To calculate a shareholder's percentage of beneficial ownership, we must include in the numerator and denominator those shares underlying options that the shareholder is considered to beneficially own. Shares underlying options held by other shareholders, however, are disregarded in this calculation. Therefore, the denominator used in calculating beneficial ownership among our shareholders may differ.

<TABLE>
<CAPTION>

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING				SHARES BENEFICIALLY OWNED AFTER OFFERING	
NAME OF BENEFICIAL OWNER	NUMBER OF OUTSTANDING SHARES	NUMBER OF SHARES UNDERLYING OPTIONS	TOTAL	PERCENT	NUMBER	PERCENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Peter Steele(1)	13,568,621	--	13,568,621	12.29%		
RHO Management Trust I(2)	10,461,655	--	10,461,655	9.48%		
Southern Union Co.(3)	6,946,562	--	6,946,562	6.29%		
John Jaggers(4)	6,903,614	--	6,903,614	6.26%		
Richard Aube(5)	6,250,000	--	6,250,000	5.66%		
Vulcan Ventures, Inc.(6)	5,899,827	--	5,899,827	5.35%		
Benjamin M. Rosen(7)	5,820,994	--	5,820,994	5.27%		
Eric Young(8)	4,045,182		4,045,182	3.67%		
Jean-Rene Marcoux(9)	2,000,000	--	2,000,000	1.81%		
Dr. Ake Almgren(10)	200,000	844,271	1,044,271	0.95%		
Jeffrey Watts(11)	341,783	144,386	486,169	0.44%		
William Treece(12)	--	100,000	100,000	0.09%		
All directors and executive officers as a group (9 persons)	39,130,192	1,088,657	40,218,849	36.41%		

</TABLE>

- ---

(1) Director designee for Awatea (Fletcher Challenge). Includes 12,215,310 shares in preferred stock, 1,038,543 shares of common stock warrants, and 314,768 shares of preferred stock warrants. Mr. Steele disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(2) Includes 7,854,692 shares in preferred stock, 2,317,890 shares of common stock warrants, and 289,073 shares of preferred stock warrants.

(3) Includes 3,821,562 shares of preferred stock and 3,125,000 shares of common stock warrants.

(4) Director designee and general partner of various affiliated venture capital partnerships managed by Sevin Rosen Funds. Includes 58,299 shares in common stock, 6,255,352 shares in preferred

stock, 426,530 shares of common stock warrants and 163,433 shares of preferred stock warrants all held by various venture capital partnerships managed by Sevin Rosen Funds. Mr. Jaggers disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(5) Director designee for Beacon Group Energy Investment Fund. Consists of 6,250,000 shares in preferred stock. Mr. Aube disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(6) Includes 5,518,001 shares in preferred stock and 381,826 shares of preferred stock warrants.

(7) Director. Includes 31,635 shares in common stock, 5,381,547 shares in preferred stock, 292,134 shares of common stock warrants and 115,678 shares of preferred stock warrants.

(8) Director designee of the Canaan Partnership Funds. Includes 53,847 shares in common stock, 3,687,340 shares in preferred stock, 216,349 shares of common stock warrants and 87,646 shares of preferred stock warrants. Mr. Young disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(9) Director designee for Hydro-Quebec. Consists of 2,000,000 shares in preferred stock. Mr. Marcoux disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(10) President, CEO and Director. Consists of 844,271 shares of common stock issuable upon exercise of options exercisable within 60 days of February 29, 2000.

(11) SVP Finance & Administration, CFO and Secretary. Consists of 144,386 shares of common stock issuable upon exercise of options exercisable within 60 days of February 29, 2000.

(12) SVP Engineering. Consists of 100,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days of February 29, 2000.

DESCRIPTION OF CAPITAL STOCK

The Company, is authorized to issue up to 135,000,000 shares of common stock, $0.001 par value per share, and 80,000,000 shares of preferred stock, $0.001 par value.

COMMON STOCK

As of February 29, 2000, our outstanding common stock consisted of 92,107,629 shares of common stock, after giving effect to the conversion of all shares of preferred stock into common stock upon the closing of this offering, held by 287 shareholders of record. Holders of common stock are entitled to one vote for each share held of record on all matters on which shareholders may vote, and do not have cumulative voting rights in the election of directors. Holders of common stock are entitled to receive, as, when and if declared by the board of directors from time to time, such dividends and other distributions in cash, stock or property from our assets or funds legally available for such purposes subject to any dividend preferences that may be attributable to our outstanding preferred stock.

No preemptive, conversion, redemption or sinking fund provisions apply to the common stock. All outstanding shares of common stock are fully paid and non-assessable. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in the assets available for distribution.

PREFERRED STOCK

Upon the closing of this offering, we will have no outstanding shares of

preferred stock. Our board of directors, without further action by the shareholders, is authorized to issue an aggregate of 80,000,000 shares of preferred stock. We have no plans to issue a new series of preferred stock. Our board of directors may issue preferred stock with dividend rates, redemption prices, preferences on liquidation or dissolution, conversion rights, voting rights and any other preferences, which rights and preferences could adversely affect the voting power of the holders of common stock. Issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions or other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage or delay a third party from acquiring control.

WARRANTS

At February 29, 2000, we had outstanding warrants to acquire 15,417,880 shares of common and preferred stock to investors and 198,608 shares of common and preferred stock to equipment lessors. These warrants expire on dates ranging from the consummation of this offering to December, 2003. The exercise price and number of shares of stock issuable upon the exercise of each of the warrants may be adjusted upon the occurrence of certain events, including stock splits, stock dividends, reorganizations, or merger. In addition, some of the warrants and shares of stock issuable upon exercise of those warrants have registration rights.

REGISTRATION RIGHTS

After the consummation of this offering, the holders of approximately million shares of common stock will be entitled to registration rights with respect to the registrable securities. These rights are provided under the terms of the registrable securities and agreements between us and the holders of those securities. These agreements and the registrable securities provide demand registrations rights. In addition, pursuant to these agreements, the holders of the securities are entitled to require us to include their registrable securities in registration statements we file under the Securities Act of 1933. Registration of shares of common stock pursuant to the exercise of registration rights under the Securities Act would result in those shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of such registration.

RIGHTS AGREEMENT

We have in place two rights agreements by and among us and several of our preferred stockholders which grant the stockholders rights to include their shares in a registration statement filed by us, including in connection with this offering. The underwriter participating may limit the number of shares offered by the stockholders Among other things, the rights agreements provide that in connection with some issuances of securities each holder who is a party to the rights agreement may purchase an amount of such securities and on substantially the same terms and conditions as the issuance as determined by a formula intended to ensure that those holders can maintain their proportional interest in us on a fully diluted basis.

PROVISIONS OF OUR ARTICLES OF INCORPORATION AND BY-LAWS WHICH MAY HAVE AN ANTI-TAKEOVER EFFECT

A number of provisions of our articles of incorporation and by-laws which will be effective upon completion of this offering concern matters of corporate governance and the rights of shareholders. These provisions, as well as the ability of our board of directors to issue shares of preferred stock and/or to set the voting rights, preferences and other terms, may be deemed to have an anti-takeover effect and may discourage takeover attempts not first approved by our board of directors, including takeovers which shareholders may deem to be in their best interests. If takeover attempts are discouraged, temporary fluctuations in the market price of our common stock, which may result from actual or rumored takeover attempts, may be inhibited. These provisions, together with our classified board of directors and the ability of our board of directors to issue preferred stock without further shareholder action, also could delay or frustrate the removal of incumbent directors or the assumption of control by shareholders, even if the removal or assumption would be beneficial to our shareholders. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even if favorable to the interests of shareholders, and could depress the market price of our common stock. Our board of directors believes that these provisions are appropriate to protect out interests and of our shareholders. Our board of directors has no present plans to adopt any further measures or devices which may be deemed to have an "anti-takeover effect."

TRADING ON THE NASDAQ NATIONAL MARKET SYSTEM

We have applied to have our common stock approved for quotation on the Nasdaq under the symbol "WATS".

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock will be .

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of common stock in the public market following the offering could adversely affect the market price of the common stock and adversely affect our ability to raise capital at a time and on terms favorable to us.

Of the shares to be outstanding after the offering, the shares of common stock offered by us and approximately additional shares of common stock will be freely tradeable without restriction in the public market unless such shares are held by "affiliates," as that term is defined in Rule 144(a) under the Securities Act. For purposes of Rule 144, an "affiliate" of an issuer is a person that, directly or indirectly through one or more intermediaries, controls, or is controlled by or is under common control with, such issuer. The remaining shares of common stock to be outstanding after the offering are "restricted securities" under the Securities Act and may be sold in the public market upon the expiration of specified holding periods under Rule 144, subject to the volume, manner of sale and other limitations of Rule 144.

In addition, as of February 29, 2000, there were outstanding warrants to purchase 15,716,288 shares of common and preferred stock, and options issued and outstanding to purchase 8,550,455 shares of common stock. An additional 2,204,714 shares were reserved for issuance under our option plans. We intend to register the shares of common stock issued or reserved for issuance under our option plans or separate option agreements as soon as practicable following the date of this prospectus.

Holders of approximately 91.8 million shares of common stock are entitled to registration rights with respect to such shares for resale under the Securities Act. If such holders, by exercising their registration rights, cause a large number of shares to be registered and sold in the public market, these sales could have an adverse effect on the market price for the common stock.

LOCK-UP ARRANGEMENTS

Our executive officers and directors and certain other shareholders have agreed not to sell or otherwise dispose of any shares of common stock for a period of 180 days after the date of this prospectus without the prior written consent of Goldman, Sachs & Co. We have agreed not to sell or otherwise dispose of any shares of our common stock for a period of 180 days after the date of this prospectus. See "Underwriting".

VALIDITY OF COMMON STOCK

The validity of the shares of common stock offered hereby will be passed upon for us by Latham & Watkins, Los Angeles, California and for the underwriters by Sullivan & Cromwell, New York, New York.

EXPERTS

Deloitte & Touche LLP, independent auditors, have audited our financial statement and financial statement schedule at December 31, 1998 and 1999, and for each of the two years in the period ended December 31, 1999, as set forth in their reports. We have included our financial statements and financial statement schedules in the prospectus and elsewhere in the registration statement in reliance on Deloitte & Touche LLP's reports, given on their authority as experts in accounting and auditing. Ernst & Young LLP, independent auditors, have audited our financial statements and financial statement schedule at December 31, 1997, and for the year ended December 31, 1997, as set forth in their report (which contain an explanatory paragraph describing conditions that raise substantial doubt about our ability to continue as a going concern as described in Note 1 to those financial statements). We have included our financial statements and financial statement schedules in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

CHANGE OF AUDITORS

In August 1998, the Board of Directors elected to change our independent auditors, from Ernst & Young, LLP, to Deloitte & Touche LLP. In connection with Ernst & Young LLP's audit of the financial statements for the years ended December 31, 1995, 1996 and 1997, and in connection with the subsequent period up to August 1998, there were no disagreements with Ernst & Young LLP on any matters of accounting principles or practices, financial statements disclosure or auditing scope or procedures, nor any reportable events. Ernst & Young LLP's report on our financial statements for the years ended December 31, 1995, 1996 and 1997 contained no adverse opinion or disclaimer of opinion and was not modified or qualified as to uncertainty, audit scope or accounting principles except for a going concern emphasis paragraph for each of the three years. The decision to change auditors was approved by our board of directors. We have provided Ernst & Young LLP with a copy of the disclosure contained in this section of the prospectus.

UNDERWRITING

Capstone and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to conditions, each

underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Morgan Stanley & Co. Incorporated are the representatives of the underwriters.

<TABLE>
<CAPTION>

Underwriters	Number of Shares
<S>	<C>
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Morgan Stanley & Co. Incorporated	
Total.....	

</TABLE>

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional [ ] shares from Capstone to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by Capstone. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

<TABLE>
<CAPTION>

	Paid by Capstone	
	No Exercise	Full Exercise
<S>	<C>	<C>
Per Share.....	$	$
Total.....	$	$

</TABLE>

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial offering price. If all the shares are not sold at the initial offering price, the representatives may change the offering price and the other selling terms.

Capstone, its directors, officers and persons owning its common stock have agreed with the underwriters not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives. This agreement does not apply to gifts or transfers to affiliates or transactions under any existing employee benefit plans. See "Shares Eligible for Future Sale" for a discussion of various transfer restrictions.

Prior to this offering, there has been no public market for the shares. The initial public offering price will be negotiated among Capstone and the representatives. Among the facts to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be our historical performance, estimates of the business potential and earnings prospects of Capstone, an assessment of our management and the consideration of the above factors in relation to market valuation of companies in related businesses.

At Capstone's request, the underwriters have reserved up to shares of the common stock offered hereby for sale, at the initial public offering price, to employees, customers and

other friends of Capstone through a directed share program. The number of shares available for sale to the general public will be reduced to the extent these persons purchase the reserved shares. We cannot assure you that any of the reserved shares will be so purchased. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as other shares offered hereby.

Capstone will apply to have the common stock included for quotation on the Nasdaq National Market under the symbol of "WATS".

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by

short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

The underwriters do not expect sales discretionary accounts to exceed 5% of the total number of shares offered.

Capstone estimates that its share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $.

Capstone has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 (including the exhibits and schedules thereto) under the Securities Act and the rules and regulations thereunder, for the registration of the common stock offered hereby. This prospectus is part of the registration statement. This prospectus does not contain all the information included in the registration statement because we have omitted parts of the registration statement as permitted by the Securities and Exchange Commission's rules and regulations. For further information about us and our common stock, you should refer to the registration statement. Statements contained in this prospectus as to any contract, agreement or other document referred to are not necessarily complete. Where the contract or other document is an exhibit to the registration statement, each statement is qualified by the provisions of that exhibit.

You can inspect and copy all or any portion of the registration statements or any reports, statements or other information we file at the public reference facility maintained by the Securities and Exchange Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may call the Securities and Exchange Commission at 1-800-SEC-0330 for further information about the operation of the public reference rooms. Copies of all or any portion of the registration statement can be obtained from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, the registration statement is publicly available through the Securities and Exchange Commission's site on the Internet's World Wide Web, located at http://www.sec.gov.

We will also file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You can also request copies of these documents, for a copying fee, by writing to the Securities and Exchange Commission. We intend to furnish to our stockholders annual reports containing audited financial statements for each fiscal year.

CAPSTONE TURBINE CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Capstone Turbine Corporation:

We have audited the accompanying balance sheets of Capstone Turbine Corporation (the "Company") as of December 31, 1998 and 1999, and the related statements of operations, stockholders' deficiency, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Capstone Turbine Corporation as of December 31, 1998 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
March 20, 2000

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Capstone Turbine Corporation

We have audited the accompanying statement of operations, stockholders' equity, and cash flows for the year ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of Capstone Turbine Corporation's operations and cash flows for the year ended December 31, 1997, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Capstone Turbine Corporation will continue as a going concern. As more fully described in Note 1, the Company has incurred significant operating losses and continues to need to raise additional funding. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ ERNST & YOUNG LLP

Woodland Hills, California
April 3, 1998

CAPSTONE TURBINE CORPORATION

BALANCE SHEETS
DECEMBER 31, 1998 AND 1999

<TABLE>
<CAPTION>

	1998	1999	PRO FORMA (UNAUDITED) (NOTE 12)
<S>	*<C>*	*<C>*	*<C>*
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 2).....	*$ 4,943,000*	*$ 6,858,000*	

Accounts receivable, net of allowance for doubtful accounts of $3,000 in 1998 and $50,000 in 1999	79,000	2,425,000	
Accounts receivable from related parties (Note 10)	17,000		
Inventory (Note 3)	8,703,000	8,803,000	
Prepaid expenses	808,000	2,217,000	
Total current assets	14,550,000	20,303,000	
Equipment and Leasehold Improvements (Notes 2 and 7):			
Machinery, equipment, and furniture	8,938,000	11,824,000	
Leasehold improvements	182,000	137,000	
Molds and tooling	397,000	541,000	
	9,517,000	12,502,000	
Less accumulated depreciation and amortization	2,706,000	4,570,000	
Total equipment and leasehold improvements	6,811,000	7,932,000	
Deposits on Fixed Assets (Note 7)	4,340,000	3,374,000	
Other Assets	69,000	422,000	
Intangible Assets, Net (Note 10)		4,896,000	
Total	$ 25,770,000	$ 36,927,000	
LIABILITIES AND STOCKHOLDERS' (DEFICIENCY) EQUITY			
Current Liabilities:			
Accounts payable	$ 1,230,000	$ 1,728,000	
Accrued salaries and wages	520,000	677,000	
Other accrued liabilities	3,957,000	2,340,000	
Accrued warranty reserve	873,000	3,168,000	
Deferred revenue (Notes 2 and 10)		4,696,000	
Current portion of capital lease obligations (Note 7)	1,051,000	1,400,000	
Total current liabilities	7,631,000	14,009,000	
Long-Term Portion of Capital Lease Obligations (Note 7)	3,398,000	4,499,000	
Accrued Dividends Payable (Note 5)	4,268,000	6,175,000	--
Commitments and Contingencies (Note 7)			
Redeemable Preferred Stock, 80,000,000 Shares Authorized (Notes 5 and 11):			
Series A preferred stock, $.001 par value; 6,570,000 shares issued and outstanding (involuntary liquidation preference of $6,570,000, net of unamortized accretion of origination fees of $49,000 and $37,000) at December 31, 1998 and 1999, respectively; no shares issued or outstanding pro forma (unaudited)	6,521,000	15,183,000	--
Series B preferred stock, $.001 par value; 3,333,334 shares issued and outstanding (involuntary liquidation preference of $5,000,000, net of unamortized accretion of origination fees of $44,000 and $34,000) at December 31, 1998 and 1999, respectively; no shares issued or outstanding pro forma (unaudited)	4,956,000	8,928,000	--
Series C preferred stock, $.001 par value; 7,655,018 shares issued and outstanding (involuntary liquidation preference of $15,310,000, net of unamortized accretion of origination fees of $341,000 and $266,000) at December 31, 1998 and 1999, respectively; no shares issued or outstanding pro forma (unaudited)	14,969,000	23,324,000	--
Series D preferred stock, $.001 par value; 3,125,000 shares issued and outstanding (involuntary liquidation preference of $12,500,000, net of unamortized accretion of origination fees of $18,000 and $14,000) at December 31, 1998 and 1999, respectively; no shares issued or outstanding pro forma (unaudited)	12,482,000	14,313,000	--
Series E preferred stock, $.001 par value; 10,664,111 shares issued and outstanding (involuntary liquidation preference of $63,985,000, net of unamortized accretion of origination fees of $1,283,000 and $995,000) at December 31, 1998 and 1999, respectively; no shares issued or outstanding pro forma (unaudited)	62,696,000	62,984,000	--
Series F preferred stock, $.001 par value; 11,129,246 shares issued and outstanding (involuntary liquidation preference of $22,258,000, net of unamortized accretion of origination fees of $2,697,000) at December 31, 1999; no shares issued or outstanding pro forma (unaudited)	--	20,903,000	--
Promissory notes associated with Series G preferred stock	--	10,834,000	$ 10,834,000
Total redeemable preferred stock	101,624,000	156,469,000	10,834,000
Stockholders' (Deficiency) Equity (Notes 5, 6, and 11):			
Common stock, $.001 par value; 135,000,000 shares authorized; 3,618,776 and 3,963,044 shares (57,002,260 shares pro forma) issued and outstanding at December 31, 1998 and 1999, respectively	4,000	4,000	57,000
Additional paid-in capital			151,757,000
Accumulated deficit	(91,155,000)	(144,229,000)	(144,229,000)

Total stockholders' (deficiency) equity.....	(91,151,000)	(144,225,000)	7,585,000
Total.....	$ 25,770,000	$ 36,927,000	$ 36,927,000

</TABLE>

See accompanying notes to financial statements.

CAPSTONE TURBINE CORPORATION

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

<TABLE>
<CAPTION>

	1997	1998	1999
<S>	<C>	<C>	<C>
Revenues (Notes 2 and 10):			
Product revenue.....	$ 1,510,000	$ 76,000	$ 6,694,000
Contract revenue.....	113,000	8,000	--
Total revenues.....	1,623,000	84,000	6,694,000
Cost of Goods Sold (Note 3).....	8,147,000	5,335,000	15,629,000
Gross Profit (Loss).....	(6,524,000)	(5,251,000)	(8,935,000)
Operating Costs and Expenses:			
Research and development.....	13,281,000	19,019,000	9,151,000
Selling, general, and administrative.....	10,946,000	10,257,000	11,191,000
Total operating costs and expenses.....	24,227,000	29,276,000	20,342,000
Interest Income.....	873,000	1,437,000	452,000
Interest Expense.....	(168,000)	(309,000)	(721,000)
Other (Expense)/Income.....	(506,000)	327,000	17,000
Profit (Loss) Before Income Taxes.....	(30,552,000)	(33,072,000)	(29,529,000)
Provision for Income Taxes (Note 4).....	1,000	1,000	1,000
Net Income (Loss).....	(30,553,000)	(33,073,000)	(29,530,000)
Preferred Stock Dividends and Accretion.....	(1,419,000)	(2,096,000)	(26,700,000)
Net Loss Attributable to Common Stockholders...	$(31,972,000)	$(35,169,000)	$(56,230,000)
Weighted Average Common Shares Outstanding.....	2,831,994	3,300,796	3,820,403
Net Loss Per Share of Common Stock -- Basic and Diluted.....	$ (11.29)	$ (10.65)	$ (14.72)
Weighted Average Shares Outstanding -- Pro Forma (Unaudited) (Note 12).....			56,859,619
Pro Forma Loss Per Share -- Basic and Diluted (Unaudited) (Note 12).....			$ (0.52)

</TABLE>

See accompanying notes to financial statements.

CAPSTONE TURBINE CORPORATION

STATEMENT OF STOCKHOLDERS' DEFICIENCY
YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL		
	SHARES OUTSTANDING	AMOUNT	PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1997.....	2,588,732	$3,000	$	$ (24,179,000)	$ (24,176,000)
Issuance of common stock.....	73,899		41,000		41,000
Exercise of stock options and warrants.....	395,127		50,000		50,000
Accretion of preferred stock...			(91,000)	(115,000)	(206,000)
Dividends accrued for Series A preferred stock.....				(297,000)	(297,000)
Dividends accrued for Series B preferred stock.....				(143,000)	(143,000)
Dividends accrued for Series C preferred stock.....				(302,000)	(302,000)
Dividends accrued for Series D preferred stock.....				(209,000)	(209,000)
Dividends accrued for Series E preferred stock.....				(262,000)	(262,000)

Net loss				(30,553,000)	(30,553,000)
Balance, December 31, 1997	3,057,758	3,000	--	(56,060,000)	(56,057,000)
Exchange of common stock (Note 5)	(304,399)		(70,000)		(70,000)
Exercise of stock options	865,417	1,000	144,000		145,000
Accretion of preferred stock			(74,000)	(296,000)	(370,000)
Dividends accrued for Series A preferred stock				(329,000)	(329,000)
Dividends accrued for Series B preferred stock				(157,000)	(157,000)
Dividends accrued for Series C preferred stock				(333,000)	(333,000)
Dividends accrued for Series D preferred stock				(231,000)	(231,000)
Dividends accrued for Series E preferred stock				(676,000)	(676,000)
Net loss				(33,073,000)	(33,073,000)
Balance, December 31, 1998	3,618,776	4,000	--	(91,155,000)	(91,151,000)
Common stock warrants granted (Note 5)			2,969,000		2,969,000
Common stock options granted (Note 6)			135,000		135,000
Exercise of stock options and warrants	344,268		53,000		53,000
Accretion of preferred stock			(3,157,000)	(21,637,000)	(24,794,000)
Dividends accrued for Series A preferred stock				(363,000)	(363,000)
Dividends accrued for Series B preferred stock				(174,000)	(174,000)
Dividends accrued for Series C preferred stock				(368,000)	(368,000)
Dividends accrued for Series D preferred stock				(255,000)	(255,000)
Dividends accrued for Series E preferred stock				(747,000)	(747,000)
Net loss				(29,530,000)	(29,530,000)
Balance, December 31, 1999	3,963,044	$4,000	$ --	$(144,229,000)	$(144,225,000)

</TABLE>

See accompanying notes to financial statements.

CAPSTONE TURBINE CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

<TABLE>
<CAPTION>

	1997	1998	1999
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(30,553,000)	$(33,073,000)	$(29,530,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	944,000	1,660,000	2,356,000
Provision for inventory reserve	3,918,000	681,000	1,120,000
Inventory writedown to net realizable value		4,225,000	
Loss on sale of equipment	150,000	30,000	239,000
Non-employee stock compensation	41,000	1,050,000	80,000
Employee stock compensation			131,000
Changes in operating assets and liabilities:			
Accounts receivable	233,000	51,000	(2,329,000)
Prepaid expenses and other assets	(864,000)	360,000	(1,328,000)
Inventory	(5,638,000)	(9,318,000)	(1,220,000)
Accounts payable	3,952,000	(3,856,000)	497,000
Accrued salaries and wages	206,000	106,000	157,000
Other accrued liabilities	2,178,000	1,930,000	(1,617,000)
Accrued warranty reserve	424,000	(55,000)	2,295,000
Deferred revenue	(707,000)	(30,000)	4,696,000
Net cash used in operating activities	(25,716,000)	(36,239,000)	(24,453,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of equipment and leasehold improvements	(3,524,000)	(4,016,000)	(2,449,000)
Proceeds from sale of equipment	1,183,000	3,140,000	2,338,000
Deposits on fixed assets	(2,207,000)	(2,133,000)	(78,000)
Intangible assets			(5,000,000)
Net cash used in investing activities	(4,548,000)	(3,009,000)	(5,189,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of capital lease obligations	(226,000)	(517,000)	(1,119,000)

Exercise of stock options	50,000	145,000	41,000
Exercise of warrants			12,000
Net proceeds from issuance of Series D preferred stock	12,475,000		
Net proceeds from issuance of Series E preferred stock	61,064,000		
Net proceeds from issuance of Series F preferred stock			21,789,000
Proceeds from promissory notes associated with Series G preferred stock			10,834,000
Net cash provided by (used in) financing activities	73,363,000	(372,000)	31,557,000
Net Increase (Decrease) in Cash and Cash Equivalents	43,099,000	(39,620,000)	1,915,000
Cash and Cash Equivalents, Beginning of Year	1,464,000	44,563,000	4,943,000
Cash and Cash Equivalents, End of Year	$ 44,563,000	$ 4,943,000	$ 6,858,000
Supplemental Disclosures of Cash Flow Information --			
Cash paid during the year for:			
Interest	$ 168,000	$ 309,000	$ 630,000
Income taxes	$ 1,000	$ 1,000	$ 1,000

</TABLE>

See accompanying notes to financial statements.

CAPSTONE TURBINE CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

1. DESCRIPTION OF THE COMPANY

Capstone Turbine Corporation (the "Company") was formed to develop, manufacture, and market turbine generator sets for use in stationary, vehicular, and other electrical distributed generation applications. The Company was organized in 1988, but has only been commercially producing the turbine generator sets since 1998. Because the Company is in the early stages of selling the products with relatively few customers, the Company has had uneven order flow from period to period.

The Company has incurred significant operating losses since its inception. Management anticipates incurring additional losses until the Company can produce sufficient revenues to cover costs. There can be no assurance that the Company will achieve or sustain profitability or positive cash flow from its operations.

To date, the Company has funded its activities primarily through private equity offerings. The Company received proceeds of approximately $137,500,000 through the issuance of Series G preferred stock in a private placement which closed on February 24, 2000. The Company expects to obtain additional funding through private or public equity offerings until such time as it achieves positive cash flow from operations; however, there can be no assurance that such financing will be available on terms satisfactory to the Company or that positive operating cash flows will be achieved.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS -- The Company considers only those investments that are highly liquid, readily convertible to cash, and mature within three months from the date of purchase as cash equivalents.

DEPRECIATION AND AMORTIZATION -- Depreciation and amortization are provided using the straight-line method over estimated useful lives of the related assets, ranging from three to five years. Leasehold improvements are amortized over the period of the lease or the estimated useful life of the asset, whichever is shorter. Amortization of assets under capital leases is included with depreciation and amortization expense. Depreciation and amortization expense was $944,000, $1,660,000 and $2,356,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

PRODUCT AND CONTRACT REVENUES -- Product revenue is recognized upon shipment of the product to the customer. Contract revenue derived from research and development projects is recognized as revenues are earned. All research and development contracts are performed on a best-efforts basis.

WARRANTY POLICY -- Estimated future warranty obligations are provided for by charges to operations in the period in which the related revenue is recognized.

DEFERRED REVENUE -- Deferred revenue consists of customer deposits. Deferred revenue will be recognized upon shipment of the product to the customer.

ACCOUNTING FOR STOCK-BASED COMPENSATION -- Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," was effective for the Company beginning January 1, 1996. SFAS No. 123 requires expanded disclosures of stock-based compensation arrangements with

employees and encourages (but does not require) compensation cost to be measured based on the fair value of the equity instrument awarded. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models even though such models were developed to estimate the fair value of freely tradable and fully transferable options, without vesting restrictions, which significantly differ from the Company's stock

option awards. Companies are permitted, however, to continue to apply Accounting Principle Board Opinion ("APB Opinion") No. 25, "Accounting for Stock Issued to Employees," which recognizes compensation cost based on the intrinsic value of the equity instrument awarded. The Company has elected to continue to apply APB Opinion No. 25 in its employee stock-based compensation arrangements (see Note 6).

RISK CONCENTRATIONS -- Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. The Company places its cash equivalents with high credit quality institutions.

Two customers account for 31% and 22% of the Company's revenues for the year ended December 31, 1997. The Company had no other customers which represent 10% or more of its sales. The Company had sales to a single customer of $1,858,000 that represented approximately 28% of the Company's revenues for the year ended December 31, 1999. The Company has net accounts receivable from two customers of approximately $275,000 and $277,000, respectively, that each represented approximately 11% of total accounts receivable at December 31, 1999.

There is a sole source of recuperator cores, a key component, used in the Company's products. The Company is not aware of any other suppliers who would produce these cores to the Company's specifications and time requirements. Although the Company has a license agreement which would permit the production of the cores in-house in the event the vendor terminates production, the Company would not be able to assume production without significant delays and interruptions.

ESTIMATES AND ASSUMPTIONS -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NET LOSS PER COMMON SHARE -- Basic loss per common share is computed using the weighted-average number of common shares outstanding for the period. Diluted loss per common share reflects the potential dilution that could occur if securities were exercised or converted into common stock. The weighted-average number of common shares outstanding, was 2,831,994, 3,300,796 and 3,820,403 in 1997, 1998 and 1999, respectively. The impact of common stock options, outstanding preferred stock, warrants for preferred stock, and warrants for common stock have not been included for purposes of the computation of diluted earnings per share as their inclusion would have had an antidilutive effect on the per-share amounts for the periods presented; therefore, diluted loss per share is equal to basic loss per share. Antidilutive common stock options and warrants were 4,375,847, 5,696,107 and 23,838,570 in 1997, 1998 and 1999, respectively.

SUPPLEMENTAL CASH FLOW INFORMATION -- During 1997, 1998 and 1999, the Company financed machinery purchases of $1,230,000, $3,162,000 and $2,467,000, respectively, through capital lease obligations.

During 1998 and 1999, the Company issued approximately $1,534,000 and $76,000, respectively, of preferred stock for services rendered by several vendors, of which approximately $1,050,000 and $76,000 was expensed during 1998 and 1999, respectively, and approximately $484,000 was accrued at December 31, 1997. The expense was recorded at the fair value of services received.

During 1999, the Company granted 20,000 common stock options to a consultant. The fair value of these options was determined to be $37,000 of which $4,000 was recorded as expense in 1999. The remaining $33,000 will be recognized over the vesting period.

RECLASSIFICATIONS -- Certain reclassifications were made to the 1997 and 1998 financial statements in order to conform to the 1999 presentation.

SEGMENT REPORTING -- In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes additional standards for segment reporting in financial statements and is effective for fiscal years beginning after December 15, 1997. The Company currently operates in only one segment, and hence, separate segment reporting is not applicable.

NEW ACCOUNTING PRONOUNCEMENT -- In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instrument and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments. It requires the recognition of all derivatives as either assets or liabilities in the statement of position and measurement of the instruments at fair value. The Company is required to adopt SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133," on January 1, 2001 and is currently evaluating the impact on the financial statements.

3. INVENTORIES

Inventories are stated at the lower of standard cost (which approximates actual cost on the first-in, first-out method) or market. The amounts below are net of $2,537,000 and $3,243,000 of obsolescence reserves at December 31, 1998 and 1999, respectively.

<TABLE>
<CAPTION>

	1998	1999
<S>	<C>	<C>
Raw materials	$7,954,000	$7,579,000
Work in process	749,000	1,036,000
Finished goods		188,000
	$8,703,000	$8,803,000

</TABLE>

4. INCOME TAXES

Significant components of the Company's deferred income tax assets (liabilities) and related valuation allowance at December 31, 1998 and 1999 are as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1998	1999
<S>	<C>	<C>
Current deferred income tax assets:		
Inventory	$ 2,820,000	$ 1,389,000
Warranty reserve	374,000	1,356,000
Other	1,623,000	1,033,000
Current deferred income tax liabilities:		
State taxes	(2,733,000)	(3,968,000)
Other	(265,000)	(549,000)
Net current deferred income tax asset (liability)	1,819,000	(739,000)
Long-term deferred assets:		
Net operating loss carryforwards	32,704,000	43,656,000
Tax credit carryforwards	4,051,000	8,117,000
Net long-term deferred income tax asset	36,755,000	51,773,000
Valuation allowance	(38,574,000)	(51,034,000)
Total deferred income tax asset	$ --	$ --

</TABLE>

Due to the uncertainty surrounding the timing of realizing the benefits of its favorable tax attributes in future income tax returns, the Company has placed a valuation allowance against its otherwise recognizable deferred income tax assets.

The Company's net operating loss and tax credit carryforwards for federal and state income tax purposes at December 31, 1999 are as follows:

<TABLE>
<CAPTION>

		EXPIRATION PERIOD
<S>	<C>	<C>
Federal NOL	$105,742,000	2008 to 2019
State NOL	88,178,000	2000 to 2004
Federal tax credit carryforwards	4,750,000	2008 to 2014
State tax credit carryforwards	3,367,000	2008 to 2014

</TABLE>

The net operating losses and federal and state tax credits can be carried forward to offset future taxable income, if any. Utilization of the net operating losses and tax credits are subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions.

A reconciliation of income tax benefit to the federal statutory rate follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
<S>	<C>	<C>	<C>
Federal income tax at the statutory rate	$(10,388,000)	$(11,245,000)	$(10,040,000)
State taxes, net of federal benefit	(2,121,000)	(2,017,000)	(2,610,000)
Other	(1,411,000)	(3,277,000)	190,000
Valuation allowance	13,920,000	16,539,000	12,460,000
	$ --	$ --	$ --

</TABLE>

5. CAPITAL STRUCTURE

The preferred stock is convertible into common stock at each holder's option at any time after issuance. In the event of a public offering of the Company's equity securities in the amount of $30 million or greater and at a price no less than $8.00 per share, as adjusted, or an affirmative vote of the stockholders of each class of stock, all preferred stock will automatically be converted into common stock.

Preferred stock, in most circumstances, is convertible to common stock on a one-for-one basis. The conversion rates may change in the event of a stock split, combination or, if any additional shares are issued at less than an earlier preferred stock series original issue price. If additional shares are issued at a price less than earlier issuances, the conversion rate is increased for those series by a factor based upon the original number of shares, the new shares issued and the total amount of consideration received by the Company for the new shares. As a result of the Series F preferred stock issuance on May 31, 1999, Series B, C, D, and E preferred stock are now convertible at a factor of 1.17, 1.28, 1.50 and 1.59, respectively. The voting rights of the Series A, Series B, Series C, Series D, Series E and Series F preferred stock are equal to the number of shares of common stock into which such shares may be converted.

Preferred stock must be redeemed by the Company if it receives written certification on or before August 30, 2002 that no less than 75 percent of the preferred stockholders have elected in favor of redemption. The Series A, Series B, Series C, Series D, Series E and Series F preferred stock redemption price is equal to the greater of $1.00, $1.50, $2.00, $4.00, $6.00 and $2.00 per share, respectively, or the fair market value per share at the redemption date. In the event that the preferred stockholders elect in favor of redemption, the preferred stock will be redeemed in two equal installments on or about January 1, 2003 and January 1, 2004.

The Company is accreting the difference between the redemption value and the net proceeds received in each preferred stock offering under the effective interest method. During 1999, the fair value of Series A, B, C, D and F exceeded the stated value which resulted in additional accretion of $8,650,000, $3,962,000, $8,280,000, $1,827,000 and $1,342,000, respectively.

Each share of Series A, B, C, D, E and F preferred stock entitles the holder to receive dividends at an annual rate of $.10, $.15, $.20, $.40, $.60 and $.20 per share, respectively, at the discretion and declaration of the Board of Directors. Dividends are payable in cash unless conversion to common stock occurs prior to payment. Upon conversion, unpaid dividends shall be deemed waived by the holders of all preferred stock. Until April 1, 1998, July 30, 2000, July 30, 2001, December 31, 2001, August 30, 2002, and February 26, 2004, the rights to dividends upon the issued and outstanding shares of Series A, B, C, D, E and F preferred stock, respectively, is non-cumulative, unless and until

such dividends have been declared by the Board of Directors. After April 1, 1998, July 30, 2000, July 30, 2001, December 31, 2001, August 30, 2002, and

February 26, 2004, the rights to dividends at a minimum of the respective rates from that date become cumulative regardless of formal declaration from the Board of Directors for Series A, B, C, D, E and F, respectively.

The Company records the preferred stock dividend accrual under the effective interest method. The actual cash liability was $493,000 and $1,150,000 at December 31, 1998 and 1999, respectively. No dividends have been declared or paid as of December 31, 1999.

In 1999, the Company received $10,834,000 in exchange for promissory notes associated with the Series G preferred stock from various stockholders. These notes represent promissory notes to the respective stockholders and bear interest from the deposit date until stock issuance at 5.54%. Interest expense associated with these notes was $90,000 for the year ended December 31, 1999 all of which is payable on the stock issuance date.

During 1998, the Company issued 170,000 shares of Series A, 53,407 shares of Series B and 80,992 shares of Series E preferred stock to various common stockholders in a one-for-one exchange for common stock.

In the event of liquidation, dissolution, or winding up the Company, the preferred stockholders, on a pro rata basis, shall be entitled to receive assets available for distribution, prior to any distribution to common stockholders.

The following table summarizes the Company's common and preferred stock warrants outstanding as of December 31, 1998 and 1999:

<TABLE>
<CAPTION>

	1998			1999		
	NUMBER OF SHARES ISSUABLE	EXERCISE PRICE	EXPIRATION DATE	NUMBER OF SHARES ISSUABLE	EXERCISE PRICE	EXPIRATION DATE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Common stock warrants.....	122,022	$0.10	July 31, 1999	13,994,374	$0.20	February 26, 2006
				150,000	0.30	August 30, 2006
				67,676	3.00	October 31, 2006
				14,212,050		
Preferred stock warrants:						
Class A.....	92,000	$1.00	December 5, 2003	92,000	$1.00	December 5, 2003
Class C.....	30,303	3.30	July 31, 2001	30,303	3.30	July 31, 2001
Class C.....	1,020,322	2.00	February 28, 2003	1,020,322	2.00	February 28, 2003
	1,142,625			1,142,625		

</TABLE>

In 1999, the Company granted 14,487,050 common stock warrants. 13,994,374 warrants were issued to Series F preferred stock stockholders. The fair value on the date of grant was approximately $2,645,000 which was recorded as additional paid-in capital. 150,000 common stock warrants were granted to two stockholders relating to the Series G financing. The fair value on the date of grant was approximately $263,000 which was recorded as additional paid-in capital. 67,676 common stock warrants were granted to a lessor. The fair value on the date of grant was approximately $61,000 which was recorded as a prepaid asset and additional paid-in capital (see Note 10). The prepaid asset is being amortized as rent expense over the related lease term. The Company also granted 275,000 warrants to two stockholders relating to the Series G financing. The fair value of $483,000 was recorded as a liability at December 31, 1999, upon issuance in January 2000 the fair value was recorded as additional paid-in capital. These common stock warrants expire on August 31, 2006.

6. STOCK OPTION PLANS

The Company has an Incentive Stock Option Plan, which provides for the granting of options for the purchase of up to 13,000,000 shares of the Company's common stock. Under terms of the plan, options may be granted to employees, non-employee directors and consultants. Options principally vest over periods up to four years from the date of grant and generally expire ten years from such grant.

Prior to 1999, the Company issued common stock options at exercise prices equal to, or greater than, the fair value of its common stock. Accordingly, no stock-based compensation was recorded for those periods.

During 1999, the Company issued common stock options at less than the fair value of its common stock. Accordingly, the Company recorded stock-based

compensation of $131,000 to expense in 1999. This 1999 expense was included in cost of goods sold, research and development and selling, general and administrative expenses in the amount of $2,000, $24,000 and $105,000, respectively. At December 31, 1999, the Company had $977,000 in deferred stock compensation related to such options which will be recognized as stock-based compensation expense through 2003.

Information relating to the outstanding stock options is as follows:

<TABLE>
<CAPTION>

	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>
Outstanding at January 1, 1997	2,942,538	0.16
Granted	801,500	0.56
Exercised	(395,127)	0.13
Canceled	(237,711)	0.21
Outstanding at December 31, 1997	3,111,200	0.26
Granted	2,673,500	0.79
Exercised	(865,417)	0.17
Canceled	(487,823)	0.33
Outstanding at December 31, 1998	4,431,460	0.59
Granted	4,921,200	0.22
Exercised	(222,246)	0.18
Canceled	(646,519)	0.61
Outstanding at December 31, 1999	8,483,895	0.38

</TABLE>

Additional information regarding options outstanding at December 31, 1999, is as follows:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE
EXERCISE PRICES	NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 1999	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)		EXERCISABLE AT DECEMBER 31, 1999
<S>	<C>	<C>		<C>
$0.10	47,970	4.7		47,970
0.15	265,003	5.8		259,071
0.20	5,142,669	9.1		959,057
0.30	106,500	9.8		
0.40	142,000	7.3		92,156
0.60	2,285,353	8.2		1,196,506
1.50	494,400	8.8		132,895
	8,483,895	8.7		2,687,655

</TABLE>

As of December 31, 1999, 2,687,655 shares were exercisable and 2,747,662 shares were available for future grant.

If the Company recognized employee stock option-related compensation expense in accordance with SFAS No. 123 and used the minimum value method for determining the fair value of options granted after December 31, 1994, its net loss attributable to common stockholders and net loss per share -- basic and diluted would have been $32,026,000 and $11.31, respectively, for the year ended December 31, 1997, $35,370,000 and $10.72, respectively, for the year ended December 31, 1998 and $56,739,000 and $14.85, respectively, for the year ended December 31, 1999.

In computing the impact of SFAS No. 123, the weighted-average fair value of $.16, $.22 and $.27 for 1997, 1998 and 1999 stock option grants, respectively, was estimated at the dates of grant using the minimum value model with the following assumptions for 1997, 1998 and 1999: risk-free interest rate of approximately 6.0, 5.3 and 5.4 percent, and no assumed dividend yield. The weighted average expected life of the options was 6, 6, and 4 years for 1997, 1998 and 1999, respectively.

For purposes of determining the SFAS No. 123 pro forma compensation expense, the weighted-average fair value of the options is amortized over the vesting period.

7. COMMITMENTS AND CONTINGENCIES

At December 31, 1998 and 1999, respectively, the Company had equipment under capital leases with a cost of $5,235,000 and $7,703,000 and accumulated amortization of $969,000 and $2,276,000, respectively. The lease terms range from three to five years. The deferred gain on sale-leaseback capital lease obligations was $167,000 and $122,000 as of December 31, 1998 and 1999, respectively, which is being recognized as an offset to amortization expense over the useful life of the asset. The capital lease obligations are collateralized by the related assets.

The Company leases office, manufacturing and warehouse space under various non-cancelable operating leases. Rent expense related to these leases amounted to approximately $347,000, $819,000 and $954,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

At December 31, 1999, the Company's commitments under noncancelable operating and capital leases were as follows:

<TABLE>
<CAPTION>

	1999	
YEAR ENDING DECEMBER 31:	OPERATING LEASES	CAPITAL LEASES
<S>	<C>	<C>
2000	$ 755,000	$2,098,000
2001	723,000	1,880,000
2002	756,000	1,477,000
2003	772,000	1,445,000
2004	794,000	595,000
Thereafter	4,578,000	--
Total minimum lease payments	$8,378,000	7,495,000
Less amount representing interest		1,596,000
Net present value		5,899,000
Less current portion		1,400,000
Long-term portion		$4,499,000

</TABLE>

At December 31, 1998 and 1999, the Company has approximately $134 million and $132 million, respectively, of commitments under a long-term purchase agreement for components and subassembly units which expires on August 25, 2007. The Company also has $4,340,000 and $3,374,000 of deposits with several companies for machinery and tooling for future production in the normal course of business, respectively. The Company is committed to purchase approximately $2 million of the components and subassembly units in 2000.

The Company has a $1 million standby letter of credit which serves as a guarantee for one of the purchase commitments. This letter of credit expires on March 31, 2000.

A stockholder of the Company alleges damages as a result of alleged representations made by the Company and some of the Company's present and former officers in connection with the Series E Preferred Stock offering in 1997. In the opinion of management, it is not possible to determine what effect, if any, the ultimate resolution of this case will have on the Company's financial statements.

The Company is involved in various other legal proceedings, claims, and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such legal proceedings, claims, and litigation will not have a material adverse affect the Company's financial statements.

8. EQUIPMENT LEASE LINE

During 1997, the Company entered into an equipment lease line agreement with a leasing institution that provides for sale-leaseback transactions up to a cumulative maximum of $20,000,000. The equipment lease line was renewed during 1999 for one year and provides for sale-leaseback transactions up to a maximum of $10,000,000. Under this revised agreement, $4,394,000 was available for future financing transactions at December 31, 1999.

9. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution 401(k) profit-sharing plan in which all employees are eligible to participate. Employees may contribute up to 15 percent of their eligible compensation.

Employees are fully vested in their contributions to the plan. The plan also provides for both Company matching and discretionary contributions, which are to be determined by the Board of Directors. No Company contributions have been made to the plan since its inception.

10. RELATED PARTY TRANSACTIONS

During 1997, an affiliated company ceased operations. The Company purchased equipment and improvements in the amount of $590,000 from the affiliated company. Additionally, the Company assumed leases for certain facilities previously occupied by the affiliated company.

During 1997 and 1998, the Company was reimbursed $137,000 and $39,000, respectively, by a related company, for the use of the Company's office facility as well as for other expenses, and had a $17,000 receivable from that Company for these expenses as of December 31, 1998.

In 1999, the Company entered into non-exclusive marketing agreements with two distributors. These agreements include product purchase and equity investment commitments in Series G preferred stock on behalf of the distributors. Sales to these distributors were $1 million in 1999 and deferred revenue amounted to approximately $4.2 million as of December 31, 1999. Promissory notes related to Series G preferred stock from these distributors amounted to $6.2 million as of December 31, 1999.

In conjunction with the Series B preferred stock issuance in 1995 a shareholder acquired the exclusive marketing rights for certain territories. In 1999, the Company reacquired these marketing rights. As part of the agreement the Company paid $5 million which was capitalized as an intangible asset and is being amortized over the agreement term (6 years). Accumulated amortization was $104,000 as of December 31, 1999. Additionally, the Company is obligated to pay a royalty on future sales in the territory for the six-year period. The agreement stipulates additional stock consideration of $5 million which is contingent upon future stock issuances. The criteria for payment of the stock consideration were not met as of December 31, 1999. In January 2000, the Company paid an additional $4 million in cash. On February 24, 2000, the Company issued 1,250,000 shares of the Series G preferred stock for no further consideration in fulfillment of the stock issuance obligation (See Note 11). Sales made to this stockholder and an affiliate were $247,000 in 1999.

The Company has existing warrants with a lessor to purchase 30,303 shares of Series C preferred stock at a per share price equal to $3.30 per share which were issued in 1996.

During 1999, the Company granted a lessor 67,676 common stock warrants. The fair value on the date of grant was approximately $61,000 which was recorded as additional paid-in capital. Additional shares may be purchased by the lessor upon the Company obtaining additional financing under the Equipment lease line agreement. The lessor can exercise the warrants for no consideration and receive in exchange the number of common stock shares which represent the difference between the fair market value on the date exercised and the exercise price.

Certain vendors of the Company are also stockholders to which payments of $1,417,000, $4,587,000 and $3,370,000 were made during 1997, 1998 and 1999, respectively. The accounts payable to stockholders was $290,000 and $189,000 as of December 31, 1998 and 1999, respectively. Capital lease obligations to stockholders were $4,423,000 and $5,633,000 as of December 31, 1998 and 1999, respectively.

11. SUBSEQUENT EVENT

On February 24, 2000, the Company closed the Series G preferred stock issuance for $4.00 per share in a private placement. Proceeds to the Company approximated $137,500,000. 35,683,979 shares of Series G were issued which includes 1,250,000 shares issued to an existing stockholder for no consideration (see Note 10) and 58,979 shares issued to holders of promissory notes for accrued interest. A beneficial conversion feature, if appropriate, will be determined based upon the difference between the Series G preferred stock price and the fair value of the common stock into which the preferred stock is convertible. This amount will be accounted for as an increase in additional paid-in capital and an insubstance dividend to the preferred stockholders in the first quarter of 2000 and accordingly will increase the loss applicable to common stockholders.

The Company is committed to issue 1,232,628 common stock warrants at a per share exercise price of $0.40 to a vendor for services rendered in conjunction with the Series G preferred stock offering. The fair value of these warrants

will be recorded as origination fees at the time of issuance.

12. PRO FORMA INFORMATION

PRO FORMA BALANCE SHEET INFORMATION (UNAUDITED) -- The Board of Directors authorized the Company to file a registration statement with the Securities and Exchange Commission permitting the Company to sell shares of common stock in an initial public offering ("IPO"). If the IPO is consummated, all shares of Series A, Series B, Series C, Series D, Series E and Series F preferred stock will automatically convert into shares of common stock at the conversion rates as discussed in Note 5. The unaudited pro forma balance sheet information reflects the conversion of the preferred stock as though it occurred as of December 31, 1999.

PRO FORMA NET LOSS PER SHARE (UNAUDITED) -- The following table sets forth, the computation of the unaudited pro forma basic and diluted loss per share for the year ended December 31, 1999, assuming the conversion of the Series A, B, C, D, E and F preferred stock into shares of the Company's common stock effective upon the closing of the Company's IPO as if the conversion occurred at the date of issuance.

<TABLE>

<S>	<C>
Numerator --	
Net loss available to common stockholders	$(29,530,000)
Denominator:	
Weighted average common shares outstanding	3,820,403
Conversion of Series A preferred stock	6,570,000
Conversion of Series B preferred stock	3,911,445
Conversion of Series C preferred stock	9,834,930
Conversion of Series D preferred stock	4,681,647
Conversion of Series E preferred stock	16,911,948
Conversion of Series F preferred stock	11,129,246
Shares used in pro forma calculation	56,859,619
Pro forma basic and diluted loss per share	$ (0.52)

</TABLE>

* * * * * *

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its dates.

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Through and including , 2000 (the 25th day after the date of

this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

- ----------
- ----------
- ----------
- ----------

Shares

CAPSTONE TURBINE CORPORATION

Common Stock

[LOGO]

GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO.

MORGAN STANLEY DEAN WITTER

Representatives of the Underwriters

- ----------
- ----------

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the estimated expenses payable by us in connection with the offering (excluding underwriting discounts and commissions):

<TABLE>
<CAPTION>

NATURE OF EXPENSE	AMOUNT
<S>	<C>
SEC Registration Fee	$ 30,360
NASD Filing Fee	12,000
Nasdaq National Market Listing Fee	
Accounting Fees and Expenses	
Legal Fees and Expenses	
Printing Expenses	
Blue Sky Qualification Fees and Expenses	
Transfer Agent's Fee	
Miscellaneous	
Total	$

</TABLE>

The amounts set forth above, except for the Securities and Exchange Commission and National Association of Securities Dealers, Inc. fees, are in each case estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law allows for the indemnification of officers, directors and any corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Our certificate of incorporation and our bylaws provide for indemnification of our directors, officers, employees and other agents to the extent permitted by the Delaware General Corporation Law. We have also entered into agreements with our directors and executive officers that require Capstone among other things to indemnify them against certain liabilities that may arise by reason of their status or service as directors and officers liability insurance, which provides coverage against certain liabilities including liabilities under the Securities Act.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

(a) Issuances of Shares of Preferred Stock and Preferred Stock Warrants

On January 17, 1997, Capstone issued and sold 3,125,000 shares of its Series D Preferred Stock to eighteen accredited investors for an aggregate purchase price equal to $12,500,000. This issuance was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act or Regulation D promulgated thereunder as a sale by an issuer not involving a public offering.

On August 22, 1997 and November 21, 1997, Capstone issued and sold 5,865,814 and 4,587,331 shares of its Series E Preferred Stock, respectively to seventy-four accredited investors for an aggregate purchase price equal to $63,979,000. This issuance was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act or Regulation D promulgated thereunder as a sale by an issuer not involving a public offering.

On May 31, 1999 and September 2, 1999, Capstone issued and sold convertible promissory notes in the aggregate principal amount of $22,190,992 that were converted into 11,095,496 shares of Series F preferred stock to sixty-six accredited investors. This issuance was deemed to be exempt

from registration under the Securities Act in reliance on Section 4(2) of the Securities Act or Regulation D promulgated thereunder as a sale by an issuer not involving a public offering.

On February 24, 2000 Capstone issued and sold 35,683,979 shares of its Series G Preferred Stock to 140 accredited investors for an aggregate purchase price equal to $137,500,000. This issuance was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act or Regulation D promulgated thereunder as a sale by an issuer not involving a public offering.

(b) Issuances of Common Stock and Common Stock Warrants

Between September 14, 1988 and March 1, 2000, Capstone issued 5,884,431 shares of its common stock, of which 1,567,022 shares were issued upon exercise of warrants and 2,244,831 shares were issued upon exercise of stock options. Capstone has remaining issued and unexercised warrants exercisable for 15,616,488 shares of its common stock. This amount includes warrants exercisable for 275,000 shares of common stock to two accredited investors as well as Capstone's commitment to issue warrants exercisable for 1,132,628 shares of common stock in connection with the Series G offering. Certain warrants were issued in connection with the Bridge Notes convertible into Series F Preferred Stock to sixty-one accredited investors. The issuance was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act or Regulation D promulgated thereunder as a sale by an issuer not involving a public offering.

(c) Issuances of Options to Employees, Directors and Consultants.

Between September 14, 1988 and March 1, 2000, Capstone issued options exercisable for 10,795,286 shares (net of cancellations) of its common stock pursuant to Capstone's 1993 Incentive Stock Option Plan to approximately 120 individuals. Of this amount as of February 29, 2000, 2,244,831 options had been executed, 2,517,379 options are issued and exercisable, and 6,033,076 options are issued and require further vesting before they are exercisable. Of the issued shares of the Series C Preferred Stock, 35,000 shares were issued pursuant to employment agreements and 18,407 shares were issued for consulting services rendered. Of the shares of Series E Preferred Stock issued, 45,500 shares were issued through stock option agreements and 164,340 shares were issued for services rendered and through other arrangements. These grants were deemed to be exempt from registration under the Securities Act in reliance on Rule 701 promulgated under Section 3(b) of the Securities Act as a transaction to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each of the foregoing represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the instruments representing such securities issued in such transaction.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	PAGE NO.
<S>	<C>	<C>
1.1*	Form of Underwriting Agreement.....	
3.1	Articles of Incorporation of Capstone Turbine.....	
3.2*	Form of Amended and Restated Certificate of Incorporation of Capstone Turbine.....	
3.3	By-laws of Capstone Turbine.....	
3.4*	Amended and Restated By-laws of Capstone Turbine.....	
4.1*	Specimen certificate for shares of common stock, $.01 par value, of Capstone Turbine.....	
5.1*	Opinion of Latham & Watkins as to the legality of the securities being offered.....	
9.1	Investor Rights Agreement.....	
10.2	Lease between registrant and Northpark Industrial -- Leahy Division LLC, dated December 1, 1999, for leased premises at 21211 Nordhoff Street, Chatsworth, California.....	
10.3	1993 Incentive Stock Option Plan.....	
16.1	Letter from Ernst & Young LLP regarding change in independent auditors.....	
23.1	Consent of Deloitte & Touche LLP.....	
23.2	Consent of Ernst & Young LLP.....	
23.3	Consent of Latham & Watkins (included in exhibit 5.1).....	
24.1	Powers of Attorney (included on signature page).....	
27.1	Financial Data Schedule.....	

</TABLE>

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* To be filed by amendment

(b) Financial Statement Schedules

<TABLE>
<S> <C>
(1) Independent Auditors' Report of Deloitte & Touche LLP... S-1
(2) Independent Auditors' Report of Ernst & Young LLP..... S-2
(3) Schedule II -- Valuation and Qualifying Accounts..... S-3
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ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in

reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Woodland Hills, State of California, on March 22, 2000.

Capstone Turbine Corporation

By: /s/ AKE ALMGREN

Ake Almgren
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ake Almgren and Jeff Watts, and each of them, with full power to act without the other, such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Registration Statement, and any and all amendments thereto (including post-effective amendments), and to file the same, with exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully

do or cause to be done by virtue hereof.

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

SIGNATURE	TITLE	DATE
/s/ AKE ALMGREN Ake Almgren	President, Chief Executive Officer and Director (Principal Executive Officer)	March 22, 2000
/s/ JEFFREY WATTS Jeffrey Watts	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 22, 2000
/s/ RICHARD AUBE Richard Aube	Director	March 22, 2000
/s/ JOHN JAGGERS John Jaggers	Director	March 22, 2000
/s/ JEAN-RENE MARCOUX Jean-Rene Marcoux	Director	March 22, 2000

SIGNATURE	TITLE	DATE
/s/ BENJAMIN M. ROSEN Benjamin M. Rosen	Director	March 22, 2000
/s/ PETER STEELE Peter Steele	Director	March 22, 2000
/s/ ERIC YOUNG Eric Young	Director	March 22, 2000

INDEPENDENT AUDITORS' REPORT ON SCHEDULE

To the Board of Directors and Stockholders of
Capstone Turbine Corporation:

We have audited the financial statements of Capstone Turbine Corporation as of and for the years ended December 31, 1998 and 1999, and have issued our report thereon dated March 20, 2000; such report is included elsewhere in this Registration Statement. Our audits also included the financial statement schedule listed in Item 16(b). The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits. In our opinion, such financial statement schedule for the years ended December 31, 1998 and 1999, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
March 20, 2000

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We have audited the statement of operations, stockholders' equity, and cash flows of Capstone Turbine Corporation for the year ended December 31, 1997, and have issued our report thereon dated April 3, 1998 (included elsewhere in this Registration Statement). Our audit also included the financial statement schedule for the year ended December 31, 1997 listed in Item 16(b) of this Registration Statement. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedule for the year ended December 31, 1997 referred to above, when considered in relation to the basic financial

statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Woodland Hills, California
April 3, 1998

SCHEDULE II

CAPSTONE TURBINE CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
THREE YEAR PERIOD ENDED DECEMBER 31, 1999

<TABLE>
<CAPTION>

	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO OPERATIONS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF YEAR
<S>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts year ended:				
December 31, 1997	$ --	$ 10,000	$ --	$ 10,000
December 31, 1998	10,000	3,000	10,000	3,000
December 31, 1999	3,000	50,000	3,000	50,000
Reserve for inventory obsolescence year ended:				
December 31, 1997	180,000	3,918,000	48,000	4,050,000
December 31, 1998	4,050,000	681,000	2,194,000	2,537,000
December 31, 1999	2,537,000	1,120,000	414,000	3,243,000
Warranty reserve year ended:				
December 31, 1997	504,000	1,159,000	735,000	928,000
December 31, 1998	928,000	261,000	316,000	873,000
December 31, 1999	873,000	2,643,000	348,000	3,168,000

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
1.1*	Form of Underwriting Agreement.
3.1	Articles of Incorporation of Capstone Turbine.
3.2*	Form of Amended and Restated Certificate of Incorporation of Capstone Turbine.
3.3	By-laws of Capstone Turbine.
3.4*	Amended and Restated By-laws of Capstone Turbine.
4.1*	Specimen certificate for shares of common stock, $.01 par value, of Capstone Turbine.
5.1*	Opinion of Latham & Watkins as to the legality of the securities being offered.
9.1	Investor Rights Agreement
10.2	Lease between registrant and Northpark Industrial -- Leahy Division LLC, dated December 1, 1999, for leased premises at 21211 Nordhoff Street, Chatsworth, California.
10.3	1993 Incentive Stock Option Plan
16.1	Letter from Ernst & Young LLP regarding change in independent auditors
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27.1	Financial Data Schedule.

</TABLE>

- ----------
** To be filed by amendment*

(b) Financial Statement Schedule

(1) Independent Auditors' Report of Deloitte & Touche LLP

(2) Independent Auditors' Report of Ernst & Young LLP

(3) Schedule II -- Valuation and Qualifying Accounts

EXHIBIT 3.1

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

CAPSTONE TURBINE CORPORATION

The undersigned, Ake Almgren and Jeffrey R. Watts, hereby certify that:

ONE: They are the duly elected and acting President and Secretary, respectively, of Capstone Turbine Corporation.

TWO: The Articles of Incorporation of this corporation are hereby amended and restated to read in their entirety as follows:

ARTICLE I

The name of the corporation is Capstone Turbine Corporation (the "Corporation").

ARTICLE II

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III

The Corporation shall have the authority to issue two (2) classes of shares to be designated respectively "Preferred Stock" and "Common Stock." The total number of shares of stock that the Corporation shall have the authority to issue is Three Hundred Fifteen Million (315,000,000) shares of capital stock, par value $.001 per share. The total number of shares of Preferred Stock that the Corporation shall have authority to issue is One Hundred Thirty Million (130,000,000), par value $.001 per share. The total number of shares of Common Stock that the Corporation shall have the authority to issue is One Hundred Eighty-Five Million (185,000,000), par value $.001 per share.

The Preferred Stock authorized by these Articles of Incorporation may be issued from time to time in one or more series. The Board of Directors is hereby authorized within the limitations and restrictions stated in these Articles of Incorporation to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, including sinking fund provisions, the redemption price or prices, the liquidation preferences and the other preferences, powers, rights, qualifications, limitations and restrictions of any wholly unissued Series of Preferred Stock (not including any Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock) and the number of shares constituting any such Series and the designation thereof, or any of them.

The Board of Directors is further authorized to increase or decrease the number of shares of any Series of Preferred Stock, the number of which was fixed by it, subsequent to the issue of shares of that series, but not below the number of shares of such Series then outstanding, subject to the limitations and restrictions stated in the resolution of the Board of Directors originally fixing the number of shares of such series. In case the number of shares of any Series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE IV

Six Million Seven Hundred Thousand (6,700,000) shares of the Preferred

Stock are hereby designated as Convertible Preferred Stock, Series A ("Series A Preferred Stock"). Three Million Three Hundred Thirty Three Thousand Three Hundred and Thirty Four (3,333,334) shares of the Preferred Stock are hereby designated as Convertible Preferred Stock, Series B ("Series B Preferred Stock"). Eight Million Eight Hundred Thousand (8,800,000) shares of the Preferred Stock are hereby designated as Convertible Preferred Stock, Series C ("Series C Preferred Stock"). Three Million One Hundred Twenty Five Thousand (3,125,000) shares of the Preferred Stock are hereby designated as Convertible Preferred Stock, Series D ("Series D Preferred Stock"). Ten Million Seven Hundred Thousand (10,700,000) shares of the Preferred Stock are hereby designated as Convertible Preferred Stock, Series E ("Series E Preferred Stock"). Eleven Million Five Hundred Thousand (11,500,000) shares of Preferred Stock are hereby designated as Senior Convertible Preferred Stock, Series F ("Series F Preferred Stock"). Thirty-Seven Million Five Hundred Thousand (37,500,000) shares of the Preferred Stock are hereby designated as Senior Convertible Preferred Stock, Series G ("Series G Preferred Stock"). The relative preferences, powers, rights, qualifications, limitations and restrictions in respect of the Common Stock, Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock, are as follows:

(a) Voting Rights.

(i) Each holder of record of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall be entitled to vote on all matters on which shareholders are entitled to vote and, except as otherwise expressly provided herein, shall be entitled to the number of votes equal to the largest whole number of shares of Common Stock into which such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as applicable, could be converted, pursuant to the provisions of subparagraph (d) hereof, on the record date for the determination of the shareholders entitled to vote on such matters or, if no such record date is established, in accordance with California law.

(ii) Each holder of record of shares of Common Stock shall be entitled to one vote for each share thereof held. Except as otherwise expressly provided herein or as required by law, the holders of Series A Preferred

Stock, the holders of Series B Preferred Stock, the holders of Series C Preferred Stock, the holders of Series D Preferred Stock, the holders of the Series E Preferred Stock, the holders of the Series F Preferred Stock, the holders of Series G Preferred Stock and the holders of Common Stock shall vote together and not as separate classes.

(iii) The Corporation shall not create a new series or class of shares having rights, preferences or privileges prior to the shares of the Series G Preferred Stock, or increase the rights, preferences or privileges of any series or class having rights, preferences or privileges prior the shares of the Series G Preferred Stock, without the approval of holders of a majority of the outstanding shares of the Series G Preferred Stock.

(b) Dividend Rights.

(i) Each issued and outstanding share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall entitle the holder of record thereof to receive, when, as and if declared by the Board of Directors, out of any funds legally available therefor, dividends in cash at the annual rate per share of Ten Cents ($.10), Fifteen Cents ($.15), Twenty Cents ($.20), Forty Cents ($.40), Sixty Cents ($.60), Twenty Cents ($.20) and Forty Cents ($.40), respectively (or such greater amount per share as such Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock would be entitled if such Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G

Preferred Stock were converted into Common Stock), as adjusted for stock splits, stock dividends, recapitalizations, reclassifications and similar events (together herein referred to as "Recapitalization Events"), payable quarterly or otherwise as the Board of Directors may from time to time determine. Dividends and distributions (other than those solely in Common Stock) may be paid, or declared and set aside for payment, upon shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in any calendar year only if dividends shall have been paid, or declared and set aside for payment on account of all shares of Series F Preferred Stock and Series G Preferred Stock then issued and outstanding, at the aforesaid applicable rate for such calendar year. Dividends and distributions (other than those solely in Common Stock) may be paid, or declared and set aside for payment, upon shares of Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in any calendar year only if dividends shall have been paid, or declared and set aside for payment on account of all shares of Series A Preferred Stock then issued and outstanding, at the aforesaid applicable rate for such calendar year. Dividends and distributions (other than those payable solely in Common Stock) may be paid, or declared and set aside for payment, upon shares of Common Stock in any calendar year only if dividends shall have been paid, or declared and set apart for payment (subject to the rights of any other Series of Preferred Stock which has dividend rights senior to the Common Stock, if any), on account of all shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock then issued and outstanding, at the aforesaid rates for such calendar year. Except as hereinafter set forth, the Board of Directors of the Corporation is under no obligation to pay dividends

and the dividend preference granted herein to shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall apply only at such time as the Board of Directors may in its discretion decide to pay or declare and set aside for payment any dividends on any shares of Common Stock of the Corporation. The dividend preference granted herein to shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock is subject to any prior payments of dividends required to be made to any senior shares of preferred stock, if any, which may be issued from time to time by the Corporation.

(ii) Until April 1, 1998 with respect to the Series A Preferred Stock, July 30, 2000, with respect to the Series B Preferred Stock, July 30, 2001 with respect to the Series C Preferred Stock, December 31, 2001 with respect to the Series D Preferred Stock, August 30, 2002 with respect to the Series E Preferred Stock, February 26, 2004 with respect to the Series F Preferred Stock and March 31, 2005 with respect to the Series G Preferred Stock, the right to dividends upon the issued and outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall be non-cumulative and shall not be deemed to accrue, whether dividends are earned or whether there be funds legally available therefor, unless and until said dividends shall have been declared by the Board of Directors.

(iii) From and after April 1, 1998 with respect to the Series A Preferred Stock, July 30, 2000 with respect to the Series B Preferred Stock, July 30, 2001 with respect to Series C Preferred Stock December 31, 2001 with respect to the Series D Preferred Stock, August 30, 2002 with respect to the Series E Preferred Stock, February 26, 2004 with respect to the Series F Preferred Stock and March 31, 2005 with respect to the Series G Preferred Stock, the right to dividends upon the issued and outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, respectively, shall be cumulative so that such rights shall be deemed to accrue from and after April 1, 1998 with respect to the Series A Preferred Stock, July 30, 2000 with respect to the Series B Preferred Stock, July 30, 2001 with respect to the Series C Preferred Stock December 31, 2001 with respect to the Series D Preferred Stock, August 30, 2002 with respect to the Series E Preferred Stock, February 26, 2004 with respect to the Series F

Preferred Stock and March 31, 2005 with respect to the Series G Preferred Stock, whether earned, or whether there be funds legally available therefor, or whether said dividends shall have been declared; and if such dividends in respect of any period beginning April 1, 1998 with respect to the Series A Preferred Stock, July 30, 2000 with respect to the Series B Preferred Stock, July 30, 2001 with respect to the Series C Preferred Stock December 31, 2001 with respect to the Series D Preferred Stock, August 30, 2002 with respect to the Series E Preferred Stock, February 26, 2004 with respect to the Series F Preferred Stock and March 31, 2005 with respect to the Series G Preferred Stock, shall not have been declared and either paid or a sum sufficient for the payment thereof set aside in full, the accumulated unpaid dividends shall first be paid pro rata on the Series F Preferred Stock and the Series G Preferred Stock with respect to their respective dividend rates, before any dividend or other distribution (other than those payable solely in Common Stock) may be paid, or

declared and set apart for payment, to the holders of shares of Series A Preferred Stock, Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock or Common Stock, and shall, subject to the last sentence of this subparagraph (iii), next be paid on the Series A Preferred Stock with respect to its dividend rate, before any dividend or other distribution (other than those payable solely in Common Stock) may be paid, or declared and set apart for payment, to the holders of shares of Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock or Common Stock and shall next be fully paid pro rata on the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, and the Series E Preferred Stock, before any dividend or other distribution (other than those payable solely in Common Stock) may be paid, or declared and set apart for payment to the holders of shares of the Common Stock, and shall in any event (except as set forth in paragraph (d)(ii)(D) of this Article IV below) be paid upon conversion of the Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, in cash or in Common Stock at its then fair market value, as determined in good faith by the Board of Directors of the Corporation, and the Board of Directors shall have the right to determine whether said payment is made in cash or stock; provided, however, that at the written request of the holders of a majority of the outstanding shares of Series A Preferred Stock, a majority of the outstanding shares of Series B Preferred Stock, a majority of the outstanding shares of the Series C Preferred Stock, a majority of the outstanding shares of the Series D Preferred Stock, a majority of the outstanding shares of the Series E Preferred Stock, a majority of the outstanding shares of Series F Preferred Stock, and a majority of the outstanding shares of Series G Preferred Stock, the determination of said fair market value shall be made by an independent reputable investment banking firm designated by such holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock and payment for such determination shall be made in a manner consistent with Article IV(e)(ii)(A), (B) and (C) hereof. Any accumulation of dividends on the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock shall not bear interest. If all accrued dividends due on the Series F Preferred Stock and the Series G Preferred Stock have been paid, but there exists accrued but unpaid dividends due on the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, the accrued but unpaid dividends due to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be paid before any further dividends are paid to the holders of the Series F Preferred Stock and Series G Preferred Stock. If all accrued dividends due on the Series A Preferred Stock have been paid, but there exists accrued but unpaid dividends due on the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, the accrued but unpaid dividends due to the holders of Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be paid before any further dividends are paid to the holders of the Series A Preferred Stock. After the payment to the holders of Series A Preferred Stock of any dividends accrued but unpaid for the period of April 1, 1998 to July 30, 2000, no payment of dividends may be paid to the holders of the Series A Preferred Stock in any year unless

all accrued dividends of the holders of Series B

Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in respect of prior years shall have been paid.

(iv) The restrictions on dividends and distributions with respect to shares of Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock set forth in paragraph (b) hereof are in addition to, and not in derogation of, the other restrictions on such dividends and distributions set forth herein.

(v) All holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall, at the time of any declaration of a dividend or distribution with respect to shares of Common Stock, be given notice of such declaration, including the amount and record date for such dividend or distribution, which record date shall be not less than ten (10) business days after such notice is given (in order to enable such holders sufficient time to convert all or part of their shares to Common Stock, if they so choose).

(vi) In the event this Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by this Corporation or other persons, assets (excluding cash dividends) or options or rights to purchase any such securities or evidences of indebtedness, then, in each such case the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall be entitled to a proportionate share of any such distribution as though the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock were the holders of the number of shares of Common Stock of the Corporation into which their respective shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.

(c) Liquidation Rights.

(i) Except as set forth below, in the event of a voluntary or involuntary liquidation, dissolution, or winding up of the Corporation (a "Liquidation"), the holders of record of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, on a pro rata basis, shall be entitled to receive, prior and in preference to any distribution of any assets of the Corporation to the holders of the Common Stock by reason of their ownership thereof, but subject to the rights of any Series of preferred shares issued from time to time by the Corporation that has rights senior to the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock on a Liquidation, out of the assets of the Corporation legally available therefor, One Dollar ($1.00) per share of Series A Preferred Stock (the "Original Series A Issue Price"),

One Dollar and Fifty Cents ($1.50) per share of Series B Preferred Stock (the "Original Series B Issue Price"), Two Dollars ($2.00) per share of Series C Preferred Stock (the "Original Series C Issue Price"), Four Dollars ($4.00) per share of Series D Preferred Stock (the "Original Series D Issue Price"), Six Dollars ($6.00) per share of Series E Preferred Stock (the "Original Series E Issue Price"), Two Dollars ($2.00) per share of Series F Preferred Stock (the "Original Series F Issue Price") and Four Dollars ($4.00) per share of Series G Preferred Stock (the "Original Series G Issue Price") as appropriately adjusted

for Recapitalization Events, plus a further amount per share equal to dividends, if any, (i) then declared and unpaid on account of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, and (ii) whether or not declared, then accrued in accordance with the provisions of subparagraph (b)(ii) hereof, before any payment shall be made or any assets distributed to the holders of shares of Common Stock. If, upon any Liquidation, the assets thus distributed among the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall be insufficient to permit payment to such holders of the full preferential amounts contemplated by this subparagraph (i), then the entire assets of the Corporation to be distributed shall be distributed first ratably among the holders of the Series F Preferred Stock and the Series G Preferred Stock in accordance with their aggregate liquidation preferences with any remainder then distributed ratably among the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in accordance with their aggregate liquidation preferences.

(ii) After payment to the holders of record of the shares of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock of the amounts set forth in the preceding subparagraph (i) above, the remaining assets of the Corporation shall be distributed in like amounts per share to the holders of record of the Corporation's capital stock, with each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock being treated as the number of shares of Common Stock (giving effect to fractional shares) into which it could then be converted for such purpose; provided, however, that if the assets and the funds thus distributed would be sufficient to permit the payment to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock of an amount in excess of Five Dollars ($5.00) per share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock (as adjusted for Recapitalization Events), then the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock shall be entitled to the full amounts otherwise payable to them pursuant to the preceding provisions, but shall not be entitled to share in the remaining assets and funds of the Corporation in excess of Five Dollars ($5.00) per share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock (as adjusted for Recapitalization Events), until such time as the holders of Common

Stock have received or been entitled to receive Five Dollars ($5.00) per share of Common Stock held, after which payment, the remaining assets of the Corporation shall be distributed in like amounts per share to the holders of record of the Corporation's stock, each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock being treated as the number of shares of Common Stock (giving effect to fractional shares) into which it could then be converted for such purpose.

(iii) A consolidation or merger of the Corporation with or into any other corporation (other than a reincorporation merger) except where the Corporation is the surviving entity and the shareholders prior to such consolidation or merger own more than 50% of the capital stock of the surviving entity generally in the same proportion to each other as existed prior to such consolidation or merger, or a sale of all or substantially all of the assets of the Corporation, shall each be deemed, unless holders of record of at least sixty-seven percent (67%) of the outstanding shares of Preferred Stock vote otherwise, to be a Liquidation within the meaning of this Paragraph (c) and shall entitle the holders of the Corporation's Stock to receive at the closing in cash, securities or other property, valued at the fair market value of such

securities or other property as determined in good faith by the Board of Directors, amounts as specified in subparagraphs (c)(i) and (c)(ii) above.

(d) Conversion Rights. The holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall have conversion rights (the "Conversion Rights") as follows:

(i) Right to Convert. Each holder of record of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock may, at any time, upon surrender to the Corporation of the certificates therefor at the principal office of the Corporation or at such other place as the Corporation shall designate, convert all or any part of such holder's shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock into such number of fully paid and non-assessable shares of Common Stock of the Corporation (as such Common Stock shall then be constituted) equal to the product of (A) the number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock which such holder shall then surrender to the Corporation, multiplied by (B) the number determined by dividing: (1) in the case of the Series A Preferred Stock, One Dollar ($1.00) by the Conversion Price (as hereinafter defined) per share for the Series A Preferred Stock in effect at the time of conversion, (2), in the case of the Series B Preferred Stock, One Dollar and Fifty Cents ($1.50) by the Conversion Price per share for the Series B Preferred Stock in effect at the time of conversion, (3), in the case of the Series C Preferred Stock, Two Dollars ($2.00) by the Conversion Price per share for the Series C Preferred Stock in effect at the time of conversion, (4), in the case of the Series D Preferred Stock, Four Dollars ($4.00) by the Conversion Price per share for the Series D Preferred Stock in effect at the time of conversion, (5), in the case of the Series E Preferred Stock, Six Dollars ($6.00) by the Conversion Price per share for the Series E Preferred Stock in effect at the time of

conversion, (6), in the case of the Series F Preferred Stock, Two Dollars ($2.00) by the Conversion Price per share for the Series F Preferred Stock in effect at the time of conversion, (7), in the case of Series G Preferred Stock, Four Dollars ($4.00) by the Conversion Price per share for the Series G Preferred Stock in effect at the time of conversion. Promptly following surrender of such certificates, the holder shall be entitled to receive certificates evidencing the number of shares of Common Stock into which such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock are converted.

(ii) Automatic Conversion.

(A) All outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall be deemed automatically converted into such number of shares of Common Stock as are determined in accordance with subparagraph (d)(i) hereof upon (1) the consummation of a firm commitment underwritten public offering of the securities of the Corporation pursuant to a registration statement filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, where the aggregate gross proceeds to the Corporation resulting from the sale of such securities (before deduction of underwriting discounts and expenses of sale) is not less than $30,000,000 and the per share sales price of such securities before such deductions is not less than Eight Dollars ($8.00), as adjusted for Recapitalization Events, or (2) the affirmative vote of the holders of record of at least fifty-one percent (51%) of the outstanding shares of Preferred Stock voting as a class to that effect (either such event being hereinafter referred to as an "Automatic Conversion Event"). The affirmative vote of the holders of at least fifty-one percent (51%) of the Series B Preferred Stock voting as a class to convert to Common Stock shall also result in the conversion of all of the outstanding shares of Series B Preferred Stock to Common Stock, at the Conversion Price set forth herein. The affirmative vote

of the holders of at least seventy-five percent (75%) of the Series C Preferred Stock voting as a class to convert to Common Stock shall also result in the conversion of all of the outstanding shares of Series C Preferred Stock to Common Stock, at the Conversion Price for the Series C Preferred Stock set forth herein. The affirmative vote of the holders of at least seventy-five percent (75%) of the Series D Preferred Stock voting as a class to convert to Common Stock shall also result in the conversion of all of the outstanding shares of Series D Preferred Stock to Common Stock, at the Conversion Price for the Series D Preferred Stock set forth herein. The affirmative vote of the holders of at least seventy-five percent (75%) of the Series E Preferred Stock voting as a class to convert to Common Stock shall also result in the conversion of all of the outstanding shares of Series E Preferred Stock to Common Stock, at the Conversion Price for the Series E Preferred Stock set forth herein. The affirmative vote of the holders of at least seventy-five percent (75%) of the Series F Preferred Stock voting as a class to convert to Common Stock shall also result in the conversion of all of the outstanding shares of Series F Preferred Stock to Common Stock, at the Conversion Price for the Series F Preferred Stock set forth herein. The affirmative vote of the holders of at least seventy-five percent (75%) of the Series G Preferred Stock voting as a class to convert to Common Stock shall also result in the conversion of all of the outstanding shares of Series G Preferred Stock to Common Stock, at the Conversion Price for the Series G Preferred Stock set forth herein.

(B) In addition to the Automatic Conversion Events set forth in subparagraph (A) above, if any holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock (by itself or together with affiliated persons or entities which affiliation shall include (X) any venture fund related to a holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock by virtue of having at least two common individuals who are officers, employees, directors or partners of the entities that are general partners or managers of such venture funds or (Y) any partner of such venture fund; any such person or entity, hereinafter an "Affiliate") fails to participate in any particular financing by the Corporation, consisting of a bridge loan for a term not in excess of one year or the offering of Convertible Securities (as hereinafter defined) (an "Additional Offering") where a majority of the Board of Directors has designated that such financing is subject to this paragraph, by acquiring in such bridge loan financing or Additional Offering such portion of the principal amount of the financing or such number of shares as shall equal the product of (i) the principal amount of the bridge loan or the number of shares to be offered in the Additional Offering, as the case may be, if any, offered to all holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, as determined in good faith by the Board of Directors, multiplied by (ii) a fraction: (a) the numerator of which is the number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock held by such holder (by itself or together with any Affiliate) at the time of such Additional Offering, and (b) the denominator of which is the total number of shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock then outstanding, in each case determined on the basis of the number of shares of Common Stock into which such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock would be convertible at the Conversion Price for Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock that would be in effect immediately after the transaction, assuming all holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock participated in the bridge loan financing or purchased their respective pro rata shares in such Additional Offering (the "Pro Rata Share"), then to the extent of the percentage of the Pro Rata Share not so acquired by the holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D

Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock (or by an Affiliate of such holder) ("Refused Percentage") the number of outstanding shares of such holder's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock determined by multiplying the Refused Percentage by all outstanding shares of such holder's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock ("Converted Percentage") shall be automatically converted into such number of fully paid

and non-assessable shares of Common Stock of the Corporation (as such Common Stock shall then be constituted) equal to the product of (x) the Converted Percentage multiplied by (y) the number determined by dividing, in the case of the Series A Preferred Stock, One Dollar ($1.00) by the Conversion Price for the Series A Preferred Stock, in the case of the Series B Preferred Stock, One Dollar and Fifty Cents ($1.50) by the Conversion Price for the Series B Preferred Stock, in the case of the Series C Preferred Stock, Two Dollars ($2.00) by the Conversion Price for the Series C Preferred Stock, in the case of the Series D Preferred Stock, Four Dollars ($4.00) by the Conversion Price for the Series D Preferred Stock, in the case of the Series E Preferred Stock, Six Dollars ($6.00) by the Conversion Price for the Series E Preferred Stock, in the case of the Series F Preferred Stock, Two Dollars ($2.00) by the Conversion Price for the Series F Preferred Stock and in the case of the Series G Preferred Stock, Four Dollars ($4.00) by the Conversion Price for the Series G Preferred Stock (in each case, all such Conversion Prices to be as adjusted pursuant to subparagraphs (d)(iv)(B)-(F), but without giving any effect to any prior or concurrent adjustments to any Conversion Price pursuant to subparagraph (d)(iv)(A)) per share for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock (such event being hereinafter referred to as an "Additional Automatic Conversion Event"), provided that no event described in this sentence will be deemed to be an Additional Automatic Conversion Event unless the portion of the bridge loan financing or Additional Offering offered to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock is offered to all of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock and thereby subjects all such holders to the consequences of non-participation in such bridge loan financing or Additional Offering.

(C) On or after the date of occurrence of an Automatic Conversion Event or an Additional Automatic Conversion Event, and in any event within 10 days after receipt of notice, by mail, postage prepaid from the Corporation of the occurrence of such Event, each holder of record of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as the case may be, shall surrender such holder's certificates evidencing the Converted Percentage of such shares at the principal office of the Corporation or at such other place as the Corporation shall designate, and shall thereupon be entitled to receive certificates evidencing the number of shares of Common Stock into which such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock are converted (plus additional certificates representing shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock not so converted, if any). On the date of the occurrence of an Automatic Conversion Event or an Additional Automatic Conversion Event, each holder of record of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as applicable, shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, notwithstanding that the certificates representing such

shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock shall not have been surrendered at the office of the Corporation, that notice from the Corporation shall not have been received by any holder of record of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, or that the certificates evidencing such shares of Common Stock shall not then be actually delivered to such holder.

(D) In the event of the conversion of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock upon the occurrence of an Automatic Conversion Event or an Additional Automatic Conversion Event, the right to receive any declared or accrued and unpaid dividends on the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as the case may be, so converted shall be deemed waived by the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock whose shares are being converted pursuant thereto.

(iii) For purposes of these Articles of Incorporation:

"Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to subparagraphs (d)(iv)(A), deemed to be issued) by the Corporation, other than shares of Common Stock issued or issuable:

(A) upon conversion of shares of Preferred Stock;

(B) to officers, directors, or employees of, or consultants to, the Corporation pursuant to a stock grant or sale or option plan or other employee stock incentive program approved by the Board of Directors;

(C) as a dividend or distribution on Preferred Stock, or Common Stock to the extent set forth in subparagraphs (d)(iv)(C) and (D) hereof, and

(D) to equipment lessors, banks, lenders, customers or vendors in connection with financings, sales, or incentive arrangements with lessors, lenders, or customers.

"Common Stock Outstanding" shall include all Common Stock issued and outstanding and issuable upon exercise of all outstanding Options and conversion of all outstanding Convertible Securities.

"Conversion Price" shall mean the price at which shares of the Common Stock shall be deliverable upon conversion of the Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock as adjusted from time to time as herein provided. The initial Conversion Price per share for shares of Series A Preferred

Stock shall be the Original Series A Issue Price. The initial Conversion Price per share for shares of Series B Preferred Stock shall be the Original Series B Issue Price. The initial Conversion Price per share for shares of Series C Preferred Stock shall be the Original Series C Issue Price. The initial Conversion Price per share for shares of Series D Preferred Stock shall be the Original Series D Issue Price. The initial Conversion Price per share for shares of Series E Preferred Stock shall be the Original Series E Issue Price. The initial Conversion Price per share for shares of Series F Preferred Stock shall be the Original Series F Issue Price. The initial Conversion Price per share for shares of Series G Preferred Stock shall be the Original Series G Issue Price. The Conversion Prices for the Series A Preferred Stock, the Series B Preferred

Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock shall be subject to adjustment as herein provided.

"Conversion Shares Outstanding" shall include (i) all outstanding shares of Common Stock previously issued upon conversion of Preferred Stock, and (ii) all shares of Common Stock issuable upon conversion of outstanding shares of Preferred Stock.

"Convertible Securities" shall mean any evidences of indebtedness, shares or securities, in each case convertible into or exchangeable for Additional Shares of Common Stock.

"Effective Price" of Additional Shares of Common Stock shall mean the quotient determined by dividing the total number of Additional Shares of Common Stock issued or sold, or deemed to have been issued or sold by the Corporation under subparagraph (d)(iv)(A), into the aggregate consideration received or deemed to have been received by the Corporation for such issue under subparagraph (d)(iv)(A).

"Issuance Date" shall mean the actual initial date of issuance of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as applicable.

"Options" shall mean rights, options or warrants to subscribe for purchase or otherwise acquire Common Stock or Convertible Securities.

(iv) Adjustments to Conversion Price for Diluting Issues.

(A) Sale of Shares Below Conversion Price.

(1) If at any time or from time to time after an Issuance Date, the Corporation issues or sells, or is deemed by the express provisions of this subparagraph (d)(iv)(A) to have issued or sold, Additional Shares of Common Stock, for an Effective Price per share less than the Conversion Price then in effect with respect to the series of Preferred Stock first issued on such Issuance Date, then and in each such case the then existing Conversion Price for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock, as applicable, shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Conversion Price for the Series A Preferred

Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock, as applicable, by a fraction (a) the numerator of which shall be (A) the number of shares of Conversion Shares Outstanding immediately prior to such issue or sale plus (B) the number of shares of Common Stock which the aggregate consideration received (or by express provision hereof deemed to have been received) by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at such Conversion Price for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock, as applicable, and (b) the denominator of which shall be (x) the number of shares of Conversion Shares Outstanding immediately prior to such issue or sale plus (y) the total number of Additional Shares of Common Stock issued in connection with such issue or sale. The foregoing formula shall apply to, and shall constitute the sole adjustment with respect to, any adjustment to any Conversion Price to be made as a result of any issuance of Additional Shares of Common Stock after any Issuance Date, regardless of whether occurring before or after the filing of this amendment and restatement, and any prior formulas and adjustments are hereby superseded.

(2) For the purpose of making any adjustment required under this subparagraph (d)(iv)(A), the consideration received by the Corporation for any issue or sale of securities shall (a) to the extent it consists of cash be

computed at the gross amount of cash received by the Corporation before deduction of any expenses payable by the Corporation and any underwriting or similar commissions, compensation or concessions paid or allowed by the Corporation in connection with such issue or sale, (b) to the extent it consists of property other than cash, be computed at the fair market value of that property as determined in good faith by the Board of Directors and (c) if Additional Shares of Common Stock, Convertible Securities rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration which covers both, be computed (as provided in clauses (a) and (b) above) as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options. Without limiting the foregoing, for avoidance of doubt, the Board may in its discretion treat any issuance of options, warrants or other Convertible Securities together with any issuance of stock as one combined issuance of Additional Shares of Common Stock in exchange for the aggregate consideration received therefor. In addition, for the purpose of making any adjustment required under this subparagraph (d)(iv)(A), if the Company issues or sells Additional Shares of Common Stock in one or more transactions occurring within any six month period on substantially similar terms, and the Board determines in good faith that such transactions were part of a single plan of financing, the Board may elect to make only a single Conversion Price adjustment hereunder, treating all such transactions as one issuance of Additional Shares of Common Stock in exchange for the aggregate consideration received therefor, all occurring on the last date of such transactions.

(3) For the purpose of the adjustment required under this subparagraph (d)(iv)(A), if at any time or from time to time after an Issuance Date the Corporation issues or sells any Options or Convertible Securities (other than options or

rights exercisable for or convertible into shares of Common Stock referred to in clause (B) of the definition of Additional Shares of Common Stock), then in each case the Corporation shall be deemed to have issued at the time of the issuance of such Options or Convertible Securities the maximum number of Additional Shares of Common Stock (as set forth in the instruments relating thereto, giving effect to any provision contained therein for a subsequent adjustment of such number) issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such Options or Convertible Securities plus, in the case of such Options, the minimum amounts of consideration, if any (as set forth in the instruments relating thereto, giving effect to any provision contained therein for a subsequent adjustment of such consideration), payable to the Corporation upon the exercise of such Options and, in the case of Convertible Securities, the minimum amounts of consideration, if any, payable to the Corporation (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities which were deemed to have been received by the Corporation on issuance of such Convertible Securities). No further adjustment of the Conversion Price for Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, adjusted upon the issuance of such Options or Convertible Securities, shall be made as a result of the actual issuance of Additional Shares of Common Stock on the exercise of any such Options or the conversion of any such Convertible Securities; provided, however, that if any such Options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, or are exercised for a lesser number of Additional Shares of Common Stock or with a greater consideration paid to the Corporation than was previously deemed to be issued or received by the Corporation, the Conversion Price for Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock, or Series G Preferred Stock, as the case may be, adjusted upon the issuance of such Options or Convertible Securities shall be readjusted to the Conversion Price for Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as the case may be, which would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common

Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such Options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Corporation upon such exercise, plus the consideration, if any, actually received by the Corporation for the granting of all such Options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted plus the consideration, if any, actually received by the Corporation (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities which were deemed to have been received by the Corporation on issuance of such Convertible Securities) on the conversion of such Convertible Securities.

(4) In each case of an adjustment or readjustment of the Conversion Price for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock or the number of shares of Common Stock or other securities issuable upon conversion of the Series A Preferred Stock, the

Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock, the Corporation, at its expense, shall cause the chief financial officer of the Corporation to compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based including a statement of (a) the consideration received or deemed to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (b) the Conversion Price for Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock at the time in effect (after giving effect to such adjustment or readjustment), (c) the number of Additional Shares of Common Stock and (d) the type and amount, if any, of other property which at the time would be received upon conversion of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock.

(5) Except as expressly provided herein, no adjustment in the Conversion Price of any share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock shall be made in respect of the issue of Additional Shares of Common Stock unless the consideration per share for such Additional Shares of Common Stock issued or deemed to be issued by the Corporation is less than the Conversion Price in effect on the date of, and immediately prior to, such issue, for such share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, respectively.

(B) Adjustment for Stock Splits and Combinations. If the Corporation at any time or from time to time after an Issuance Date effects a subdivision of the outstanding Common Stock, the Conversion Price for Series A Preferred Stock, the Conversion Price for Series B Preferred Stock, the Conversion Price for Series C Preferred Stock, the Conversion Price for Series D Preferred Stock, the Conversion Price for the Series E Preferred Stock, the Conversion Price for the Series F Preferred Stock and the Conversion Price for Series G Preferred Stock then in effect immediately before that subdivision shall be proportionately decreased, and conversely, if the Corporation at any time or from time to time after an Issuance Date combines the outstanding shares of Common Stock, the Conversion Price for Series A Preferred Stock, the Conversion Price for Series B Preferred Stock, the Conversion Price for Series C

Preferred Stock, the Conversion Price for Series D Preferred Stock, the Conversion Price for Series E Preferred Stock, the Conversion Price for Series F Preferred Stock and the Conversion Price for Series G Preferred Stock then in effect immediately before the combination shall be proportionately increased. Any adjustment under this subparagraph (B) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(C) Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time, or from time to time after an Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in Additional Shares of Common Stock or any right to acquire Common Stock for no consideration, then and in each such event the Conversion Price for Series A Preferred Stock, the Conversion Price for Series B Preferred Stock, the Conversion Price for Series C Preferred Stock, the Conversion Price for Series D Preferred Stock, the Conversion Price for Series E Preferred Stock, the Conversion Price for Series F Preferred Stock and the Conversion Price for Series G Preferred Stock then in effect shall be decreased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the Conversion Price for such Series of Preferred Stock then in effect by a fraction (a) the numerator of which is the number of shares of Common Stock Outstanding immediately prior to the time of such issuance or the close of business on such record date, and (b) the denominator of which shall be the number of shares of Common Stock Outstanding immediately prior to the time of such issuance or the close of business on such record date plus the total number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price for Series A Preferred Stock, the Conversion Price for Series B Preferred Stock, the Conversion Price for Series C Preferred, the Conversion Price for Series D Preferred Stock, the Conversion Price for Series E Preferred Stock, the Conversion Price for Series F Preferred Stock and the Conversion Price for Series G Preferred Stock shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price for Series A Preferred Stock, the Conversion Price for Series B Preferred Stock, the Conversion Price for Series C Preferred Stock, the Conversion Price for Series D Preferred Stock, the Conversion Price for Series E Preferred Stock, the Conversion Price for Series F Preferred Stock and the Conversion Price for Series G Preferred Stock shall be adjusted pursuant to this subparagraph (d)(iv)(C) as of the time of actual payment of such dividends or distributions.

(D) Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, then in each such event provision shall be made so that the holders of Series A Preferred Stock, the holders of Series B Preferred Stock, the holders of Series C Preferred Stock, the holders of Series D Preferred Stock, the holders of Series E Preferred Stock, the holders of Series F Preferred Stock and the holders of Series G Preferred Stock shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Corporation which they would have received had their Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock been converted into Common Stock on the date of such event and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this paragraph (d) with respect to the rights of the holders of the Series A Preferred Stock, the holders of Series B Preferred Stock, the holders of Series C Preferred Stock, the holders of Series D Preferred

Stock, the holders of Series E Preferred Stock, the holders of Series F

Preferred Stock and the holders of Series G Preferred Stock, as the case may be.

(E) Adjustment for Reclassification Exchange and Substitution. If the Common Stock issuable upon the conversion of Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares, a stock dividend or a reorganization, provided for elsewhere in this paragraph (d)), then and in any such event each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change, by holders of the number of shares of Common Stock into which such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock might have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein.

(F) Reorganizations. If at any time or from time to time there is a capital reorganization of the Common Stock (other than a recapitalization, subdivision, combination, reclassification or exchange of shares provided for elsewhere in this paragraph (d)), then, as a part of such reorganization, provision shall be made so that the holders of Series A Preferred Stock, the holders of the Series B Preferred Stock, the holders of the Series C Preferred Stock, the holders of the Series D Preferred Stock, the holders of the Series E Preferred Stock, the holders of the Series F Preferred Stock and the holders of Series G Preferred Stock shall thereafter be entitled to receive, upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F preferred Stock or Series G Preferred Stock, as applicable, the number of shares of stock or cash or other securities or property of the Corporation to which a holder of Common Stock deliverable upon conversion would have been entitled on such capital reorganization. In any such case, appropriate adjustment shall be made in the application of the provisions of this paragraph (d) with respect to the rights of holders of the Series A Preferred Stock, the holders of the Series B Preferred Stock, the holders of the Series C Preferred Stock, the holders of the Series D Preferred Stock, the holders of the Series E Preferred Stock, the holders of the Series F Preferred Stock and the holders of the Series G Preferred Stock after the reorganization to the end that the provisions of this paragraph (d) (including adjustment of the Conversion Price for Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock then in effect and the number of shares purchasable upon conversion of Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock) shall be applicable after that event and be as nearly equivalent to the provisions hereof as may be practicable.

(v) No Impairment. The Corporation will not, by amendment of these Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, other than as duly approved by a majority in interest of the Common Stock and a majority in interest of the Preferred Stock avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of this paragraph (d) and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock, the holders of the Series B Preferred Stock, the holders of the Series C Preferred Stock, the holders of the Series D Preferred Stock, the holders of the Series E Preferred Stock, the holders of the Series F Preferred Stock and the holders of the Series G Preferred Stock against dilution or other impairment. The Corporation shall at all times reserve and keep available out of its

authorized but unissued Common Stock the full number of shares of Common Stock deliverable upon the conversion of all the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock and shall take all such action and obtain all such permits or orders as may be necessary to enable the Corporation lawfully to issue such Common Stock upon the conversion of Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock.

(vi) Notices of Record Date. In the event of any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend which is the same as cash dividends paid in previous quarters) or other distribution, the Corporation shall mail to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock at least twenty (20) days prior to the date specified herein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend or distribution.

(e) Redemption. The Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock shall, at the election of the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock, as the case may be, be redeemed by the Corporation in two equal installments in accordance with the following provisions:

(i) Election to Redeem. The Corporation shall redeem the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock at the times, and pursuant to the terms, set forth below, if the Corporation receives written certification (the "Redemption Certificate") that holders of no less than seventy-five percent (75%) of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock (the "Electing

Holders") voting together as a class have elected in favor of redemption (the "Redemption Election"). The Redemption Certificate shall be signed by the Electing Holders and shall be delivered to the Corporation at its principal office, on or before August 30, 2002.

(ii) Redemption Price. The Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock shall be redeemed by the Corporation paying in cash, out of funds legally available therefor, an amount equal to (A) the greater of (1) One Dollar ($1.00) per share in the case of the Series A Preferred Stock, One Dollar Fifty Cents ($1.50) per share in the case of the Series B Preferred Stock, Two Dollars ($2.00) per share in the case of the Series C Preferred Stock, Four Dollars ($4.00) per share in the case of the Series D Preferred Stock, Six Dollars ($6.00) per share in the case of the Series E Preferred Stock, Two Dollars ($2.00) per share in the case of the Series F Preferred Stock and Four Dollars ($4.00) per share in the case of the Series G Preferred Stock (adjusted for any Recapitalization Events with respect to such shares) or (2) the fair market value per share (exclusive of the value of any declared or accrued but unpaid dividends) as of a date within forty-five (45) days after receipt by the Corporation of the Redemption Certificate, determined as set forth below, plus (B) a further amount per share equal to dividends, if any, (1) then declared and unpaid on account of such Series of Preferred Stock and (2) whether or not declared, then accrued in accordance with the provisions of subparagraph (b)(iii) hereof to and including the date fixed for redemption (the "Redemption Price"). The fair market value of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G

Preferred Stock shall be determined as follows: the Board of Directors shall determine the fair market value of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock; provided, however, that (A) if the Board of Directors determines that the fair market value of each share of Series A Preferred Stock is greater than One Dollar ($1.00), that the fair market value of each share of the Series B Preferred Stock is greater than One Dollar and Fifty Cents ($1.50), that the fair market value of each share of the Series C Preferred Stock is greater than Two Dollars ($2.00), that the fair market value of each share of the Series D Preferred Stock is greater than Four Dollars ($4.00), that the fair market value of each share of the Series E Preferred Stock is greater than Six Dollars ($6.00), that the fair market value of each share of the Series F Preferred Stock is greater than Two Dollars ($2.00) or that the fair market value of each share of the Series G Preferred Stock is greater than Four Dollars ($4.00) (adjusted for any Recapitalization Events with respect to such shares), the Corporation shall promptly give the shareholders notice thereof and the holders of a majority of the Corporation's then outstanding Common Stock shall have the right to contest such determination by giving notice thereof to the Corporation within fifteen (15) days of the receipt of the Corporation's notice, and in such event the fair market value of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock, as the case may be, shall be determined by an independent appraiser paid by the Corporation and mutually acceptable to the Corporation, the holders of a majority of the Common Stock and the holders of a majority of the then outstanding Preferred Stock or (B) if the holders of a majority of the then outstanding Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred

Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock contest the determination of the Board of Directors, then the fair market value of the Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as the case may be, shall be determined by an independent appraiser mutually acceptable to the Corporation and the holders of a majority of the then outstanding Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock. In the event that the holders of a majority of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or the Series G Preferred Stock contest the Board of Director's fair market value determination with respect to such series of Preferred Stock, the cost of appraisal shall be borne as follows:

(A) if the fair market value determined by the independent appraiser is less than or equal to ninety percent (90%) of the fair market value as determined by the Board of Directors, then cost of appraisal shall be borne by the holders of such Series of Preferred Stock pro rata based on the number of shares held;

(B) if the fair market value determined by the appraiser is equal to or greater than one-hundred and ten percent (110%) of the fair market value as determined by the Board of Directors, then the cost of appraisal shall be borne by the Corporation;

(C) if the fair market value of such Series of Preferred Stock as determined by the independent appraiser is between ninety and one-hundred and ten percent (90-110%) of the fair market value as determined by the Board of Directors, then the cost of appraisal shall be borne 50% by the Corporation and 50% by the holders of such Series of Preferred Stock, with each such holder paying a pro rata portion of such cost based on the number of shares held.

(iii) Mandatory Redemption: Two Installments. The Redemption Election constitutes an election in favor of a mandatory redemption of all shares of such Series of Preferred Stock. Such Series of Preferred Stock shall be redeemed in two equal installments, with the Corporation redeeming 50% of

each holder's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock, as the case may be, in the first installment and the remaining Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock being redeemed in the second installment. Subject to the Corporation having funds legally available therefor, the closing of the first installment shall occur on or about January 1, 2003 (the "First Redemption Date") and the closing of the second installment shall take place on or about January 1, 2004 (the "Second Redemption Date"). If the Corporation shall not have sufficient funds legally available for redeeming all Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock at the First Redemption Date or the Second Redemption Date, respectively, the Corporation shall, (i) subject to the rights of any Series of Preferred Stock that has redemption rights senior or equal to the Series F Preferred Stock or the Series G Preferred

Stock, first redeem all shares of Series F Preferred Stock and Series G Preferred Stock (or, in the absence of funds legally sufficient therefor, a pro rata share in accordance with their respective aggregate number of shares), and (ii) with any remainder funds, subject to the rights of any Series of Preferred Stock that has redemption rights senior or equal to the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, then redeem a pro rata portion of each holder's shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in accordance with their respective aggregate number of shares. The Corporation shall make such redemption payments out of funds legally available therefor and shall redeem the remaining shares to have been redeemed in such installment as soon as practicable after the Corporation has funds legally available therefor.

(iv) Redemption Notice. If the Redemption Election has been received, the Corporation shall mail, postage prepaid, not less than thirty (30) days nor more than sixty (60) days prior to the First and Second Redemption Dates, written notice thereof (the "Redemption Notice"), to each holder of record of the Series of Preferred Stock as to which the Redemption Election has been exercised with a copy thereof to each other holder of Preferred Stock, in each case at its post office address last shown on the records of the Corporation. Each such Redemption Notice shall state:

(A) The number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock held by the holder that the Corporation shall redeem on the Redemption Date specified in the Redemption Notice;

(B) The Redemption Date and Redemption Price;

(C) The date upon which the holder's conversion rights (as set forth in paragraph (d) above) as to such shares terminate, which termination shall be five days before the Redemption Date; and

(D) That the holder is to surrender to the Corporation, in the manner and at the place designated, its certificate or certificates representing the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock to be redeemed.

(v) Surrender of Certificates: Payment. On or before each Redemption Date, each holder of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock to be redeemed on such Redemption Date, unless such holder has exercised its right to convert the shares as provided in paragraph (d) hereof, shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof, and

each surrendered certificate shall be cancelled and retired. In the event that fewer than all of the shares

represented by such certificate are redeemed, a new certificate representing the unredeemed shares shall be issued forthwith.

(vi) Rights Subsequent to Redemption. If the Redemption Notice shall have been duly given, and if on each Redemption Date the Redemption Price therefor is either paid or made available for payment through the deposit arrangement specified in subparagraph (e)(vii) below, then notwithstanding that the certificates evidencing any of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Series G Preferred Stock so called for redemption shall not have been surrendered, the dividends with respect to such shares shall cease to accrue after the applicable Redemption Date and all rights with respect to such shares shall forthwith terminate after such Redemption Date, except only the right of the holders to receive the Redemption Price without interest upon surrender of their certificate or certificates therefor.

(vii) Deposit of Funds. On or prior to each Redemption Date, the Corporation shall deposit as a trust fund with any bank or trust company, having a capital and surplus of at least $100,000,000, a sum equal to the aggregate Redemption Price of all shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock called for redemption on such Redemption Date and not yet redeemed or converted, with irrevocable instructions and authority to the bank or trust company to pay, on and after each such Redemption Date, the Redemption Price to the respective holders upon the surrender of their stock certificates. From and after the date of such deposit (but not prior to each Redemption Date), the shares so called for redemption on such Redemption Date shall be deemed to have been redeemed. The deposit shall constitute full payment of the shares to their holders, and from and after each Redemption Date the shares redeemed on such Redemption Date shall be deemed to be no longer outstanding, and the holders thereof shall cease to be shareholders with respect to such shares and shall have no rights with respect thereto except the rights to receive, from the bank or trust company, payment of the Redemption Price of the shares, without interest, upon surrender of their certificates therefor. Any funds so deposited and unclaimed at the end of one year from the Second Redemption Date shall be released or repaid to the Corporation, after which the holders of shares called for redemption shall be entitled to receive payment of the Redemption Price only from the Corporation.

ARTICLE V

(a) The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law as it now exists or may hereafter be amended in a manner more favorable for directors.

(b) The Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors, or otherwise, to the fullest extent permissible under California law.

(c) Any amendment, repeal or modification of any provision of this Article V shall not adversely affect any right or protection of an agent of the Corporation existing at the time of such amendment, repeal or modification.

THREE: The foregoing amendment and restatement has been approved by the Board of Directors of the Corporation.

FOUR: The foregoing amendment and restatement has been duly approved by the requisite number of shares of the Corporation in accordance with Sections 902 and 903 of the California Corporations Code. The total number of outstanding

shares of Common Stock of the Corporation is 5,791,589, the total number of outstanding shares of Series A Preferred Stock of the Corporation is 6,570,000, the total number of outstanding shares of Series B Preferred Stock is 3,333,334, the total number of outstanding shares of Series C Preferred Stock of the Corporation is 7,655,018, the total number of outstanding shares of Series D Preferred Stock of the Corporation is 3,125,000, the total number of outstanding shares of Series E Preferred Stock of the Corporation is 10,664,111 and the total number of outstanding shares of Series F Preferred Stock of the Corporation is 11,204,246. The number of shares voting in favor of the amendment and restatement equaled or exceeded the vote required, which was more than 50% of the Common Stock and more than 50% of each of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock and the Series F Preferred Stock, each voting as a separate class.

* * * * *

IN WITNESS WHEREOF, the undersigned have executed this certificate on February 18, 2000.

/s/ AKE ALMGREN

Ake Almgren
President and Chief Executive Officer

/s/ JEFFREY R. WATTS

Jeffrey R. Watts
Secretary and Chief Financial Officer

VERIFICATION

The undersigned certify under penalty of perjury that they have read the foregoing Amended and Restated Articles of Incorporation and know the contents thereof, and that the statements therein are true and correct.

Executed at Woodland Hills, California, on February 18, 2000.

/s/ AKE ALMGREN

Ake Almgren
President and Chief Executive Officer

/s/ JEFFREY R. WATTS

Jeffrey R. Watts
Secretary and Chief Financial Officer

EXHIBIT 3.3

BYLAWS

OF

CAPSTONE TURBINE CORPORATION

HISTORY OF ACTIONS TAKEN RELATED TO BYLAWS	DATE
Adoption	April 28, 1997
Amended	October 8, 1997
Amended	March 11, 1999
Amended	February 14, 2000

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BYLAWS

OF

CAPSTONE TURBINE CORPORATION

ARTICLE I

CORPORATE OFFICES

1.1 PRINCIPAL OFFICE

The Board of Directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside California and the corporation has one or more business offices in California, then the Board of Directors shall fix and designate a principal business office in California.

1.2 OTHER OFFICES

The Board of Directors may at any time establish branch or subordinate offices at any place or places.

ARTICLE II

MEETINGS OF SHAREHOLDERS

2.1 PLACE OF MEETINGS

Meetings of shareholders shall be held at any place within or outside the State of California designated by the Board of Directors. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation or at any place consented to in writing by all persons entitled to vote at such meeting, given before or after the meeting and filed with the Secretary of the corporation.

2.2 ANNUAL MEETING

An annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors. At that meeting, directors shall be elected. Any other proper business may be transacted at the annual meeting of shareholders.

2.3 SPECIAL MEETINGS

Special meetings of the shareholders may be called at any time, subject to the provisions of Sections 2.4 and 2.5 of these Bylaws, by the Board of Directors, the Chairman of the Board, the President or the holders of shares entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by anyone other than the Board of Directors or the President or the Chairman of the Board, then the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by other written communication to the Chairman of the Board, the President, any Vice President or the Secretary of the corporation. The officer receiving the request forthwith shall cause notice to be given to the shareholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of these Bylaws, that a meeting will be held at the time requested by

the person or persons calling the meeting, so long as that time is not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, then the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the Board of Directors may be held.

2.4 NOTICE OF SHAREHOLDERS' MEETINGS

All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 2.5 of these Bylaws not less than ten (10) (or, if sent by third-class mail pursuant to Section 2.5 of these Bylaws, not less than thirty (30)) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote thereat. Such notice shall state the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, and no business other than that specified in the notice may be transacted, or (ii) in the case of the annual meeting, those matters which the Board of Directors, at the time of the mailing of the notice, intends to present for action by the shareholders, but, subject to the provisions of the next Paragraph of this Section 2.4, any proper matter may be presented at the meeting for such action. The notice of any meeting at which Directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by the Board for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the California Corporations Code (the "Code"), (ii) an amendment of the Articles of Incorporation, pursuant to Section 902 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, (iv) a voluntary dissolution of the corporation, pursuant to Section 1900 of the Code, or (v) a distribution in dissolution other than in accordance with the rights of any outstanding preferred shares, pursuant to Section 2007 of the Code, then the notice shall also state the general nature of that proposal.

2.5 MANNER OF GIVING NOTICE. AFFIDAVIT OF NOTICE

Notice of a shareholders' meeting shall be given either personally or by first-class mail, or, if the corporation has outstanding shares held of record by five hundred (500) or more persons (determined as provided in Section 605 of the Code) on the record date for the shareholders' meeting, notice may be sent by third-class mail, or other means of written communication, addressed to the shareholder at the address of the shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice; or if no such address appears or is given, at the place where the principal

executive office of the corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. The notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication.

If any notice (or any report referenced in Article VII of these Bylaws) addressed to a shareholder at the address of such shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the shareholder upon written demand of the shareholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of mailing of any notice or report in accordance with the provisions of this Section 2.5, executed by the Secretary, Assistant Secretary or any transfer agent, shall be prima facie evidence of the giving of the notice or report.

2.6 QUORUM

Unless otherwise provided in the Articles of Incorporation of the corporation, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of the shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders 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.

In the absence of a quorum, any meeting of shareholders may be adjourned from time to time by the vote of a majority of the shares represented either in person or by proxy, but no other business may be transacted, except as provided in the last sentence of the preceding paragraph.

2.7 ADJOURNED MEETING: NOTICE

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if its time and place are announced at the meeting at which the adjournment is taken. However, if the adjournment is for more than forty-five (45) days from the date set for the original meeting or if a new record date for the adjourned meeting is fixed, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these Bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.8 VOTING

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 2.11 of these Bylaws, subject to the provisions of Sections 702 through 704 of the Code (relating to voting shares held by a fiduciary, in the name of a corporation, or in joint ownership).

Elections for directors and voting on any other matter at a shareholders' meeting need not be by ballot unless a shareholder demands election by ballot at the meeting and before the voting begins.

Except as provided in the last paragraph of this Section 2.8, or as may be otherwise provided in the Articles of Incorporation, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of the shareholders. Any holder of shares entitled to vote on any matter may vote part of the shares in favor of be proposal and refrain from voting the remaining shares or may vote them against the proposal other than elections to office, but, if the shareholder fails to specify the number of shares such shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares which the shareholder is entitled to vote.

The affirmative vote of the majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by the Code or by the Articles of Incorporation.

At a shareholders' meeting at which directors are to be elected, a shareholder shall be entitled to cumulate votes either (i) by giving one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are normally entitled or (ii) by distributing the shareholder's votes on the same principle among as many candidates as the shareholder thinks fit, if the candidate or candidates' names have been placed in nomination prior to the

voting and the shareholder has given notice prior to the voting of the shareholder's intention to cumulate the shareholder's votes. If any one shareholder has given such a notice, then every shareholder entitled to vote may cumulate votes for candidates in nomination. The candidates receiving the highest number of affirmative votes, up to the number of directors to be elected, shall be elected; votes against any candidate and votes withheld shall have no legal effect.

2.9 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT

The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, are as valid as though they had been taken 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 of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. Neither the business to be transacted at nor the purpose of any annual or special meeting of shareholders need be specified in any written waiver of notice or consent to the holding of the meeting or approval of the minutes

thereof, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section 2.4 of these Bylaws, the waiver of notice or consent or approval shall state the general nature of the proposal. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance of a person at a meeting shall constitute a waiver of notice of and presence at that 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 required by the Code to be included in the notice of such meeting but not so included, if such objection is expressly made at the meeting.

2.10 SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting al which all shares entitled to vote thereon were present and voted.

Directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors. However, a director may be elected at any time to fill any vacancy on the Board of Directors, provided that it was not created by removal of a director and that it has not been filled by the directors, by the written consent of the holders of a majority of the outstanding shares entitled to vote for the election of directors.

All such consents shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxy holders, or a transferee of the shares, or a personal representative of the shareholder, or their respective proxy holders, may revoke the consent by a writing received by the Secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the Secretary.

If the consents of all shareholders entitled to vote have not been solicited in writing, the Secretary shall give prompt notice of any corporate action approved by the shareholders without a meeting by less than unanimous written consent to those shareholders entitled to vote who have not consented in writing. Such notice shall be given in the manner specified in Section 2.5 of these Bylaws. In the case of approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Code, (ii) indemnification of a corporate "agent," pursuant to Section 317 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, and (iv) a distribution in dissolution other than in

accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, the notice shall be given at least ten (10) days before the consummation of any action authorized by that approval, unless the consents of all shareholders entitled to vote have been solicited in writing.

2.11 RECORD DATE FOR SHAREHOLDER NOTICE: VOTING: GIVING CONSENTS

In order that the corporation may determine the shareholders 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 such meeting nor more than sixty (60) days before any other action. Shareholders on the close of business on the record date are entitled to notice and to vote, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Articles of Incorporation or the Code.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, but the Board of Directors shall fix a new record date if the meeting is adjourned for mom than forty-five (45) days from the date set for the original meeting.

If the Board of Directors does not so fix a record date:

(a) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders 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.

(b) The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the Board has been taken, shall be the day on which the first written consent is given, or (ii) when prior action by the Board has been taken, shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

The record date for any other purpose shall be as provided in Section 8.1 of these Bylaws.

2.12 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 by a written proxy signed by the person and filed with the Secretary of the corporation. A proxy shall be deemed signed if the shareholder's name or other authorization is placed on the proxy (whether by manual signature, typewriting, telegraphic or electronic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) the person who executed the proxy revokes it prior to the time of voting by delivering a writing to the corporation stating that the proxy is revoked or by executing a subsequent proxy and presenting it to the meeting or by attendance at such meeting and voting in person, or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no

proxy shall be valid after the expiration of eleven (11) months from the date thereof, unless otherwise provided in the proxy. The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmark dates on the envelopes in which they are mailed. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the

provisions of Sections 705(e) and 705(f) of the Code.

2.13 INSPECTORS OF ELECTION

In advance of any meeting of shareholders, the Board of Directors may appoint inspectors of election to act at the meeting and any adjournment thereof. If inspectors of election are not so appointed or designated or if any persons so appointed fail to appear or refuse to act, then the Chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election (or persons to replace those who so fail to appear) at the meeting. The number of inspectors shall be either one (1) or three (3). If appointed at a meeting on the request of the (1) or more shareholders or proxies, the majority of shares represented in person or by proxy shall determine whether one (1) or three (3) inspectors are to be appointed.

The inspectors of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies, receive votes, ballots or consents, bear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close, determine the result and do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the Code and any limitations in the Articles of Incorporation and these Bylaws relating to action required to be approved by the shareholders or by the outstanding shares, the business mid affairs of be corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors. The Board may delegate the management of the day-to-day operation of the business of the corporation to a management company or other person provided that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board.

3.2 NUMBER OF DIRECTORS

The authorized number of directors of the corporation shall be twelve (12). The number of authorized directors may be amended by the vote or written consent of holders of a majority of the outstanding of each class of stock of the Company entitled to vote, subject to any limitations or restrictions imposed by the Code.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS

At each annual meeting of shareholders, directors shall be elected to bold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of be term for which elected and until a successor has been elected and qualified, except in the case of the death, resignation, or removal of such a director.

3.4 REMOVAL

The entire Board of Directors or any individual director may be removed from office without cause by the affirmative vote of a majority of the outstanding shares entitled to vote on such removal; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against such director's removal or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election at which the same total number of votes cast went cast (or, if

such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

3.5 RESIGNATION AND VACANCIES

Any director may resign MUM upon giving oral or written notice to the Chairman of the Board, the President, the Secretary or the Board of Directors, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation of a director is effective at a future time, the Board of Directors may elect it successor to take office when the resignation becomes effective.

Vacancies on the Board of Directors may be filled by a majority of the remaining directors, or if the number of directors then in office is less than a quorum by (i) unanimous written consent of the directors then in office, (ii) the affirmative vote of a majority of the directors then in office at a meeting held pursuant to notice or waivers of notice, or (iii) a sole remaining director; however, a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum), or by the unanimous written consent of all shares entitled to vote thereon. Each director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected and qualified, or until his or her death, resignation or removal.

A vacancy or vacancies in the Board of Directors shall be deemed to exist (i) in the event of the death, resignation or removal of any director, (ii) 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, (iii) if the authorized number of directors is

increased, or (iv) if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be elected at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election by written consent, other than to fill a vacancy created by removal, shall require the consent of the holders of a majority of the outstanding shares entitled to vote thereon. A director may not be elected by written consent to fill a vacancy created by removal except by unanimous consent of all shares entitled to vote for the election of directors.

3.6 PLACE OF MEETINGS, MEETINGS BY TELEPHONE

Regular meetings of the Board of Directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the Board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the Board may be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Members of the Board may participate in a meeting through the use of conference telephone or similar communications equipment, so long as all directors participating in such meeting can hear one another. Participation in a meeting pursuant to this paragraph constitutes presence in person at such meeting.

3.7 REGULAR MEETINGS

Regular meetings of to Board of Directors may be held without notice if the time and place of such meetings are fixed by the Board of Directors.

3.8 SPECIAL MEETINGS: NOTICE

Subject to the provisions of the following paragraph, special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board, the President, any Vice President, the Secretary or any two (2) directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail, telegram, charges prepaid, or by telecopier, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or by telecopier or telegram, it shall be delivered personally or by telephone or by telecopier or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to 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.

3.9 QUORUM

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3. 11 of these Bylaws. 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 is the act of the Board of Directors, subject to the provisions of Section 310 of the Code (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of the Code (as to appointment of committees), Section 317(e) of the Code (as to indemnification of directors), the Articles of Incorporation, and other applicable law.

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.

3.10 WAIVER OF NOTICE

Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the Board of Directors.

3.11 ADJOURNMENT

A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place.

3.12 NOTICE OF ADJOURNMENT

If the meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time and place shall be given prior to the time of the adjournment meeting to the directors who were not present at the time of the adjournment.

3.13 BOARD ACTION BY WRITTEN CONSENT WITHOUT A 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 individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors.

3.14 FEES AND COMPENSATION OF DIRECTORS

Directors and members of committees who are officers or employees of the corporation 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. Board members who are not officers or employee of the corporation shall not be entitled to receive form the corporation any compensation for their services or reimbursement of their expenses. This Section 3.14 shall not 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 those services.

3.15 APPROVAL OF LOANS TO OFFICERS

If these Bylaws have been approved by the corporation's shareholders in accordance with the Code, the corporation may, upon the approval of the Board of Directors alone, make loans of money or property to, or guarantee the obligations of, any officer of the corporation or of its parent, if any, whether or not a director, or adopt an employee benefit plan or plans authorizing such loans or guaranties provided that (i) the Board of Directors determines that such a loan or guaranty or plan may reasonably be expected to benefit the corporation, (ii) the corporation has outstanding shares held of record by 100 or more persons (determined as provided in Section 605 of the Code) on the date of approval by the Board of Directors, and (iii) the approval of the Board of Directors is by a vote sufficient without counting the vote of any interested director of directors. Notwithstanding the foregoing, the corporation shall have the power to make loans permitted by the Code.

ARTICLE IV

COMMITTEES

4.1 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, each consisting of two (2) 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. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any such committee shall have authority to act in the manner and to the extent provided in the resolution of the Bard and may have all the authority of the Board, except with respect to:

(a) The approval of any action which, under the Code, also requires shareholders' approval or approval 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 these 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 shareholders of the corporation, except at a rate, in a periodic amount or within a price range set forth in the Articles of Incorporation or determined by the Board of Directors.

(g) The appointment of any other committees of the Board of Directors or the members

4.2 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.5 (place of meetings), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment), and Section 3.12 (action without meeting), 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; provided, however, that the time of regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the Board of Directors, and that 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

5.1 OFFICERS

The officers of the corporation shall be a President, a Secretary, and a Chief Financial Officer. The corporation may also have, at the discretion of the Board of Directors, a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these Bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these Bylaws, shall be chosen by the Board and serve at the pleasure of the Board, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS

The Board of Directors may appoint, or may empower the Chairman of the Board or the President to appoint, such other officers as the business of the corporation may require, each of whom shall bold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, all officers serve at the pleasure of the Board of Directors and any officer may be removed, either with or without cause, by the Board of Directors at any regular or special meeting of the Board 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 resignation shall take effect at the date of the receipt of tat notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

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 that office.

5.6 CHAIRMAN OF THE BOARD

The Chairman of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may from time to time be assigned by the Board of Directors or as may be prescribed by these Bylaws. If there is no President, then the Chairman of the Board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these Bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there be such an officer, the President shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the corporation. The President shall preside at all meetings of the shareholders and, in the absence or nonexistence of a Chairman of the Board, at all meetings of the Board of Directors. The President shall have the general powers and duties of management usually vested in the office of President of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

5.8 VICE PRESIDENTS

In the absence or disability of the President, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked, 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, these Bylaws, the President or the Chairman of the Board.

5.9 SECRETARY

The Secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of Directors, committees of directors and shareholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board of Directors, a share register, or a duplicate share register; showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, 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 shareholders and of the Board of Directors required to be given by law or by these Bylaws. The Secretary shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these Bylaws.

5.10 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 at all reasonable times be open to inspection by any director.

The Chief Financial Officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries 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 President and directors, whenever they request it, an account of all of his or her transactions as Chief Financial Officer and of the financial condition of the corporation, and shall have such other powers

and perform such other dudes as may be prescribed by the Board of Directors or dose Bylaws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS

The corporation shall, to the maximum extent and in the manner permitted by the Code, indemnify each of its directors against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 3170) of the Code), arising by reason of the fact that such person is or was a director of the corporation. For purposes of this Article VI, a "director" of the corporation includes any person (i) who is or was a director of the corporation, (ii) who is or was serving at the request of the corporation as a director of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the extent and in the manner permitted by the Code, to, indemnify each of its employees, officers, and agents (other than directors) against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an employee, officer, or agent of the corporation. For purposes of this Article VI, an "employee" or "officer" or "agent" of the corporation (other than a director) includes any person (i) who is or was an employee, officer, or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee, officer, or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee, officer, or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 PAYMENT OF EXPENSES IN ADVANCE

Expenses and attorneys' fees incurred in defending any civil or criminal action or proceeding for which indemnification is required pursuant to Section 6.1, or if otherwise authorized by the Board of Directors, shall be paid by the corporation in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amount if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized in this Article VI.

6.4 INDEMNITY NOT EXCLUSIVE

The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any Bylaw, agreement, van of or directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnity hereunder shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person.

6.5 INSURANCE INDEMNIFICATION

The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation against any liability asserted against or incurred by such person in such capacity or arising out of that person's status as such, whether or not the corporation would have the power to indemnify that person against such liability under the provisions of this Article VI.

6.6 CONFLICTS

No indemnification or advance shall be made under this Article VI, except where such indemnification or advance is mandated by law or the order, judgment or decree of any court of competent jurisdiction, in any circumstance where it appears:

(1) That it would be inconsistent with a provision of the Articles of Incorporation, these Bylaws, a resolution of be shareholders or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(2) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

6.7 RIGHT TO BRING SUIT

If a claim under this Article is not paid in full by the corporation within 90 days after a written claim has been received by the corporation (either became the claim is denied or because no determination is made), the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expenses of prosecuting such claim. The corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the Code for the corporation to indemnify the claimant for the claim. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he or she has met the applicable standard of conduct, if any, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant has not met the applicable standard of conduct, shall be a defense to such action or create a

presumption for the purposes of such action that the claimant has not met the applicable standard of conduct.

6.8 INDEMNITY AGREEMENTS

The Board of Directors is authorized to enter into a contract with any director, officer, employee or agent of the corporation, or any person who 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, including employee benefit plans, or any person who was a director, officer, employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation, providing for indemnification rights equivalent to or, if the Board of Directors so determines and to the extent permitted by applicable law, greater than, those provided for in this Article VI.

6.9 AMENDMENT REPEAL OR MODIFICATION

Any amendment, repeal or modification of any provision of this Article VI shall not adversely affect any right or protection of a director or agent of the corporation existing at the time of such amendment, repeal or modification.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF SHARE REGISTER

The corporation shall keep either at its principal executive office or at the office of its transfer agent or registrar (if either be appointed), as determined by resolution of the Board of Directors, a record of its shareholders listing the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of It corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation or who bold at least one percent (1%) of such voting shares and have filed a Schedule 14B with the United States Securities and Exchange Commission relating to the election of directors, shall have an absolute right to do either or both of the following (i) inspect and copy the record of shareholders' names, addresses, and shareholdings during usual business hours upon five (5) days' prior written demand upon the corporation, or (ii) obtain from the transfer agent for the corporation, upon written demand and upon the tender of such transfer agent's usual charges for such list (the amount of which charges shall be stated to the shareholder by the transfer agent upon request), a list of the shareholders' names and addresses who are entitled to vote for the election of directors, and their shareholding, as of the most recent record date for which it has been compiled or as of a date specified by the shareholder subsequent to the date of demand. The list shall be made available on or before the later of five (5) business days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

The record of shareholders shall also be open to inspection and copying by any shareholder or holder of a voting trust certificate at any time during usual business hours upon written demand on the corporation, for a purpose reasonably related to the holder's interests as a shareholder or holder of a voting trust certificate.

Any inspection and copying under his Section 7.1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

7.2 MAINTENANCE AND INSPECTION OF BYLAWS

The corporation shall keep at its principal executive office or, if its principal executive office is not in the State of California, at its principal business office in California, the original or a copy of these Bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in such state, then it shall, upon the written request of any shareholder, furnish to such shareholder a copy of these Bylaws as amended to date.

7.3 MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS

The accounting books and records and the minutes of proceedings of the shareholders and the Board of Directors, and committees of the Board of Directors shall be kept at such place or places as are designated by the Board of Directors or, in absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form, and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form.

The minutes and accounting books and records shall be open to inspection

upon the written demand on the corporation of any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a shareholder or as the holder of a voting trust certificate. Such inspection by a shareholder or holder of a voting trust certificate may be made in person or by an agent or attorney and the right of inspection includes the right to copy and make extracts. Such rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

7.4 INSPECTION BY DIRECTORS

Every director shall have the absolute right at any reasonable time to inspect and copy all books, records, and documents of every kind and to inspect the physical properties of the corporation and each of its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by an agent or attorney and the right of inspection includes the right to copy and make extracts.

7.5 ANNUAL REPORT TO SHAREHOLDERS; WAIVER

The Board of Directors shall cause an annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent to the shareholders at least fifteen (15) (or, if sent by third-class mail, thirty-five (35)) days prior to the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in Section 21 of these Bylaws for giving notice to shareholders of the corporation.

The annual report shall contain a balance sheet as of the end of the fiscal year and an income statement and statement of changes in financial position for the fiscal year, accompanied by any report thereon of independent accountants or, if there is no such report, the certificate of an authorized officer of the corporation that the statements were prepared without audit from the books and records of the corporation.

The foregoing requirement of an annual report shall be waived so long as the shares of the corporation are held by fewer than one hundred (100) holders of record.

7.6 FINANCIAL STATEMENTS

If no annual report for the fiscal year has been sent to shareholders, then the corporation shall, upon the written request of any shareholder made more than one hundred twenty (120) days after the close of such fiscal year, deliver or mail to the person making the request, within thirty (30) days thereafter, a copy of a balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year.

A shareholder or shareholders holding at least five percent (5 %) of the outstanding shares of any class of the corporation may make a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than thirty (30) days prior to the date of the request and a balance sheet of the corporation as of the end of that period. The statements shall be delivered or mailed to the person making the request within thirty (30) days thereafter. A copy of the statements shall be kept on file in the principal office of the corporation for twelve (12) months and it shall be exhibited at all reasonable times to any shareholder demanding an examination of the statements or a copy shall be mailed to the shareholder. If the corporation has not sent to the shareholders its annual report for the last fiscal year, the statements referred to in the first paragraph of this Section 7.6 shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report thereon, if any, of any independent accountants engaged by the corporation or the certificate of an authorized officer of the corporation that the financial statements were prepared without

audit from the books and records of the corporation.

7.7 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The Chairman of the Board, the President, any Vice President, the Chief Financial Officer, the Secretary or Assistant Secretary of this corporation, or any other person authorized by the Board of Directors or the President or a Vice President, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING

For purposes of determining the shareholders 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 (other than with respect to notice or voting at a shareholders meeting or action by shareholders by written consent without a meeting), the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such action. Only shareholders of record at the close of business on the record date 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, except as otherwise provided in the Articles of Incorporation or the Code.

If the Board of Directors does not so fix a record date, then the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto or the sixtieth (60th) day prior to the date of that action, whichever is later.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS

From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED

The Board of Directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. 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 for any amount.

8.4 CERTIFICATES FOR SHARES

A certificate or certificates for shares of the corporation shall be issued to each shareholder when any of such shares are fully paid. The Board of Directors may authorize the issuance of certificates for shares partly paid provided that these certificates shall state the total amount of the consideration to be paid for them and the amount actually paid. All certificates shall be signed in the name of the corporation by the Chairman of the Board or

the Vice Chairman of the Board or the President or a Vice President and by the Chief Financial Officer or an Assistant Treasurer or the Secretary or an Assistant Secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be by facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate has 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 that person were an officer, transfer agent or registrar at the date of issue.

8.5 LOST CERTIFICATES

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation or its transfer agent or registrar and cancelled at the same time. The Board of Directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed (as evidenced by a written affidavit or affirmation of such fact), authorize the issuance of replacement certificates on such terms and conditions as the Board may require; the Board may require 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 the certificate or the issuance of the replacement certificate.

8.6 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Code shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

9.1 AMENDMENT BY SHAREHOLDERS

New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the Articles of Incorporation of the corporation set forth the number of authorized Directors of the corporation, then the authorized number of Directors may be changed only by an amendment of the Articles of Incorporation.

9.2 AMENDMENT BY DIRECTORS

Subject to the rights of the shareholders as provided in Section 9.1 of these Bylaws, Bylaws, other than a Bylaw or an amendment of a Bylaw changing the authorized number of directors (except to fix the authorized number of directors pursuant to a Bylaw providing for a variable number of directors), may be adopted, amended or repealed by the Board of Directors.

9.3 RECORD OF AMENDMENTS

Whenever an amendment or new Bylaw is adopted, it shall be copied in the book of minutes with the original Bylaws. If any Bylaw is repealed, the fact of repeal, with the dot: of the meeting al which the repeal was enacted or written consent was filed, shall be stated in said book.

ARTICLE X

INTERPRETATION

Reference in these Bylaws to any provision of the California Corporations Code shall be deemed to include all amendments thereof.

EXHIBIT 9.1

AMENDMENT NO. 1

TO

INVESTORS RIGHTS AGREEMENT

This Amendment No. 1 to Investors Rights Agreement (this "Amendment") is made by and among Capstone Turbine Corporation, a California corporation, with a principal place of business at 6430 Independence Avenue, Woodland Hills, CA 91367 (the "Company") and each of the parties to the Investors Rights Agreement dated August 22, 1997.

BACKGROUND

WHEREAS, the Company and certain of its shareholders are party that certain Investors Rights Agreement, dated August 22, 1997 (the "Agreement");

WHEREAS, since the date of the Agreement the Company has issued certain warrants and additional shares of Preferred Stock, including shares of a newly designated Convertible Preferred Stock, Series F ("Series Preferred Stock"), to existing Shareholders (as defined in the Agreement) and to new Shareholders;

WHEREAS, the Company proposes to issue up to 37,500,000 shares of a newly designated series of Convertible Preferred Stock, Series G ("Series G Preferred Stock") to existing Shareholders and to new Shareholders at a price of $4.00 per share, which may be effected through multiple closings (the "Series G Financing"), and may in the future issue additional shares of Series G Preferred Stock;

WHEREAS, pursuant to the terms of the Agreement, the Company has made or will make new investors acquiring Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock after the November 1997 second closing of the Series E placement (collectively, the "New Shareholders") parties to the Agreement, provided each such New Investor has executed or will execute a counterpart signature page to the Agreement;

WHEREAS, in light of the foregoing, the Company and the Shareholders executing this Amendment wish to amend and clarify the Agreement as set forth herein; and

WHEREAS, capitalized terms not defined herein shall have the meanings set forth in the Investors Rights Agreement;

NOW, THEREFORE, in consideration of the representations, warranties, and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Negative Covenants.

Section 2.2(a)(ii) of the Agreement is hereby amended and restated in its entirety to read:

> *(ii) Repurchase any shares of Preferred Stock, Common Stock or warrants (other than Employee Stock or redemptions effected upon the terms contained in the Amended and Restated Articles of Incorporation of the Company); provided, that any repurchase of Preferred Stock will, subject to the terms of the Restated Articles, be undertaken pro rata among shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, and Warrants, if any, for Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Series G Preferred*

Stock;

2. Piggy-Back Registration Rights; Cutbacks. Section 3.1 of the Agreement is hereby amended to add the following sentence immediate following the penultimate sentence thereof:

> *"Any reduction in the number of Registrable Shares to be included in such registration statement pursuant to the foregoing sentence shall be allocated among holders of Registrable Shares requesting their inclusion under this Section 3.1 on a pro rata basis in proportion to the number of shares requested to be included by each such holder."*

3. Demand Registration; Number of Demands. In order to reflect the addition of the New Shareholders as Shareholders under the Agreement and the Company's obligations under Section 3.12, upon the first closing of the Series G Financing, the third sentence of Section 3.2 of the Agreement shall be automatically amended hereby by replacing the word "two" with the word "four", such that the Company may be required to effect a total of "four" Demand Registrations under this Section 3.2 (subject to further future adjustments under Section 3.12 of the Agreement).

4. Registrations on Form S-3; Number of Registrations. In order to reflect the addition of the New Shareholders as Shareholders under the Agreement and the Company's obligations under Section 3.12, upon the first closing of the Series G Financing, Section 3.3(a) of the Agreement shall be automatically amended hereby by replacing the word "four" with the word "six", such that the Company may be required to effect a total of "six" registrations on Form S-3 (subject to further future adjustments under Section 3.12 of the Agreement):

5. Notwithstanding Section 3.11 of the Agreement, no Shareholder shall be prohibited from at any time selling or otherwise disposing of securities of the Company purchased by such Shareholder in the public market (including shares previously sold to the public in a registered public offering and shares previously sold into the public markets pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended).

6. Other Registration Rights. Section 3.12 of the Agreement is hereby amended and restated in its entirety to read as follows:

> *3.12 Other Registration Rights. The Company shall not grant any registration rights to any other Person which registration rights are senior to the registration rights of the Holders, unless the Company shall first obtain the written consent of holders of a majority of the Registrable Shares. The Company may grant registration rights in the future to any future purchaser of the Securities of the Company which are on parity with the Holders (including without limitation by making any such purchaser a Shareholder under this Agreement), without the consent of the Holders, provided that such purchasers agree in writing to be bound by the provisions of this Agreement and provided further that, if such rights are granted on parity with the Holders and if the aggregate number of Registrable Shares is increased thereby by at least 10%, the number of permitted Demand Registrations and the number of permitted registrations under Section 3.3(a) shall each be increased by at least one. The Company has the right to add employees of the Company who have options or Securities of the Company, and to add any future purchasers of Series G Preferred Stock up to thirty-seven million five hundred thousand (37,500,000) shares in the aggregate (including those being sold in the Series G Financing), as parties to this Agreement, without regard to the foregoing sentence.*

7. Shareholders. Prior to the Closing of the sale of Series G Preferred Stock, the Shareholders are as listed in Schedule A hereto. Upon the Closing of any sale of the Series G Preferred Stock, or upon the addition of any other Shareholders to the Agreement, the Company shall amend Schedule A to reflect the inclusion of New Shareholders acquiring Series G Preferred Stock.

8. Acknowledgment. Each of the undersigned Shareholders acknowledges compliance by the Company with the terms of all preemptive rights, rights of first offer or other similar participation rights held thereby (including without limitation under Article IV of the Agreement and that certain Rights Agreement dated March 30, 1999) (collectively, "Preemptive Rights") through the date hereof in connection with any and all issuances of the Company's equity securities or convertible debt securities, including without limitation in connection with the Series G Financing. Each such Shareholder acknowledges and agrees that it has, to the extent it is not already participating in the Series G Financing, waived its Preemptive Rights in connection therewith; provided, however, that such waiver shall not preclude the exercise of such Preemptive Rights in future financings to the extent otherwise applicable by their terms.

9. Counterparts. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of February __, 2000.

CAPSTONE TURBINE CORPORATION

By: /s/ JEFFREY R. WATTS
_____
Jeffrey R. Watts, Chief Financial Officer

INVESTORS RIGHTS AGREEMENT

This Agreement is made by and among Capstone Turbine Corporation, a California corporation, with a principal place of business at 6025 Yolanda Avenue, Tarzana, California 91356 (the "Company") and each of the shareholders, optionholders, and warrantholders set forth in the signature lines below.

BACKGROUND

WHEREAS, the Company sold 3,100,0000 shares of Convertible Preferred Stock, Series A ("Series A Preferred Stock") to various purchasers (the "1993 Series A Purchasers") pursuant to a Preferred Stock Purchase Agreement dated as of March 31, 1993 as amended on July 29, 1994 (the "1993 Stock Purchase Agreement");

WHEREAS, the Company sold an additional 3,300,000 shares of Series A Preferred Stock to various purchasers pursuant to a Preferred Stock Purchase Agreement dated as of July 29, 1994 (the "1994 Stock Purchase Agreement");

WHEREAS, the Company sold 3,333,334 shares of Series B Preferred Stock to Fletcher Challenge Distributed Generation, Inc., a Delaware corporation, pursuant to a Preferred Stock Purchase Agreement dated as of May 16, 1995 (the "1995 Stock Purchase Agreement").

WHEREAS, the Company sold 5,101,611 shares of Series C Preferred Stock ("Series C Preferred Stock") to various purchasers and issued warrants to such purchasers pursuant to a Preferred Stock Purchase Agreement dated as of February 8, 1996 (the "1996 Stock Purchase Agreement");

WHEREAS, the Company sold an additional 2,500,000 shares of Series C Preferred Stock to Vulcan Ventures, Inc., a Washington corporation, pursuant to

a Preferred Stock Agreement dated as of May 20, 1996(the "Vulcan Stock Purchase Agreement");

WHEREAS, the Company sold 3,125,000 shares of Series D Preferred Stock ("Series D Preferred Stock") to various purchasers pursuant to a Preferred Stock Purchase Agreement dated as of January 17, 1997 (the "1997 Stock Purchase Agreement"); and

WHEREAS, the Company as of the date hereof is selling up to 8,333,333 shares of Series E Convertible Preferred Stock ("Series E Preferred Stock"), subject to increase, pursuant to a Preferred Stock Purchase Agreement dated the date hereof (the "1997 Series E Stock Purchase Agreement"), which may be effectuated through multiple closings.

NOW, THEREFORE, in consideration of the representations, warranties, and agreements contained herein, the parties agree as follows:

ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS

1.1. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Agreement" means this Investor Rights Agreement as from time to time amended and in effect between the parties, including all Exhibits hereto.

"Board" or "Board of Directors" means the board of directors of the Company as constituted from time to time.

"Commission" shall mean the Securities and Exchange Commission or any other federal agency then administering the Securities Act or Exchange Act.

"Common Stock" means the Company's Common Stock.

"Common Shares" means shares of the Company's Common Stock.

"Company" means Capstone Turbine Corporation, a California corporation, and its successors and assigns.

"Consolidated" and"consolidating" when used with reference to any term defined herein mean that term as applied to the accounts of the Company and its Subsidiaries consolidated in accordance with generally accepted accounting principles consistently applied throughout reporting periods.

"Controlled Entity" means any corporation, firm or entity under the control of the Company.

"Continuing Founder" means a Founder who continues to hold at least 750,000 shares of Common Stock, as adjusted for any Recapitalization Events.

"Conversion Shares" means shares of Common Stock issuable upon conversion of the Preferred Shares.

"Directors" means the members from time to time of the Board of Directors.

"Employee Stock" means any Common Stock of the Company, whether now or hereafter authorized, that the Company has issued or sold or received for issuance to an employee pursuant to an employee stock purchase, option or benefit plan, agreement or other arrangement.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the Commission (or of any other federal agency then administering the Exchange Act) thereunder, all as the same shall be in effect at the time.

"Founders" mean Robin Mackay and James C. Noe.

"Holder" means any person owning or having the right to acquire Registrable Shares or any assignee thereof in accordance with Section 3.14 hereof.

"Immediate Family" means any spouse, child, grandchild, brother, parent or sister of a Holder.

"Initial Public Offering" means the first underwritten public offering of Common Stock of the Company for the account of the Company and offered on a "firm commitment" basis pursuant to an offering registered under the Securities Act with the Commission on Form S-1, Form SB-1, Form SB-2 or their then equivalents.

"Intellectual Property Rights" means any and all, whether domestic or foreign, patents, patent applications, patent rights, trade secrets, confidential business information, formulae, processes, laboratory notebooks, algorithms, copyrights, mask works, claims of infringement against third parties, licenses, permits, license rights, contract rights with employees, consultants and third parties, trademarks, trade names, service marks, inventions and discoveries, and other such rights generally classified as intangible property assets in accordance with generally accepted accounting principles.

"Notice of Acceptance" shall have the meaning assigned to that term in Section 4.2.

"Offer" shall have the meaning assigned to that term in Section 4. 1.

"Offered Securities" shall have the meaning assigned to that term in Section 4. 1.

"Person" means an individual, corporation, partnership, joint venture, trust, university, or unincorporated organization, or a government, or any agency or political subdivision thereof.

"Preemptive Shareholder" shall have the meaning assigned to that term in Section 4.1.

"Preferred Shares" means the shares of preferred stock of the Company now held or hereafter acquired by any Shareholder.

"Qualified Public Offering" means an underwritten public offering on a firm commitment basis pursuant to an effective registration statement filed pursuant to the Securities Act covering the offer and sale of Common Stock of the Company in which the net proceeds of the offering equal or exceed $30,000,000 (net of underwriting discounts and commissions) and in which the price per share of the Common Stock equals or exceeds $8 (subject to appropriate adjustment for Recapitalization Events).

"Recapitalization Events" means stock splits, stock dividends, recapitalizations, reclassifications and similar events.

"Refused Securities" shall have the meaning assigned to that term in Section 4.3.

"Registrable Shares" shall mean and include (i) the Conversion Shares, (ii) all shares of Common Stock issued or issuable upon the exercise or conversion of any warrant, right or convertible security issued as a dividend or distribution with respect to, or in exchange or replacement for, Preferred Shares or Conversion Shares; (iii) shares of Common Stock otherwise held by a Shareholder; and (iv) any shares of Common Stock issued to (or issuable upon exercise of warrants issued to) any bank or other lender, or equipment lessor in connection with the Company obtaining a loan or equipment financing, if the Company expressly accords to such shares the registration rights contained in this Agreement; provided, however, that shares of Common Stock which are Registrable Shares shall cease to be Registrable Shares upon the consummation of

any sale of such shares pursuant to a registration statement or Rule 144 under the Securities Act. Wherever reference is made in this Agreement to holders of Registrable Shares or to a request or consent of holders of a certain percentage of Registrable Shares, each holder of Preferred Shares shall be deemed to hold the Conversion Shares issuable upon conversion of the Preferred Shares, even if such conversion has not yet been effected.

"Securities" means any shares of capital stock of the Company or any securities convertible into or exchangeable for any class of capital stock of the Company and all securities into which such Securities may be converted or reclassified as a result of any merger, consolidation, stock split, stock dividend or other recapitalization of the Company whether now owned or hereafter acquired.

"Securities Act" means the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission (or of any other federal agency then administering the Securities Act) thereunder, all as the same shall be in effect at the time.

"Shareholders" means (i) Persons listed in Exhibit A attached to this Agreement, (ii) any Person who purchases from the Company after the date hereof newly issued shares of preferred or common stock of the Company and who, as permitted by this Agreement, becomes a party to this Agreement and executes a counterpart of this Agreement, (iii) any permitted assignee or transferee from any of the foregoing of Registrable Shares who is not a competitor of the Company pursuant to the terms of this Agreement, and (iv) any Warrantholder who exercises a warrant for the Company's Securities.

"Shares" means, collectively, the Preferred Shares and the Conversion Shares.

"Stockholders Agreement" shall have the meaning set forth in Section 6.1.

"Subsidiary" or "Subsidiaries" means any Person of which the Company and/or any of its other Subsidiaries (as herein defined) directly or indirectly owns at the time at least fifty percent (50%) of the outstanding voting securities.

"Transfer" shall have meaning set forth in Section 5. 1.

"Warrantholder" means a holder of Warrants to acquire stock of the Company, as listed in Exhibit B as may be amended from time to time.

"Warrants" means warrant certificates representing the right to purchase stock of the Company.

1.2. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistently applied, and all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles.

ARTICLE II
COVENANTS OF THE COMPANY

2.1. Certain Affirmative Covenants of the Company. The Company covenants and agrees that until the consummation of a Qualified Public Offering, it will use its diligent efforts perform and observe the following covenants and provisions, and will cause each Subsidiary, if and when such Subsidiary exists, to perform and observe such of the following covenants and provisions as are applicable to such Subsidiary:

(a) Agreements of Officers and Employees. Cause each employee of the Company now or hereafter employed, and all consultants of the Company, who are involved in the design, review, evaluation or development of products or Intellectual Property Rights to execute and deliver a Confidentiality and Invention Assignment Agreement in form and substance reasonably satisfactory to the Board of Directors of the Company.

(b) Indemnification. Maintain provisions in its By-laws or Articles of Incorporation exculpating and indemnifying all Directors from and against liability to the maximum extent permitted under the laws of the state of its incorporation.

(c) Keeping of Records and Books of Account. Keep adequate records and books of account, in which complete entries will be made in accordance with generally accepted accounting principles consistently applied, reflecting all financial transactions of the Company, and in which, for each fiscal you, all proper reserves for depreciation, depletion, obsolescence, amortization, taxes, bad debts and other purposes in connection with its business shall be made.

(d) Controls. Maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

2.2. Negative Covenants.

(a) Covenants. The Company shall not, without the prior written consent or affirmative vote of the holders of record of at least 51% of the total outstanding shares of all series of Preferred Stock of the Company voting on aggregate basis:

(i) Declare or pay any dividends or make any other distributions on shares of Common Stock;

(ii) Repurchase any shares of Preferred Stock, Common Stock or warrants (other than Employee Stock or redemptions effected upon the terms contained in the Amended and Restated Articles of Incorporation of the Company); provided, that any repurchase of Preferred Stock will be undertaken pro rata among shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Warrants for Series C Preferred Stock, Series D Preferred Stock, and Series E Preferred Stock;

(iii) Make, or permit any Controlled Entity to make, any guaranty, other than in the ordinary course of business or on behalf of the Company or a wholly-owned subsidiary of the Company;

(iv) Merge with or consolidate into any corporation, firm or entity, or sell, lease or otherwise dispose of all or substantially all of its assets unless the Company is the surviving or acquiring entity and except in connection with reincorporation mergers;

(v) Mortgage or pledge, or create a security interest in, or permit any Controlled Entity to mortgage, pledge or create a security interest in, all or substantially all of the property of the Company unless unanimously authorized by the entire Board of Directors of the Company;

(b) Termination. The provisions of this Section 2.2 shall terminate upon the earlier to occur of (i) an Automatic Conversion Event (as defined in the Company's Amended and Restated Articles of Incorporation), (ii) the date upon which less than 1,000,000 shares of the Preferred Stock (as adjusted for Recapitalization Events) are outstanding, or (iii) a Qualified Public Offering.

2.3. Reporting Requirements. Until the consummation of a Qualified Public Offering, the Company will furnish the following to each Shareholder, so long as such Shareholder continues to own at least 10% of the then outstanding capital stock of the Company, and subject to the confidentiality provisions of Section 7.7, unless such Shareholder waives in writing its rights to receive such reports:

(a) Monthly and Quarterly Reports. As soon as available and in any event within 45 days after the end of each calendar month, consolidated and consolidating balance sheets of the Company and its Subsidiaries as of the end of such month and consolidated and consolidating statements of income and a summary statement of monthly cash flow of the Company and its Subsidiaries for such month and for the period commencing at the end of the previous fiscal year and ending with the end of such month, prepared in accordance with generally accepted accounting principles consistently applied (except for the exclusion of footnotes); and, as soon as available and in any event within 45 days after the end of the first three fiscal quarters of each fiscal year, financial statements containing the same information as required in the monthly financial statements set forth on a quarterly basis, prepared in accordance with generally accepted accounting principles consistently applied (except for the exclusion of footnotes). All such monthly and quarterly financial statements may be unaudited.

(b) Annual Reports. As soon as available and in any event within 120 days after the end of each fiscal year of the Company, a copy of the annual audit report for such year for the Company and its Subsidiaries, including therein consolidated and consolidating balance sheets of the Company and its Subsidiaries as of the end of such fiscal year and consolidated and consolidating statements of income and of cash flow of the Company and its Subsidiaries for such fiscal year, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year, all such consolidated statements to be duly certified by the chief financial officer of the Company and a firm of independent public accountants approved by the Board of Directors accompanied by a management control letter prepared by such independent public accounting firm.

(c) Budgets and Business Plan. As soon as available and in any event at least 30 days before the beginning of each fiscal year of the Company, a business plan and prepared on a monthly basis, operating budget for the forthcoming fiscal year, and as soon as available any revisions thereto.

(d) Reports and Other Information. Provide to each such Shareholder with reasonable promptness, such other information and data with respect to the Company or any of its Subsidiaries as from time to time may be requested.

2.4. Inspection Rights. until the consummation of a Qualified Public Offering, the Company will permit each Shareholder, so long as such Shareholder continues to own at least 10% of the outstanding capital stock of the Company, and such Shareholder's employees, agents or representatives, to examine and make copies of and extracts from the records and books of account of, and visit and inspect the properties, assets, operations and business of the Company and any Subsidiary, and to discuss the affairs, finances and accounts of the Company and any Subsidiary with any of its officers, consultants, directors, employees, attorneys or independent accountants; provided, however, that any Shareholder, employee, agent or representative, as the case may be, agrees to hold all information confidential on the terms set forth in Section 7.7 hereof and pursuant to such other non-disclosure agreement as the Company determines appropriate; and further provided that the Company is not obligated to provide access to any information which it believes would adversely affect the attorney-client privilege.

ARTICLE III
REGISTRATION RIGHTS

3.1. Piggy-Back Registration. If at any time the Company shall determine to register for its own account or the account of others under the Securities Act (including without limitation pursuant to the Qualified Public Offering, the Initial Public Offering or a demand for registration of any Shareholder of the Company) any of its equity securities, other than on Form S-8 or Form S-4 or their then equivalents (a "Piggy-Back Registration"), it shall send to each Holder, written notice of such determination and, if within fifteen (15) days after receipt of such notice, such Holder shall so request in writing, the Company shall use its diligent efforts to include in such registration statement all or any part of the Registrable Shares such Holder requests to be registered,

except that if, in connection with any offering involving an underwriting of Common Stock to be issued by the Company, the managing underwriter shall impose a limitation on the number of shares of Common Stock

which may be included in the registration statement because, in its judgment, such limitation is necessary to effect an orderly public distribution, then the Company shall be obligated to include in such registration statement only such limited portion (or none, if so required by the managing underwriter) of the Registrable Shares with respect to which such Holder has requested inclusion hereunder. No right under this Section 3.1 shall be construed to limit any registration required under Section 3.2.

3.2. Demand Registration. If on any occasion Holders holding a majority of the then outstanding Registrable Shares shall notify the Company in writing that it or they intend to offer or cause to be offered for public sale at least 35% of the then outstanding Registrable Shares, the Company will so notify all Holders. Upon written request of any Holder given within fifteen (15) days after the receipt by such Holder from the Company of such notification, the Company will use its diligent efforts to cause such of the Registrable Shares as may be requested by any Holder (including the Holder giving the initial notice of intent to offer) to be registered under the Securities Act as expeditiously as possible (a "Demand Registration"). The Company shall not be required to effect more than two Demand Registrations. If in the good faith judgment of the Board of Directors of the Company, a Demand Registration would be detrimental to the Company and the Board of Directors of the Company concludes, as a result, that it is important to defer the filing of such registration statement at such time, then the Company shall have the right to defer such filing, provided that the Company may not defer the filing for a period of more than 180 days after receipt of the request for a Demand Registration, or more than once in any 12-month period. The Holders may not exercise their rights under this Section 3.2 until the earlier to occur of (i) thirty-six (36) months following the date of this Agreement or (ii) six months after the effectiveness of any registration statement covering the Initial Public Offering. The Holders may not exercise their right under this Section 3.2 within one hundred eighty (180) days of the effective date of any registration statement (other than on Form S-8) covering capital stock of the Company.

3.3. Registrations on Form S-3. In addition to the rights provided the Holders in Sections 3.1 and 3.2 above, if the registration of Registrable Shares under the Securities Act can be effected on Form S-3 (or any equivalent successor form promulgated by the Commission), then the Company shall provide the Holders with the following rights:

(a) For the Holders. Upon the written request of one or more Holders, the Company will so notify each Holder, and then will, as expeditiously as possible, use its diligent efforts to effect qualification and registration under the Securities Act on Form S-3 of all or such portion of the Registrable Shares as the Holders shall specify; provided, however, the Company shall not be required to effect a registration pursuant to this Section 3.3(a) unless the market value of the Registrable Shares to be sold by the Holders in any such registration shall be at least $2,000,000 at the time of filing such registration statement, and further provided that the Company shall not be required to effect more than one registration during any 12 month period pursuant to this Section 3.3(a) or more than four registrations in the aggregate pursuant to this Section 3.3(a).

(b) Conflicts. In the event that, in a registration under this Section 3.3 which is effected through an underwriter, the underwriter imposes a limitation on the number of Registrable Shares which may be included in the registration statement in order

to effect an orderly public distribution, then the Company shall exclude from such registration statement, first, all shares which are not Registrable Shares, and second, Registrable Shares which are requested to be included pursuant to Section 3.1.

3.4. Effectiveness. The Company will use its diligent efforts to maintain the effectiveness for up to one hundred twenty (120) days (or such shorter period of time as the underwriters need to complete the distribution of the registered offering, or ninety (90) days in the case of a "shelf" registration statement on Form S-3) of any registration statement pursuant to which any of the Registrable Shares are being offered, and from time to time will amend or supplement such registration statement and the prospectus contained therein to the extent necessary to comply with the Securities Act and any applicable state securities statute or regulation. The Company will also provide each Holder with as many copies of the prospectus contained in any such registration statement as it may reasonably request.

3.5. Indemnification of Holders.

(a) In the event that the Company registers any of the Registrable Shares under the Securities Act, the Company will indemnify and hold harmless each Holder and each underwriter of the Registrable Shares (including their officers, directors, affiliates and partners) so registered (including any broker or dealer through whom such shares may be sold) and each Person, if any, who controls such Holder or any such underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages, expenses or liabilities, joint or several, to which they or any of them become subject under the Securities Act, applicable state securities laws or under any other statute or at common law or otherwise, as incurred, and, except as hereinafter provided, will reimburse each such Holder, each such underwriter and each such controlling Person if any, for any legal or other expenses reasonably incurred by them or any of them in connection with investigating or defending any actions whether or not resulting in any liability, as incurred, insofar as such losses, claims, damages, expenses, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement, in any preliminary or amended preliminary prospectus or in the final prospectus (or the registration statement or prospectus as from time to time amended or supplemented by the Company) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein not misleading, or any violation by the Company of any rule or regulation promulgated under the Securities Act or any state securities laws applicable to the Company and relating to action or inaction required of the Company in connection with such registration, unless (i) such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, preliminary or amended preliminary prospectus or final prospectus in reliance upon and in conformity with information furnished in writing to the Company in connection therewith by any such holder of Registrable Shares or its controlling person (in the case of indemnification of such holder or its controlling person), or any such underwriter or its controlling person (in the case of indemnification of such underwriter or its controlling person) expressly for use therein, or unless (ii) in the case of a sale directly by such Holder of (including a sale of such Registrable Shares through any underwriter retained by such holder of Registrable Shares to engage in a distribution on behalf of such Holder), such untrue statement or alleged untrue

statement or omission or alleged omission was contained in a preliminary prospectus and corrected in a final or amended prospectus copies of which were delivered to such Holder or such underwriter on a timely basis, and such Holder failed to deliver a copy of the final or amended prospectus at or prior to the confirmation for the sale of the Registrable Shares to the person asserting any such loss, claim, damage or liability in any case where such delivery is required by the Securities Act.

(b) Promptly after receipt by any Holder, any underwriter or any controlling Person of notice of the commencement of any action in respect of which indemnity may be sought against the Company, such Holder, or such underwriter or such controlling person, as the case may be, will notify the Company in writing of the commencement thereof (provided, that failure to so notify the Company shall not relieve the Company from any liability it may have hereunder) and, subject to the provisions hereinafter stated, the Company shall be entitled to assume the defense of such action (including the employment of counsel, who shall be counsel reasonably satisfactory to such Holder, of such

underwriter or such controlling Person, as the case may be), and the payment of expenses insofar as such action shall relate to any alleged liability in respect of which indemnity may be sought against the Company.

(c) Such Holder, any such underwriter or any such controlling Person shall have the right to employ separate counsel in any such action and to participate in the defense thereof but the fees and expenses of such counsel subsequent to any assumption of the defense by the Company shall not be at the expense of the Company unless the employment of such counsel has been specifically authorized in writing by the Company. The Company shall not be liable to indemnify any Person for any settlement of any such action effected without the Company's written consent. The Company shall not, except with the approval of each party being indemnified under this Section 3.5, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to the parties being so indemnified of a release from all liability in respect to such claim or litigation.

(d) In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which any Holder exercising rights under this Article III, or any controlling Person of any such Holder, makes a claim for indemnification pursuant to this Section 3.5 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 3.5 provides for indemnification in such case, then, the Company and such Holder will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and of the Holder on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the Holder on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by the Holder on the other, and

each party's relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case, (A) no such Holder will be required to contribute any amount in excess of the public offering price of all such Registrable Shares offered by such Holder pursuant to such registration statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

3.6. Indemnification of Company.

(a) In the event that the Company registers any of the Registrable Shares under the Securities Act, each Holder so registered will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed or otherwise participated in the preparation of the registration statement, each underwriter of the Registrable Shares so registered (including any broker or dealer through whom such of the shares may be sold) and each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages, expenses or liabilities, joint or several, to which they or any of them may become subject under the Securities Act, applicable state securities laws or under any other statute or at common law or otherwise, and, except as hereinafter provided, will reimburse the Company and each such director, officer, underwriter or controlling Person for any legal or other expenses reasonably incurred by them or any of them in connection with investigating or defending any actions whether or not resulting in any liability, insofar as such losses, claims, damages, expenses, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement, in any preliminary or amended preliminary prospectus or in the final prospectus (or in the registration statement or prospectus as from time to time amended or supplemented) or arise

out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein not misleading, but only insofar as any such statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company in connection therewith by such Holder expressly for use therein; provided, however, that such Holder's obligations hereunder shall be limited to an amount equal to the proceeds received by such Holder sold in such registration.

(b) Promptly after receipt of notice of the commencement of any action in respect of which indemnity may be sought against such Holder, the Company will notify such Holder in writing of the commencement thereof (provided, that failure to so notify such Holder shall not relieve such holder from any liability it may have hereunder), and such Holder shall, subject to the provisions hereinafter stated, be entitled to assume the defense of such action (including the employment of counsel, who shall be counsel reasonably satisfactory to the Company) and the payment of expenses insofar as such action shall relate to the alleged liability in respect of which indemnity may be sought against such holder of Registrable Shares. The Company and each such director, officer, underwriter or controlling Person shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel subsequent to any assumption of the defense by such Holder shall not be at the expense of such Holder unless

employment of such counsel has been specifically authorized in writing by such Holder. Such Holder shall not be liable to indemnify any Person for any settlement of any such action effected without such Holder's written consent.

(c) In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which the Company exercising its rights under this Article III makes a claim for indemnification pursuant to this Section 3.6, but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding that this Section 3.6 provides for indemnification, in such case, then, the Company and such Holder will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and of the Holder on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the Holder on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by the Holder on the other, and each party's relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case, (A) no such Holder will be required to contribute any amount in excess of the public offering price of all such Registrable Shares offered by it pursuant to such registration statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

3.7. Exchange Act Registration. If the Company at any time shall list any class of equity securities of the type which may be issued upon the conversion of the Preferred Stock on any national securities exchange and shall register such class of equity securities under the Exchange Act, the Company will, at its expense, simultaneously list on such exchange and maintain such listing of, the Common Stock. If the Company becomes subject to the reporting requirements of either Section 13 or Section 15(d) of the Exchange Act, the Company will use its diligent efforts to timely file with the Commission such information as the Commission may require under either of said Sections; and in such event, the Company shall use its diligent efforts to take all action as may be required as a condition to the availability of Rule 144 or Rule 144A under the Securities Act (or any successor exemptive rule hereinafter in effect) with respect to such Common Stock. The Company shall furnish to any Holder forthwith

upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144, (ii) a copy of the most recent annual or quarterly report of the Company as filed with the Commission, and (iii) such other reports and documents as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing a Holder to sell any such Registrable Securities without registration. After the occurrence of the Initial Public Offering, the Company agrees to use its diligent efforts to facilitate and expedite transfers of Common Stock pursuant to

Rule 144 under the Securities Act, which efforts shall include timely notice to its transfer agent to expedite such transfers of Common Stock.

3.8. Further Obligations of the Company. Whenever under the preceding Sections of this Article III, the Company is required hereunder to register Registrable Shares, it agrees that it shall also do the following:

(a) Furnish to each selling Holder such copies of each preliminary and final prospectus and such other documents as said holder may reasonably request to facilitate the public offering of its Registrable Shares;

(b) Use its diligent efforts to register or qualify the Registrable Shares covered by said registration statement under the applicable securities or "blue sky" laws of such jurisdictions as any selling Holder may reasonably request; provided, however, that the Company shall not be obligated to qualify to do business in any jurisdictions where it is not then so qualified or to take any action which would subject it to the service of process in suits other than those arising out of the offer or sale of the securities covered by the registration statement in any jurisdiction where it is not then so subject;

(c) Furnish to each selling Holder a signed counterpart, addressed to the selling holders, of

(i) an opinion of counsel for the Company, dated the effective date of the registration statement, and

(ii) "comfort" letters signed by the Company's independent public accountants who have examined and reported on the Company's financial statements included in the registration statement, to the extent permitted by the standards of the American Institute of Certified Public Accountants, covering substantially the same matters with respect to the registration statement (and the prospectus included therein) and (in the case of the accountants' "comfort" letters) with respect to events subsequent to the date of the financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' "comfort" letters delivered to the underwriters in underwritten public offerings of securities;

(d) Make available for inspection to each selling Holder a copy of all documents filed with and all correspondence from or to the Commission in connection with any such offering of securities; and

(e) Cooperate to the extent reasonably requested to obtain all necessary approvals from the National Association of Securities Dealers, Inc.

3.9. Shareholder Acts. Whenever under the preceding Sections of this Article III the Holders are registering such shares pursuant to any registration statement, each such Holder agrees to (i) timely provide to the Company, at its request, such information and materials as it may reasonably request in order to effect the registration of such Registrable Shares and (ii) convert all shares of Preferred Stock included in any registration statement to

shares of Common Stock, such conversion to be effective at the closing of such offering pursuant to such registration statement.

3.10. Expenses. In the case of all Piggy-Back Registrations effected under Section 3.1, two Demand Registrations effected under Section 3.2, and one

registration per 12-month period effected under Section 3.3 up to the maximum number specified therein, the Company shall bear all reasonable costs and expenses of each such registration, including, but not limited to, the Company's printing, legal and accounting fees and expenses, Commission and NASD filing fees and "Blue Sky" fees and expenses; provided, however, that the Company shall have no obligation to pay or otherwise bear any portion of the underwriters' commissions or discounts attributable to the Registrable Shares being offered and sold by be Holders, or the fees and expenses of counsel for the selling Holders in connection with the registration of the Registrable Shares. The Company shall pay all expenses in connection with any registration initiated pursuant to this Article III which is withdrawn, delayed or abandoned at the request of the Company, except if such withdrawal, delay or abandonment is caused by the fraud, material misstatement or omission of a material fact by a Holder to be included in such registration.

3.11. "Market Stand-Off" Agreement. Each Holder hereby agrees that, during the period of duration (up to, but not exceeding, 180 days) specified by the Company and an underwriter of Common Stock or other securities of the Company, following the effective date of a registration statement of the Company filed under the Securities Act, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; provided, however, that:

(i) such agreement shall be applicable only during the three-year period following the date of the final prospectus distributed pursuant to the first such registration statement of the Company which covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering; and

(ii) all officers and directors of the Company, all one-percent (1%) security holders, and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period, and each Holder agrees that, if so requested, such Holder will execute an agreement in the form provided by the underwriter containing terms which are essentially consistent with the provisions of this Section 3.11.

Notwithstanding the foregoing, the obligations described in this Section 3.11 shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms which may be promulgated in the future.

3.12. Other Registration Rights. The Company shall not grant any registration rights to any other Person which registration rights are senior to the registration rights of the Holders, unless the Company shall first obtain the written consent of a majority-in-interest of the Holders. The Company may grant registration rights in the future to any future purchaser of the Securities of the Company which are on parity with the Holders, without the consent of the Holders, provided that such purchasers agree in writing to be bound by the provisions of this Agreement and provided further that, if such rights are granted on parity with the Holders, the number of permitted Demand Registrations and the number of permitted registrations under Section 3.3(a) shall each be increased by at least one. The Company has the right to add employees of the Company who have options or Securities of the Company as parties to this Agreement.

3.13. S-8 Registration. Reasonably promptly after completion of the Initial Public Offering, the Company shall use its diligent efforts to file with the Commission a registration statement on Form S-8 (or its equivalent successor form) to register all shares of Common Stock issuable pursuant to options granted under the Company's stock option plans adopted by the Company's Board of

Directors and approved by the Company's shareholders.

3.14. Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Article III may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of at least 500,000 shares of such securities, provided (i) the Company is, within a reasonable time before such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (ii) that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Securities Act and (iii) the assignee, in the Company's judgment, is not a competitor of the Company.

3.15. Termination of Registration Rights. No Holder shall be entitled to exercise any right provided for in this Article III after the earlier of (i) five (5) years following the consummation of the sale of securities in an Initial Public Offering, (ii) such time as Rule 144 or another similar exemption under the Act is available for the sale of all of such Holder's shares during a three (3)-month period without registration.

3.16. Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Article III.

ARTICLE IV
RIGHT OF FIRST OFFER

4.1. Right of First Offer. Subject to this Article IV, if the Company shall decide to issue or sell, any (i) shares of Common Stock, (ii) any other equity security of the Company, including without limitation, shares of Preferred Stock, (iii) any debt security of the Company which by its terms is convertible into or exchangeable for any equity security of the Company, (iv) any security of the Company that is a combination of debt and equity, or (v) any option, warrant or other right to subscribe for, purchase or otherwise acquire any such equity security or any such debt security of the Company, the Company shall, in each

case, first offer to sell such securities (the "Offered Securities") to such Shareholders ("Preemptive Shareholders") who hold at least 5% of the then outstanding capital stock of the Company and to each Continuing Founder as follows: The Company shall offer to sell to each Preemptive Shareholder that portion of the Offered Securities as the number of Common Shares which such Preemptive Shareholders then holds or has the right to acquire bears to the sum of the total number of issued and outstanding Common Shares plus the number of Common Shares reserved for issuance upon conversion of outstanding shares of convertible securities of the Company (including the Preferred Stock) and upon exercise of warrants, options and rights outstanding, at a pace and on such other terms as shall have been specified by the Company in writing; delivered to the Preemptive Shareholders (the "Offer"), which Offer by its terms shall remain open for a period of 14 days from the giving of the Offer.

4.2. Notice of Acceptance. Notice of each Preemptive Shareholder's intention to accept, in whole or in part, any Offer made pursuant to Section 4.1 shall be evidenced by a writing signed by such Preemptive Shareholder and delivered to the Company prior to the end of the 14-day period of such Offer, setting forth the number of shares or securities such Preemptive Shareholder elects to purchase (the "Notice of Acceptance"). Failure of any Preemptive Shareholder to deliver a Notice of Acceptance within said 14 days will be deemed to be a rejection of the Offer.

4.3. Conditions to Acceptances and Purchase. The Company shall have one hundred twenty (120) days from the end of said 14-day period to sell any such Offered Securities as to which a Notice of Acceptance has not been given (the "Refused Securities") to any Person or Persons, substantially on the same terms and conditions as set forth in the Offer.

4.4. Termination and Waiver of Right of First Offer. The rights of the

Preemptive Shareholders under this Article IV may be waived with respect to each series of Preferred Stock of the Company upon the prior written consent of the holders of a majority of the outstanding shares of such series, and shall terminate immediately prior to the effectiveness of the registration statement with respect to the Initial Public Offering, but expressly conditioned on the consummation of the Initial Public Offering. The rights of any Preemptive Shareholder under this Article IV shall also terminate for all future issuances of Offered Securities if the Preemptive Shareholder does not purchase all of the Offered Securities which it was entitled to purchase in this Article IV.

4.5. Exception. The rights of the Preemptive Shareholders under this Article IV shall not apply to:

(a) Common Stock issued as a stock dividend to holders of Common Stock or upon any subdivision or combination of shares of Common Stock;

(b) Preferred Stock issued as a dividend to holders of Preferred Stock or upon any subdivision or combination of shares of Preferred Stock;

(c) The issuance of any Conversion Shares;

(d) Common Stock issued upon exercise of options, warrants and rights outstanding as of the date of this Agreement;

(e) Common Stock and options of the Company issued after the date hereof to directors, officers, employees or consultants of the Company and any Subsidiary pursuant to any qualified or non-qualified stock option plan, employee stock ownership plan, employee benefit plan, stock plan, or such other options, arrangements, agreements or plans intended principally as a means of providing compensation or incentive compensation for employment or services, approved by the Board of Directors of the Company;

(f) Options, warrants or shares issued to banks or other lenders or equipment lessors in connection with the Company obtaining loans or equipment financing or to customers, prospective customers, vendors or strategic partners; or

(g) Securities of capital stock issued in a merger or consolidation or as consideration for the acquisition by the Company of any other corporation or other business entity or of the assets and business thereof.

4.6. Convenience. For convenience in administration, the Company may offer and sell Securities covered by the right in Section 4.1 without first offering such Securities to the Preemptive Shareholders, so long as the Preemptive Shareholders are given the opportunity to purchase their pro rata amount within 45 days after the close of the sale of Securities.

4.7. Assignability. The rights of the Preemptive Shareholders set forth herein are nonassignable except (a) to any or all of the beneficial owners of a Preemptive Shareholder; (b) an Affiliate of a Preemptive Shareholder; (c) to the immediate Family of a Continuing Founder or trusts of which a Continuing Founder or such member of the Immediate Family is the beneficiary; and (d) to a purchaser who is not a competitor of the Company and who purchases all of the Preemptive Shareholder's Securities of the Company. Any assignee permitted under the preceding sentence shall assume the assignor's obligations under this Agreement and become a party to this Agreement in a manner satisfactory to the Company.

ARTICLE V
CERTAIN TRANSFER RESTRICTIONS

5.1. Restriction on Transfer. No Shareholder may sell or engage in any transaction which has resulted or which will result in a change in the beneficial or record ownership of any Securities held by the Shareholder, including without limitation a voluntary or involuntary sale, assignment, transfer, pledge, hypothecation, encumbrance, disposal, loan, gift, attachment or levy (a "Transfer"), except as provided in this Article V, and any such Transfer of Securities or attempted Transfer of Securities in contravention of

this Article V shall be void and ineffective for any purpose and shall not confer on any transferee or purported transferee any rights whatsoever.

5.2. Rights of First Refusal.

(a) Each time a Shareholder proposes (or is required by operation of law or other involuntary transfer) to Transfer any or all of the Securities standing in such Shareholder's name or owned by him, such Shareholder shall first offer such Securities to the Company in accordance with the following provisions:

(i) Such Shareholder shall deliver a written notice (a "Notice") to the Company stating (A) such Shareholder's bona fide intention to Transfer such Securities, (B) the name and address of the proposed transferee, (C) the number of Securities to be transferred, and (D) the purchase price per Security and terms of payment for which the Holder proposes to Transfer such Securities.

(ii) Within 30 days after receipt of the Notice, the Company shall have the first right to purchase or obtain such Securities, upon the price and terms of payment designated in the Notice. If the Notice provides for the payment of non-cash consideration, the Company at its option may pay the consideration in cash equal to the Board of Directors' good faith estimate of the present fair market value of the non-cash consideration offered. If the proposed Transfer is an encumbrance or is involuntary or by operation of law, the price of each Security purchased shall be its fair market value on the date the Company receives the Notice as determined in good faith by the Board of Directors and such price shall be payable in cash on the date of purchase. Fair market value as so determined by the Board of Directors shall be conclusive and binding on all interested parties.

(iii) If the Company elects not to purchase or obtain all of the Securities designated in the Transferring Shareholder's Notice, then the Shareholder may Transfer the Securities referred to in the Notice to the proposed transferee, provided that such Transfer (A) is completed within 60 days after the expiration of the Company's right to purchase or obtain such Securities, (B) is made at the price and terms designated in the Notice, and (C) the proposed Transferee agrees to be bound by the terms and provisions of this Article V immediately upon receipt of such Securities. If such Securities are not so transferred, the Transferring Shareholder must give notice in accordance with this Article V prior to any other or subsequent Transfer of such Securities.

(iv) The Company may assign its rights hereunder as determined by the Board of Directors.

(b) Notwithstanding Section 5.2(a), a Shareholder may Transfer Securities: (i) to a member of the Shareholder's Immediate Family (including a revocable trust for the benefit of such a member), (ii) to a wholly owned subsidiary or constituent partner of the Shareholder, or (iii) to the estate of any of the foregoing by gift, will or intestate succession; provided that the Shareholder or his representative notifies the Company of any such Transfer and the proposed transferee agrees to be bound by the terms and conditions of this Article V and to become a party to this Article V immediately upon the receipt of such Securities.

5.3. Legal Compliance. Notwithstanding any provision to the contrary herein, the Company's obligation to pay or complete payment for any Securities to be purchased by it under this Article V is subject to its being legally permitted to do so under the tests in Sections 500 and 501 of the California Corporation Code and compliance with all applicable federal and state securities and other laws to which the Company is subject.

5.4. Legend on Stock Certificates. Each certificate representing shares owned of record or beneficially by a party to this Agreement shall be endorsed

with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO VARIOUS RESTRICTIONS ON TRANSFER, INCLUDING CERTAIN RIGHTS OF FIRST REFUSAL TO PURCHASE SUCH SECURITIES, SET FORTH IN AN INVESTORS RIGHTS AGREEMENT, A COPY OF WHICH IS AVAILABLE AT THE ISSUER'S HEADQUARTERS.

Under no circumstances shall any Transfer of Securities subject hereto be valid until the proposed transferee thereof shall have provided to the Company a written acknowledgment of the provisions of this Article V; and notwithstanding any other provision of this Article V, no such Transfer of any kind shall in any event result in the non-applicability of the provisions hereof at any time to any of the Securities subject hereto.

5.5. Term of this Article. The restrictions on Transfer of Securities set forth in this Article V shall terminate upon any of the following:

(a) The determination of the Board of Directors that this Article V shall be terminated.

(b) The liquidation or bankruptcy of the Company.

(c) The consummation of an Initial Public Offering.

ARTICLE VI
VOTING FOR DIRECTORS

6.1. Directors. Each Shareholder agrees to vote their Securities in the Company as voted by the parties to that certain Stockholders Agreement dated April 9, 1997 as amended and as may be further amended from time to time (the "Stockholders Agreement").

6.2. Termination. The obligation in Section 6.1 shall terminate at the time of the termination of the Stockholders Agreement.

ARTICLE VII
MISCELLANEOUS

7.1. No Waiver; Cumulative Remedies. No failure or delay on the part of any party to this Agreement 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 hereunder. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

7.2. Amendments, Waivers and Consents. Any provision in the Agreement to the contrary notwithstanding, and except as hereinafter provided, changes in, termination or amendments of or additions to this Agreement may be made, and compliance with any covenant or provision set forth herein may be omitted or waived, if the Company (i) shall obtain consent thereto in writing from the holder or holders of at least a majority of the Registrable Shares, provided that the consent of at least eighty percent (80%) of the Registrable Shares is necessary to amend or terminate Article IV, (ii) shall deliver copies of such consent in writing to any Shareholders who did not execute such consent and (iii) the consent of an affected Continuing Founder is obtained if the Continuing Founder's rights in Section 4.1 is amended or terminated; provided that no consents shall be effective to reduce the percentage of the Registrable Shares the consent of the holders of which is required under this Section 7.2. Any waiver or consent may be given subject to satisfaction of conditions stated therein and any waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

7.3. Addresses for Notices. All notices, requests, demands and other communications provided for hereunder shall be in writing (including telegraphic communication) and mailed, telegraphed or delivered to each applicable party at the address set forth in the records of the Company or at such other address as to which such party may inform the other parties in writing in compliance with

the terms of this Section.

If to any Shareholder: at such Shareholder's address for notice as set forth in the register maintained by the Company, or at such other address as shall be designated by such Person in a written notice to the other parties complying as to delivery with the terms of this Section.

If to the Company: at the address set forth on page 1 hereof, or at such other address as shall be designated by the Company in a written notice to the other parties complying as to delivery with the terms of this Section.

All such notices, requests, demands and other communications shall be deemed delivered: three days after mailed (which mailing must be accomplished by certified mail, return receipt requested and postage prepaid); when transmitted by successful facsimile transmission; one business day after deposited with a guaranteed overnight courier service (charged to sender); or when delivered in hand or dispatched by telegraph.

7.4. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Company. This Agreement is not assignable by the Shareholders without the consent of the Company, except as provided for in Sections 3.14 and 4.7.

7.5. Entire Agreement. This Agreement and the Stockholders Agreement constitute the entire agreement among the parties and supersedes any prior or contemporaneous understandings, representations or agreements concerning the subject matter hereof. In particular Articles 7, 8 and 9 of the 1993 Stock Purchase Agreement, as amended, Articles 7, 8 and 9 of the 1994 Stock Purchase Agreement, as amended,

Articles 6, 7 and 8 of the 1995 Stock Purchase Agreement, as amended, Articles 6, 7 and 8 of the 1996 Stock Purchase Agreement, as amended, Articles 6, 7 and 8 of the Vulcan Stock Purchase Agreement, as amended, and Articles 6, 7 and 8 of the 1997 Stock Purchase Agreement, are hereby deemed terminated and of no further force or effect. This Agreement supersedes the prior rights of any Warrantholder with respect to any registration rights.

7.6. Severability. The provisions of this Agreement are severable and, in the event that any court of competent jurisdiction one or more of the provisions or part of a provision contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of a provision of this Agreement, but this Agreement shall be reformed and construed as if such invalid or illegal or unenforceable provision, or part of a provision, had never been contained herein, and such provisions or part reformed so that it would be valid, legal and enforceable to the maximum extent possible.

7.7. Confidentiality. Each Shareholder agrees that it will keep confidential and will not disclose, or divulge any confidential, proprietary, secret or non-public information which such Shareholder may obtain from the Company (except as otherwise required by law or as otherwise contemplated by the Marketing and Licensing Agreement dated March 16, 1995 between the Company and Fletcher Challenge Power Marketing Ltd.) and not use such information other than for the benefit of the Company or in furtherance of the Shareholder's rights as a shareholder of the Company, provided that no such information shall be deemed to be non-public if it (i) is or becomes generally available to the public other than as a result of a disclosure by the Shareholder or its respective agents, representatives or employees; (ii) is or becomes available to the Shareholder on a non-confidential basis from a source (other than the Company or one of its officers, directors, agents, representatives or employees) that is not prohibited from disclosing such information by a legal, contractual or fiduciary obligation; or (iii) was known to the Shareholder on a non-confidential basis prior to its disclosure to it by the Company and provided further that, any other term of this Agreement to the contrary notwithstanding, the Company shall not be obligated to disclose any information, the disclosure of which it believes in good faith would be detrimental to the Company or its shareholders.

7.8. Governing Law and Construction. This Agreement will be governed by

and construed in accordance with the laws of California, without regard to the principles of conflicts of law. The language of this Agreement shall be deemed to be the result of negotiation among the parties and their respective counsel and shall not be construed strictly for or against any party. Each party (i) agrees that any action arising out of or in connection with this Agreement shall be brought solely in federal or state courts in Los Angeles, California, (ii) hereby consents to the sole jurisdiction of such courts, and (iii) agrees that, whenever a party is requested to execute one or more documents evidencing such consent, it shall do so immediately.

7.9. Headings. Article, section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

7.10. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

7.11. Further Assurances. From and after the date of this Agreement, upon the request of any Shareholder or the Company, the Company and the Shareholder shall execute and deliver such instruments, documents and other writings as may be reasonably necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement.

7.12. Aggregation of Stock. All shares of Company stock held or acquired by a Shareholder and its Affiliates and Immediate Family shall be aggregated together for purposes of determining the availability of any rights under this Agreement.

7.13. Attorney's Fees. In the event that any dispute among the parties to this Agreement should result in a legal proceeding, the prevailing party shall be entitled to recover from the other party(ies) to such dispute, all fees, costs and expenses of enforcing any right under or with respect to this Agreement, including without limitation, such fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of August 22, 1997.

CAPSTONE TURBINE CORPORATION

By: /s/ Jeffrey R. Watts

Its: Chief Financial Officer

EXHIBIT 10.2

[LOGO] AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE -- NET
(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: This Lease ("LEASE"), dated for reference purposes only December 1, 1999, is made by and between NORTHPARK INDUSTRIAL, a California General Partnership, NORTHWEST INDUSTRIAL CENTER, a California Limited Partnership and NORTHPARK INDUSTRIAL - LEAHY DIVISION LLC., a California limited liability company ("LESSOR") and CAPSTONE TURBINE CORPORATION, a California corporation ("LESSEE"), (collectively the "PARTIES," or individually a "PARTY"). (See Addendum Paragraph 50)

1.2 PREMISES: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 21211 Nordhoff Street, Chatsworth 91311 located in the County of Los Angeles, State of California and generally described as (describe briefly the nature of the property and, if applicable, the "PROJECT", if the property is located within a Project) a concrete tilt-up building consisting of approximately 98,370 square feet of area, aka Lot #3, Tract #33398, City of Los Angeles, in an MR-2 zone in Northpark Industrial Center ("PREMISES"). (See also Paragraph 2 and Addendum Paragraph 51)

1.3 TERM: Ten (10) years and 0 months ("ORIGINAL TERM") commencing See Addendum Paragraph 52 ("COMMENCEMENT DATE") and ending See Addendum Paragraph 52 ("EXPIRATION DATE"). (See also Paragraph 3)

1.4 EARLY POSSESSION: See Addendum Paragraph 53 ("EARLY POSSESSION DATE"). (See also Paragraphs 3.2 and 3.3)

1.5 BASE RENT: $60,000.00 per month ("BASE RENT"), payable on the First (1st) day of each month commencing See Addendum Paragraph 54. (See also Paragraph 4)

[X] If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 BASE RENT PAID UPON EXECUTION: $420,000.00 as Base Rent for the period See Addendum Paragraph 54.

1.7 SECURITY DEPOSIT: $60,000.00 ("SECURITY DEPOSIT"). (See also Paragraph 5)

1.8 AGREED USE: See Addendum Paragraph 55. (See also Paragraph 6)

1.9 INSURING PARTY: Lessee is the "INSURING PARTY" unless otherwise stated herein. (See also Paragraph 8 and Addendum Paragraph 67)

1.10 REAL ESTATE BROKERS: (See also Paragraph 15)

(a) REPRESENTATION: The following real estate brokers (collectively, the "BROKERS") and brokerage relationships exist in this transaction (check applicable boxes):

[ ] _____ represents Lessor exclusively ("LESSOR'S BROKER");

[ ] _____ represents Lessee exclusively ("LESSEE'S BROKER"); or

[X] The Seeley Company represents both Lessor and Lessee ("DUAL AGENCY").

(b) PAYMENT TO BROKERS: Lessor shall pay to the Broker the fee agreed to in their separate written agreement.

1.11 GUARANTOR. The obligations of the Lessee under this Lease are to

be guaranteed by _____ _____ ("GUARANTOR"). (See also Paragraph 37)

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 89 and Exhibits A - Lessor's Building Improvement Plans, B - Lessee's Building Improvement Plans, C - Parking Garage Rules, D - Form of First Amendment to Lease, E - Form of Memorandum of Lease, all of which constitute a part of this Lease.

2. PREMISES.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the actual size is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("START DATE"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee within thirty (30) days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "BUILDING") shall be free of material defects. If a non-compliance with said warranty exists as of the Start Date, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If, after the Start Date, Lessee does not give Lessor written notice of any non-compliance with this warranty within: (i) one year as to the surface of the roof and the structural portions of the roof, foundations and bearing walls, (ii) six (6) months as to the HVAC systems, (iii) thirty (30) days as to the remaining systems and other elements of the Building, correction of such non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. (See Addendum Paragraph 56)

2.3 COMPLIANCE. Lessor warrants that the improvements on the Premises and Garage comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances ("APPLICABLE REQUIREMENTS") in effect on the Start Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within six (6) months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. (See Addendum Paragraph 57). If the Applicable Requirements are hereafter changed (as opposed to being in existence at the Start Date, which is addressed in Paragraph 6.2(e) below) so as to require during the term of this Lease the construction of an addition to or an alteration of the Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Building ("CAPITAL EXPENDITURE"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be

fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last two (2) years of this Lease and the cost thereof exceeds six (6) months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within ten (10) days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to six (6) months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least ninety (90) days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure. (See Addendum Paragraph 57)

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for such costs pursuant to the provisions of Paragraph 7.1(c); provided, however, that if such Capital Expenditure is required during the last two years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon ninety (90) days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within ten (10) days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon thirty (30) days written notice to Lessor. (See Addendum Paragraph 57)

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease. (See Addendum Paragraph 57)

2.4 ACKNOWLEDGEMENTS. Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements), and their suitability for Lessee's intended use; (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises; and (c) neither Lessor, Lessor's agents, nor any Broker has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (a) Broker has made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises; and (b) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants. (See Addendum Paragraph 58)

2.5 LESSEE AS PRIOR OWNER/OCCUPANT. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

3. TERM.

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3. (See Addendum Paragraph 59)

3.2 EARLY POSSESSION. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease (including but not limited to the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date. (See Addendum Paragraph 60)

3.3 DELAY IN POSSESSION. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing within ten (10) days after the end of such sixty (60) day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said ten (10) day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within four (4) months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing. (See Addendum Paragraph 61)

3.4 LESSEE COMPLIANCE. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. RENT.

4.1. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("RENT").

4.2 PAYMENT. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on said change in financial condition.

Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within fourteen (14) days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within thirty (30) days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease. (See Addendum Paragraph 62)

6. USE.

6.1 USE. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within five (5) business days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in use. (See Addendum Paragraph 63)

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "HAZARDOUS SUBSTANCE" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "REPORTABLE USE" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance. (See Addendum Paragraph 64)

(c) LESSEE REMEDIATION. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party. (See Addendum Paragraph 64)

(d) LESSEE INDEMNIFICATION. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. NO TERMINATION, CANCELLATION OR RELEASE AGREEMENT ENTERED INTO BY LESSOR AND LESSEE SHALL RELEASE LESSEE FROM ITS OBLIGATIONS UNDER THIS LEASE WITH RESPECT TO HAZARDOUS SUBSTANCES, UNLESS SPECIFICALLY SO AGREED BY LESSOR IN WRITING AT THE TIME OF SUCH AGREEMENT. (See Addendum Paragraph 64)

(e) LESSOR INDEMNIFICATION. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. (See Addendum Paragraph 64)

(f) INVESTIGATIONS AND REMEDIATIONS. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in Paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities. (See Addendum Paragraph 64)

(g) LESSOR TERMINATION OPTION. If a Hazardous Substance Condition occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee, within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within ten (10) days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to twelve (12) times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such

remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination. (See Addendum Paragraph 64)

6.3 LESSEE'S COMPLIANCE WITH APPLICABLE REQUIREMENTS. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within ten (10) days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE. Lessor and Lessor's "Lender" (as defined in Paragraph 30 below) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspections, so long as such inspection is reasonably related to the violation or contamination. (See Addendum Paragraph 65)

7. MAINTENANCE; REPAIRS, UTILITY INSTALLATIONS; TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS.

(a) IN GENERAL. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations, and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, heating, ventilating, air-conditioning, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building. (See Addendum Paragraph 66)

(b) SERVICE CONTRACTS. Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler, and pressure vessels, (iii) fire extinguishing systems, including fire alarm and/or smoke

detection, (iv) landscaping and irrigation systems, (v) roof covering and drains, (vi) driveways and parking lots, (vii) clarifiers (viii) basic utility feed to the perimeter of the Building, and (ix) any other equipment, if reasonably required by Lessor. (See Addendum Paragraph 66)

(c) REPLACEMENT. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if the Basic Elements described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such Basic Elements, then such Basic Elements shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is the number of months of the useful life of such replacement as such useful life is specified pursuant to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then commercially reasonable in the judgment of Lessor's accountants), with Lessee reserving the right to prepay its obligation at any time. (See Addendum Paragraph 66)

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 UTILITY INSTALLATIONS; TRADE FIXTURES; ALTERATIONS. (See Addendum Paragraph 66)

(a) DEFINITIONS; CONSENT REQUIRED. The term "UTILITY INSTALLATIONS" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "TRADE FIXTURES" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "ALTERATIONS" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "LESSEE OWNED ALTERATIONS AND/OR UTILITY INSTALLATIONS" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed $50,000 in the aggregate or $10,000 in any one year.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount equal to the greater of one month's Base Rent, or $10,000, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) INDEMNIFICATION. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any

mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one and one-half times the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 OWNERSHIP; REMOVAL; SURRENDER; AND RESTORATION. (See Addendum Paragraph 66)

(a) OWNERSHIP. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per Paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) REMOVAL. By delivery to Lessee of written notice from Lessor not earlier than ninety (90) and not later than thirty (30) days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee Owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or groundwater contaminated by Lessee. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT FOR INSURANCE. Lessee shall pay for all insurance required under Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of $2,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within ten (10) days following receipt of an invoice.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force a Commercial General Liability Policy of Insurance protecting Lessee and Lessor against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $2,000,000 per occurrence with an "ADDITIONAL INSURED -- MANAGERS OR LESSORS OF PREMISES

ENDORSEMENT" and contain the "AMENDMENT OF THE POLLUTION EXCLUSION ENDORSEMENT" for damage caused by heat, smoke or fumes from a hostile fire. The Policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE -- BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any groundlessor, and to any Lender(s) insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lenders, but in no event more than the commercially reasonable and available insurable value thereof. If Lessor is the Insuring Party, however, Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss. (See Addendum Paragraph 67)

*(b) RENTAL VALUE. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one (1) year. Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of Rent from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount in the event of such loss.
(See Addendum Paragraph 67)*

(c) ADJACENT PREMISES. If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises. (See Addendum Paragraph 67)

8.4 LESSEE'S PROPERTY/BUSINESS INTERRUPTION INSURANCE.

(a) PROPERTY DAMAGE. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) BUSINESS INTERRUPTION. Lessee shall obtain and maintain loss

of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) NO REPRESENTATION OF ADEQUATE COVERAGE. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 INSURANCE POLICIES. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 INDEMNITY. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified. (See Addendum Paragraph 67)

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom. (See Addendum Paragraph 67)

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in six (6) months or less from the date of the damage or destruction.

Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total. (See Addendum Paragraph 68)

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total. (See Addendum Paragraph 68)

(c) "INSURED LOSS" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PARTIAL DAMAGE -- INSURED LOSS. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or have this Lease terminate thirty (30) days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party. (See Addendum Paragraph 68)

9.3 PARTIAL DAMAGE -- UNINSURED LOSS. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act

of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective sixty (60) days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within ten (10) days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice. (See Addendum Paragraph 68)

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate sixty (60) days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6. (See Addendum Paragraph 68)

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving a written termination notice to Lessee within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished. (See Addendum Paragraph 68)

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES. (See Addendum Paragraph 68)

(a) ABATEMENT. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein. (See Addendum Paragraph 68)

(b) REMEDIES. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within thirty (30) days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within said thirty (30) days, this Lease shall continue in full force and effect. "COMMENCE" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs. (See Addendum Paragraph 68)

9.7 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 WAIVE STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 DEFINITION OF "REAL PROPERTY TAXES." As used herein, the term "REAL PROPERTY TAXES" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the

funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. The term "REAL PROPERTY TAXES" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises. (See Addendum Paragraph 69)

10.2

(a) PAYMENT OF TAXES. Lessee shall pay the Real Property Taxes applicable to the Premises during the term of this Lease. Subject to Paragraph 10.2(b), all such payments shall be made at least ten (10) days prior to any delinquency date. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment. If Lessee shall fail to pay any required Real Property Taxes, Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

(b) ADVANCE PAYMENT. In the event Lessee incurs a late charge on any Rent payment, Lessor may, at Lessor's option, estimate the current Real Property Taxes, and require that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be an amount equal to the amount of the estimated installment of taxes divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable taxes. If the amount collected by Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall pay Lessor, upon demand, such additional sums as are necessary to pay such obligations. All monies paid to Lessor under this Paragraph may be intermingled with other monies of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may, at the option of Lessor, be treated as an additional Security Deposit.

10.3 JOINT ASSESSMENT. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective

valuations assigned in the assessor's work sheets or such other information as may be reasonably available. (See Addendum Paragraph 69)

10.4 PERSONAL PROPERTY TAXES. Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause such property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered. (See Addendum Paragraph 70)

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "ASSIGN OR ASSIGNMENT") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) A change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of Lessee shall constitute a change in control for this purpose. (See Addendum Paragraph 71)

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than twenty-five percent (25%) of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "NET WORTH OF LESSEE" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles. (See Addendum Paragraph 71)

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon thirty (30) days written notice, increase the monthly Base Rent to one hundred ten percent (110%) of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to one hundred ten percent (110%) of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to One Hundred Ten Percent (110%) of the scheduled adjusted rent. (See Addendum Paragraph 71)

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief. (See Addendum Paragraph 71)

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease; (ii) release Lessee of any obligations hereunder; or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of $1,000 or ten percent (10%) of the current monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See Addendum Paragraph 71)

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. (See Addendum Paragraph 71) The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written

notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. A "DEFAULT" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or rules under this Lease. A "BREACH" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism. (See Addendum Paragraph 72)

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) business days following written notice to Lessee. (See Addendum Paragraph 72)

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) a Tenancy Statement, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice to Lessee. (See Addendum Paragraph 72)

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "DEBTOR" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph 13.1 (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions. (See Addendum Paragraph 72)

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor; (ii) the termination of a

Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty; (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing; (iv) a Guarantor's refusal to honor the guaranty; or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within sixty (60) days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 REMEDIES. If Lessee fails to perform any of its affirmative duties or obligations, within ten (10) days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "INDUCEMENT PROVISIONS," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance. (See Addendum Paragraph 72)

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to ten percent (10%) of each such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance. (See Addendum Paragraph 72)

13.5 INTEREST. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within thirty (30) days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the thirty-first (31st) day after it was due as to non-scheduled payments. The interest ("INTEREST") charged shall be equal to the prime rate reported in the Wall Street Journal as published closest prior to the date when due plus four percent (4%), but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4. (See Addendum Paragraph 72)

13.6 BREACH BY LESSOR.

(a) NOTICE OF BREACH. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion. (See Addendum Paragraph 72)

(b) PERFORMANCE BY LESSEE ON BEHALF OF LESSOR. In the event that neither Lessor nor Lender cures said breach within thirty (30) days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor. (See Addendum Paragraph 72)

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "CONDEMNATION"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of any building portion of the premises, or more than twenty-five percent (25%) of the land area portion of the premises not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such condemnation. (See Addendum Paragraph 73)

15. BROKERS' FEE.

15.1 ADDITIONAL COMMISSION. In addition to the payments owed pursuant to Paragraph 1.10 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee acquires any rights to the Premises or other premises owned by Lessor and located within the same Project, if any, within which the Premises is located, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the schedule of said Brokers in effect at the time of the execution of this Lease.

15.2 ASSUMPTION OF OBLIGATIONS. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Each Broker shall be a third party beneficiary of the provisions of Paragraphs 1.10, 15, 22 and 31. If Lessor fails to pay to a Broker any amounts due as and for commissions pertaining to this Lease when due, then such amounts shall accrue Interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within ten (10) days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker.

15.3 REPRESENTATIONS AND INDEMNITIES OF BROKER RELATIONSHIPS. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

16. ESTOPPEL CERTIFICATES.

(a) Each Party (as "RESPONDING PARTY") shall within ten (10) days after written notice from the other Party (the "REQUESTING PARTY") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "ESTOPPEL CERTIFICATE" form published by the American Industrial Real Estate Association, plus such additional information,

confirmation and/or statements as may be reasonably requested by the Requesting Party. (See Addendum Paragraph 74)

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such ten day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate. (See Addendum Paragraph 74)

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including, but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth. (See Addendum Paragraph 74)

17. DEFINITION OF LESSOR. The term "LESSOR" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6 above.

18. SEVERABILITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. DAYS. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. LIMITATION ON LIABILITY. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. TIME OF ESSENCE. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. The liability (including court costs and Attorneys' fees), of any Broker with respect to negotiation, execution, delivery or

performance by either Lessor or Lessee under this Lease or any amendment or modification hereto shall be limited to an amount up to the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

23. NOTICES.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing. (See Addendum Paragraph 89)

23.2 DATE OF NOTICE. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees applicable thereto.

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to one hundred fifty percent (150%) of the Base Rent applicable during the month immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee. (See Addendum Paragraph 75)

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS; CONSTRUCTION OF AGREEMENT. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the

parties, but rather according to its fair meaning as a whole, as if both parties had prepared it.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "SECURITY DEVICE"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lessor's Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.
(See Addendum Paragraph 76)

30.2 ATTORNMENT. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure,

such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor; or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "NON-DISTURBANCE AGREEMENT") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within sixty (60) days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said sixty (60) days, then Lessee may, at Lessee's option, directly contact Lessor's lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. ATTORNEYS' FEES. If any Party or Broker brings an action or proceeding involving the Premises to enforce the terms hereof or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "PREVAILING PARTY" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and

service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. (See Addendum Paragraph 77)

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary "FOR SALE" signs and Lessor may during the last six (6) months of the term hereof place on the Premises any ordinary "FOR LEASE" signs. Lessee may at any time place on or about the Premises any ordinary "FOR SUBLEASE" sign. (See Addendum Paragraph 78)

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. SIGNS. Except for ordinary "For Sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent. All signs must comply with all Applicable Requirements. (See Addendum Paragraph 79)

35. TERMINATION; MERGER. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within ten (10) days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including, but not limited to, consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within ten (10) business days following such request.

37. GUARANTOR. (See Addendum Paragraph 80)

38. QUIET POSSESSION. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. OPTIONS.

39.1 DEFINITION. "OPTION" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned

or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting. (See Addendum Paragraph 81)

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given three (3) or more notices of separate Default, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option. (See Addendum Paragraph 81)

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of thirty (30) days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee three (3) or more notices of separate Default during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. MULTIPLE BUILDINGS. If the Premises are a part of a group of buildings controlled by Lessor, Lessee agrees that it will observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including

the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and that Lessee will pay its fair share of common expenses incurred in connection therewith. (See Addendum Paragraph 82)

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

44. AUTHORITY. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is

duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within thirty (30) days after request, deliver to the other Party satisfactory evidence of such authority.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. OFFER. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. AMENDMENTS. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. MULTIPLE PARTIES. If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

49. MEDIATION AND ARBITRATION OF DISPUTES. An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease [ ] is [X] is not attached to this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Beverly Hills, California
on: December , 1999

By LESSOR:

See Page 13

- ----------

By:

Executed at: Woodland Hills, California
on: December , 1999

By LESSEE:

See Page 13

By:

Name Printed:	Name Printed:
Title:	Title:
By:	By:
Name Printed:	Name Printed:
Title:	Title:
Address: 8929 Wilshire Blvd., #400 Beverly Hills, CA 90211	Address:
Telephone: (310) 652-8288	Telephone: ( )
Facsimile: (310) 652 4972	Facsimile: ( )
Federal ID No. 95-3146812	Federal ID No.

NOTE: These forms are often modified to meet the changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 So. Flower Street, Suite 600, Los Angeles, California 90017. (213) 687-8777. Fax No. (213) 687-8616

LESSOR:	LESSEE:
NORTHPARK INDUSTRIAL, a California general partnership	CAPSTONE TURBINE CORPORATION, a California corporation
By: NORTHWEST INDUSTRIAL CENTER, a California limited partnership, General Partner	By: /s/ J. WATTS Name: J. Watts Title: CFO
By: /s/ MURRAY SIEGEL Murray Siegel, General Partner	By: Name: Title:
By: /s/ GARY SIEGEL Gary Siegel, General Partner	

By: NORTHPARK INDUSTRIAL-LEAHY DIVISION LLC,
a California limited liability company
General Partner

By: WEST AMERICA CONSTRUCTION CORPORATION,
a California corporation,
Manager

By: /s/ NICHOLAS M. BROWN
Nicholas M. Brown, President

By: /s/ THOMAS L. HARNER

Thomas L. Harner, Secretary

NORTHWEST INDUSTRIAL CENTER,
a California limited partnership,

By: /s/ MURRAY SIEGEL

Murray Siegel, General Partner

By: /s/ GARY SIEGEL

Gary Siegel, General Partner

NORTHPARK INDUSTRIAL-LEAHY DIVISION LLC,
a California limited liability company

By: WEST AMERICA CONSTRUCTION CORPORATION,
a California corporation,
Manager

By: /s/ NICHOLAS M. BROWN

Nicholas M. Brown, President

By: /s/ THOMAS L. HARNER

Thomas L. Harner, Secretary

ADDENDUM TO LEASE - NET

Lease dated: December 1, 1999

Lessor: NORTHPARK INDUSTRIAL

Lessee: CAPSTONE TURBINE CORPORATION

LESSOR AND LESSEE HEREBY AGREE THAT NOTWITHSTANDING ANYTHING CONTAINED IN THE LEASE TO THE CONTRARY, THE PROVISIONS SET FORTH BELOW WILL BE DEEMED TO BE A PART OF THE LEASE AND SHALL SUPERSEDE, TO THE EXTENT APPROPRIATE, ANY CONTRARY PROVISION IN THE LEASE. ALL REFERENCES IN THE LEASE AND IN THIS ADDENDUM SHALL BE CONSTRUCTED TO MEAN THE LEASE AND EXHIBITS, AS AMENDED AND SUPPLEMENTED BY THIS ADDENDUM. ALL DEFINED TERMS USED IN THIS ADDENDUM, UNLESS SPECIFICALLY DEFINED IN THIS ADDENDUM, SHALL HAVE THE SAME MEANING AS SUCH TERMS HAVE IN THE LEASE.

50) PARTIES (PARAGRAPH 1.1, CONTINUED) Lessor, Northpark Industrial, is a California general partnership which has two general partners. The partners of Northpark Industrial are Northwest Industrial Center, a California limited partnership, and Northpark Industrial-Leahy Division, LLC, a California limited liability company, hereinafter said partners are referred to as "Northwest" and "Leahy," respectively. Title to the real property which is subject to this Lease, and title to the property where a portion of Lessee's parking will be located pursuant to this Lease, is held in the names of Northwest and Leahy. To evidence the authority of Lessor to enter into this Lease with respect to such properties, and the approval by Northwest and Leahy of this Lease, Northwest and Leahy are executing this Lease, in their own separate capacities, in addition to executing this Lease as the general partners of Lessor.

51) *PREMISES (PARAGRAPH 1.2, CONTINUED) In addition to the Premises, Lessee shall have the right, at no additional cost or rent, to use throughout the term of this Lease, as the same may be extended, 200 parking spaces, (i) forty (40) of which shall be parking spaces and located on the land on which the Premises is located (i.e. 21211 Nordhoff), and shall be for Lessee's exclusive use, and (ii) one-hundred and sixty (160) of which shall be unreserved, and located on that certain real property commonly known as 9151 Eton Ave., Chatsworth, California. The land and all improvements located at 9151 Eton shall be referred to as the "Garage." Lessor represents and warrants to Lessee that Lessor is the fee simple owner of the Garage, free and clear of any liens (other than non-delinquent real property taxes). Lessee and Lessor acknowledge and agree that other tenants or Northpark Industrial Center, including, but not limited to, tenants of the property immediately west of the Premises, and other persons to whom parking privileges may be granted by Lessor from time to time, may also park in the Garage, provided that the total of such parking privileges granted by Lessor in the Garage, including Lessee's parking spaces in the Garage, shall not exceed at any time the maximum number of parking spaces located in the Garage. Lessor shall, at Lessor's sole cost and expense, and without any contribution thereto by Lessee, (i) maintain, repair and replace the Garage in good order, condition and repair, (ii) at all times maintain the Garage in compliance with all Applicable Requirements, as further described below, (iii) insure the Garage in a manner consistent with other comparable buildings, and (iv) timely pay all real estate or other taxes applicable thereto, except that if repairs or maintenance become necessary due to damages caused by Lessee, then it shall be Lessee's obligation to pay for the same, normal wear and tear excepted.*

52) *TERM (PARAGRAPH 1.3, CONTINUED) The original term of this Lease shall be ten (10) years, which shall commence on the date of the expiration of Lessee's 60-day Early Possession Period, as such term is defined in Addendum Paragraph 53. The date on which the said ten-year original term of this Lease commences is referred to herein as the "Commencement Date."*

53) *EARLY POSSESSION (PARAGRAPH 1.4, CONTINUED) Lessee shall be entitled to possession and occupancy of the Premises for a 60-day period, hereinafter the "Early Possession Period." The Early Possession Period shall commence upon the Substantial Completion (as hereinafter defined) of Lessor's work as described in Exhibit A hereto. The date of the Substantial Completion of Lessor's Exhibit A work shall be determined by mutual agreement of the parties. Lessor shall give Lessee at least ten (10) days written notice of the date Lessor proposes Lessor will substantially complete Lessor's Exhibit A work. If during said 10-day period Lessee agrees to the date Lessor proposes in Lessor's notice as the date of the Substantial Completion of Lessor's Exhibit A work or the parties mutually agree to another date for the Substantial Completion of Lessor's work, then the date so accepted or agreed upon shall be the date of the Substantial Completion of Lessor's Exhibit A work and the date of the commencement of Lessee's Early Possession Period. If, on the other hand, during said 10-day period Lessee does not agree to the date proposed by Lessor in said notice and the parties are unable to agree upon another date for the date of the Substantial Completion of Lessor's Exhibit A work, then Lessor shall give Lessee written notice that Lessor shall proceed to complete all of Lessor's work as described in Exhibit A, and Lessor shall proceed with the completion of all of Lessor's Exhibit A work, and the date of the completion of all of Lessor's work as described in Exhibit A shall be the date of the Substantial Completion of Lessor's Exhibit A work and the date of the commencement of Lessee's Early Possession Period. Said date is also referred to in this Lease as the "Start Date."*

54) *BASE RENT (PARAGRAPH 1.5, CONTINUED) The Base Rent (and prepaid Base Rent) payable for the Premises during the original ten (10) year lease term shall be as follows:*

The Base Rent payable for months one (1) through six (6) shall be $30,000.00 per month.

The Base Rent payable for months seven (7) through twenty (20) shall be

$60,000.00 per month.

The Base Rent payable for months twenty-one (21) through forty (40) shall be $63,000.00 per month. In addition, on the first day of the twenty-first (21st) month, Lessee shall deposit with Lessor $3,000.00 as additional security.

The Base Rent payable for months forty-one (41) through sixty (60) shall be $66,150.00 per month. In addition, on the first day of the forty-first (41st) month, Lessee shall deposit with Lessor $3,150.00 as additional security.

The Base Rent payable for months sixty-one (61) through eighty (80) shall be $69,457.50 per month. In addition, on the first day of the sixty-first (61st) month, Lessee shall deposit with Lessor $3,307.50 as additional security.

The Base Rent payable for months eighty-one (81) through one hundred (100) shall be $72,930.38 per month. In addition, on the first day of the eighty-first (81st) month, Lessee shall deposit with Lessor $3,472.88 as additional security.

The Base Rent payable for months one hundred and one (101) through one hundred twenty (120) shall be $76,576.89 per month. In addition, on the first day of the one hundred and first (101st) month, Lessee shall deposit with Lessor $3,646.51 as additional security.

Notwithstanding the above, upon execution of this Lease, Lessee shall pay to Lessor prepaid Base Rent in the amount of $420,000.00, which shall be applied to months one (1), two (2), and nine (9) through fourteen (14), so that said prepaid Base Rent shall be applied two months @ $30,000 per month and six months @ $60,000.00 per month. During those periods of prepaid Base Rent, Lessee shall pay to Lessor $7,235.90 per month as Lessor's estimate for Lessee's share of Real Property Taxes and landscaping and irrigation system maintenance (see below).

In consideration of Lessor's execution of this Lease and as a material inducement to Lessor to execute this Lease, Lessee's payment to Lessor of prepaid Base Rent in the amount of $420,000.00 upon the execution of this Lease shall be deemed to be earned by Lessor in full upon the execution of this Lease by Lessor, and, subject to the provisions of Paragraph 9.4, no part of such prepayment shall be refundable or subject to abatement or otherwise so long as there is not an early termination of this Lease prior to the end of the fourteenth month of the original term of this Lease which is caused by a material default by Lessor of Lessor's obligations under this Lease. In the event this Lease is terminated prior to the end of the said fourteenth month of the original term of this Lease, (i) if such termination is caused by a material default by Lessor of Lessor's obligations under this Lease, then Lessee shall be entitled to a refund of such portion of said prepaid Base Rent as would have been applicable to the payment of the Base Rent for those months of the original term of this Lease which would occur after the termination date, and (ii) if such termination occurs after the fourteenth month of the original term of this Lease, or such termination occurs prior thereto but is not caused by a material default by Lessor of Lessor's obligations under this Lease, then Lessee shall not be entitled to a refund of any portion of such prepayment of any kind.

In addition to the Base Rent that Lessee is obligated to pay under Paragraphs 1.5 and 4, during the Early Possession Period and during the term of this Lease and any extension thereof, Lessee will also be obligated to pay Lessor the sum of $7,235.90 per month as Lessor's monthly estimate for Lessee's share of Real Property Taxes (see Paragraph 10.1 and Addendum Paragraph 69) and landscaping and irrigation system maintenance. The current annual Real Property Taxes for the Premises are $101,152.00. Lessor is in the process of having the Real Property Taxes appealed and until such time that the appeal is either upheld or denied, Lessee's responsibility for Real Property Taxes shall be capped at $6,886 per month. Once this issue has been resolved (either upheld or denied) Lessee's tax responsibility shall be based entirely on the Real Property Taxes per the County Tax Assessor's tax bills. Any reduction in Real Property Taxes (net of Lessor's expenses in achieving such reduction) resulting from Lessor's pending appeal will be passed on to Lessee to the

extent such reduction is applicable to any period or periods for which Lessee pays Real Property Taxes pursuant to this Lease. Every year of this Lease, during the month of July, and during the month immediately following the termination of this Lease, Lessor will prepare an accounting of all actual Real Property Taxes and landscaping and irrigation system maintenance for the just concluded twelve-month period ending on the last day of the immediately preceding month (or if this Lease is not in effect for an entire twelve-month period, then such accounting shall be for the number of months of the term of this Lease during such period for which this Lease has been in effect). Any differences between the actual expenses and Lessor's estimates shall be either immediately refunded to Lessee or immediately due by the Lessee, whichever the case may be. Lessee or its authorized agent shall have the right, upon five (5) days prior written notice to Lessor, to inspect, at Lessor's main accounting offices, Lessor's unaudited books and records regarding these expenses. Since Lessee is the Insuring Party under this Lease (see Addendum Paragraph 67 below, amending Paragraph 1.9), Lessee shall pay insurance premiums directly for all insurance required to be maintained by the Insuring Party during the term of this Lease.

55) *AGREED USE (PARAGRAPH 1.8, CONTINUED) Lessee may use the Premises for manufacturing, assembly and/or warehousing and general office use associated therewith or any other lawful use.*

56) *CONDITION (PARAGRAPH 2.2, CONTINUED) Lessee shall obtain the service contracts described in Paragraph 7.1(b) within thirty (30) days following the Commencement Date. All references to the "Start Date" in the first two sentences of Paragraph 2.2 shall refer to the Commencement Date in place of the Start Date. The six (6) months and the thirty (30) days set forth in Paragraph 2.2 (ii) and (iii) shall commence as of the Commencement Date. The provisions of Paragraph 2.2 (i) with respect to the warranty of the roof are superseded by the provisions of Addendum Paragraph 66 which set forth Lessor's obligations with respect to the maintenance of the roof until the replacement of the existing roof in accordance with the provisions of Addendum Paragraph 66.*

57) *COMPLIANCE (PARAGRAPH 2.3, CONTINUED) The six-month time period for Lessee to give Lessor written notice of non-compliance with Applicable Requirements shall commence on the Commencement Date. The provisions of Paragraphs 2.3(b) and 7.1(c) are modified so that Capital Expenditures for seismic retrofitting and Hazardous Substances shall be the sole responsibility of Lessor, provided, that such Hazardous Substances existed on the Premises prior to the Start Date (see Addendum Paragraph 64), provided further, that Lessor shall be solely responsible for all Capital Expenditures on the Garage, including, but not limited to, Capital Expenditures for seismic retrofitting and Hazardous Substances, except for any Hazardous Substances brought onto the Garage by or for Lessee, which shall be Lessee's responsibility.*

58) *ACKNOWLEDGEMENTS (PARAGRAPH 2.4, CONTINUED) See Addendum Paragraph 64 concerning Hazardous Substances.*

59) *TERM (PARAGRAPH 3.1, CONTINUED) Within ten (10) days following the Commencement Date, the parties shall execute a First Amendment to this Lease in the form of Exhibit D, setting forth the exact date upon which Base Rent shall commence, the Commencement Date, the Expiration Date and the dates upon which the Options to Extend must be exercised in accordance with the provisions of this Lease.*

60) *EARLY POSSESSION (PARAGRAPH 3.2, CONTINUED) During the Early Possession Period, Lessee shall not be required to pay Base Rent, except that during the Early Possession Period Lessee shall pay Real Property Taxes (see Paragraph 10.1 and Addendum Paragraph 69) and landscaping and irrigation system maintenance expenses as provided in Addendum Paragraph 54, and, as the Insuring Party pursuant to Addendum Paragraph 67, Lessee shall obtain and maintain at Lessee's expense all insurance required to be obtained and maintained and paid for by the Insuring Party pursuant to this Lease.*

61) DELAY IN POSSESSION (PARAGRAPH 3.3, CONTINUED) If possession of the Premises is not delivered to Lessee by April 1, 2000, subject to any delays normally considered to be due to "force majeure" in the construction industry and subject to any delays caused by the acts or omissions of Lessee, then Lessee shall have the right to terminate this Lease upon ten (10) days written notice to Lessor.

62) SECURITY DEPOSIT (PARAGRAPH 5, CONTINUED) The security deposit shall be used and may be refunded only in accordance with Paragraph 5 and in connection with this paragraph. Lessee shall not use any portion of the security deposit to satisfy any of Lessee's rental obligations hereunder including the last month's rental payment. Any failure of Lessee to pay any of Lessee's rental obligations when due, including the obligations to pay real estate taxes or property maintenance, constitutes a material breach of this Lease for which Lessor may re-enter and take possession of the Premises provided such re-entering and taking is in accordance with California law and subject to whatever grace period is specifically provided for in this Lease, notwithstanding the fact that Lessor may have possession of a security deposit.

APPLICATION OF SECURITY DEPOSIT If Lessor intends to apply any portion of the Security Deposit due to Lessee's Default, Lessor shall give Lessee ten (10) days prior written notice and Lessee shall have the right to cure such Default within said ten (10) day period prior to Lessor's application of the Security Deposit.

RESTORATION OF SECURITY DEPOSIT If Lessor applies the Security Deposit in an amount in excess of $3,000.00, Lessee shall have thirty (30) days to restore the Security Deposit to the full amount then required under this Lease.

63) USE (PARAGRAPH 6.1, CONTINUED) Lessee understands that there are no restrictions contained in this Lease as to the type of business which may be conducted by any other present or future tenant of any building located near or adjacent to the building in which the Premises are located, and that Lessor may lease space to other tenants whose business is the same or competitive with that of Lessee; provided, however, that Lessor shall not allow or permit future tenants to interfere with Lessee's use of the Premises, including loading, unloading and parking.

NO OUTSIDE STORAGE Under no circumstances shall Lessee be permitted to use the exterior areas of the Premises, including driveways, alleyways or easement ways or anywhere else outside the building, for the temporary or permanent storage of any property, including but not limited to inventory, parts, work in process, pallets, or the installation of any type of equipment, including but not limited to air compressors or any other equipment, subject to the construction by Lessee of an exterior fuel storage shed in accordance with the provisions applicable thereto in Paragraph 7.3 as set forth in Addendum Paragraph 66 below. In the event that any unauthorized storage or installation of equipment or property shall occur, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and/or equipment at Lessee's expense, which shall be paid by Lessee upon demand by Lessor. No lunch areas or unauthorized compressor sheds are permitted anywhere in the driveways, alleyways or easement ways, or anywhere else outside the building, subject to Lessee's right to construct an exterior fuel storage shed in accordance with the provisions applicable thereto in Paragraph 7.3 as set forth in Addendum Paragraph 66 below.

INGRESS AND EGRESS; LOADING AND UNLOADING It is understood and agreed that the exterior portions of the Premises are to be used by Lessee solely for ingress and egress and for the parking of vehicles as authorized by Lessor. The exterior portions of the Premises at no time will be used by Lessee for loading or unloading, except at the loading dock. It is the parties' intention that Lessee will neither cause nor permit anything which will detract from keeping the exterior of the building and Premises in a clean, orderly, and uncluttered condition fully in keeping with the highest standards and reflecting an image of the highest quality and standards.

EXTERIOR WATER USE LIMITATIONS Except for irrigation purposes, Lessee shall not use any water, either from exterior sources or from sources within the building, on or about the exterior areas of the Premises for any purpose whatsoever without Lessor's prior written consent. Any of Lessee's procedures, processes or other work which require the use of water shall be done solely within the confines of the building, and no water shall be allowed to drain onto the exterior areas of the Premises.

64) USE - HAZARDOUS SUBSTANCES (PARAGRAPH 6.2, CONTINUED)

6.2(b) DUTY TO INFORM LESSOR Both Lessor and Lessee shall have similar obligations to inform the other if either knows or has reasonably cause to believe that a Hazardous Substance has come to be located in, on, under or about the Premises.

6.2(c) LESSEE REMEDIATION (i) Lessee accepts responsibility for any Hazardous Substance brought onto the Premises from the Start Date and during the term of this Lease by or for Lessee or any third party, (ii) Lessor accepts responsibility for any Hazardous Substance existing on the Premises before the Start Date or discovered after the Start Date but proved to be existing prior to the Start Date, (iii) Lessor shall be responsible for all Hazardous Substances in, on or under the Garage, except for any Hazardous Substance brought onto the Garage by or for Lessee, which shall be Lessee's responsibility, (iv) the words "or neighboring properties" appearing in the fourth line of Paragraph 6.2(c) are deleted, and (v) Lessor will be responsibility for Lessor's acts before the Start Date and during the term of this Lease.

6.2(d) LESSEE INDEMNIFICATION (i) Lessor's gross negligence, intentional misconduct and breach of this Lease shall be exceptions to Lessee's indemnification obligations, (ii) Lessee's indemnification obligations shall be consistent with Lessee's responsibility for Hazardous Substances in accordance with the provisions set forth above in Paragraph 6.2(c) of this Addendum Paragraph 64 under the heading "Lessee Indemnification," (iii) Lessee's indemnification shall terminate upon delivery to Lessor of a Phase I report of the condition of the Premises at the date of termination of this Lease, provided said report describes the condition of the Premises as of said date to be the same or better than the condition of the Premises described in the Phase I report delivered to Lessee prior to the execution of this Lease, and provided further, that Lessee's indemnification shall not terminate with respect to any contamination which Lessor can substantiate that the cause of such contamination occurred from the Start Date or during the term of this Lease.

6.2(e) LESSOR INDEMNIFICATION (i) Lessee's gross negligence, intentional misconduct and breach of this Lease shall be exceptions to Lessor's indemnification obligations, (ii) Lessor's indemnification obligations shall be consistent with Lessor's responsibility for any Hazardous Substance in accordance with the provisions set forth above in Paragraph 6.2(c) of this Addendum Paragraph 64 under the heading "Lessee Remediation," (iii) subject to the scope of each party's responsibility for Hazardous Substances as specified above in Paragraph 6.2(c) of this Addendum Paragraph 64 under the heading "Lessee Remediation," the provisions of Lessor's indemnification shall parallel the provisions set forth in Paragraph 6.2(d) for Lessee's Indemnification.

6.2(f) INVESTIGATIONS AND REMEDIATIONS Each party's responsibility and payment for any investigations or remediation measures shall be consistent with the scope of such party's responsibility for Hazardous Substances in accordance with the provisions set forth above in Paragraph 6.2(c) of this Addendum Paragraph 64 under the heading "Lessee Remediation."

6.2(g) LESSOR TERMINATION OPTION Lessor shall have the right to terminate this Lease as the result of a Hazardous Substance Condition only if (i) in accordance with the provisions set forth above in Paragraph 6.2(c) of this Addendum Paragraph 64 under the heading "Lessee

Remediation," Lessee is responsible for the Hazardous Substance Condition, and (ii) Lessee fails to comply with its obligations under this Lease with respect to the remediation thereof.

65) USE - INSPECTION; COMPLIANCE (PARAGRAPH 6.4, CONTINUED) Lessor shall give Lessee no less than 24 hours prior notice for inspections, unless an emergency, and shall use its best efforts not to interfere with Lessee's use of the Premises during such inspection and visits. The last sentence of Paragraph 6.4 will be applicable to a contamination only if such contamination is within the scope of Lessee's responsibility in accordance with the provisions set forth above in Paragraph 6.2(c) of Addendum Paragraph 64 under the heading "Lessee Remediation."

66) MAINTENANCE; REPAIRS, UTILITY INSTALLATIONS; TRADE FIXTURES AND ALTERATIONS (PARAGRAPH 7, CONTINUED)

7.1(a), (b) and (c) LESSEE'S OBLIGATIONS:

1. Until a new exterior membrane of the roof has been installed on the Premises by Lessor, Lessor will be responsible for maintaining the existing roof at Lessor's expense, except that any leaks caused by Lessee's penetrations for venting or other wok by Lessee which affects the roof shall be Lessee's responsibility. When the useful life of the existing exterior membrane of the roof on the Premises has ended, Lessor, at Lessor's cost and expense, will cause the existing exterior membrane on the roof to be replaced or a new exterior roof membrane to be added on to the existing roof. Such work shall be done by an independent non-affiliated third party contractor selected by Lessor for which Lessor shall obtain at least two bids from such third party contractors for such work and shall assign to Lessee whatever warranty is provided with the new exterior roof membrane by the contractor selected for such work. Thereafter, Lessee shall have the sole responsibility for maintenance, repair and replacement of the exterior roof membrane. The foregoing provisions of this paragraph supersede the provisions set forth in Paragraph 2.2 of the Lease concerning Lessor's warranty and compliance with respect to the condition of the surface of the roof.

2. Foundations and exterior and interior load bearing walls, if any, and interior structural elements of the roof are deleted from Paragraph 7.1(a), as the same will be maintained by Lessor at Lessor's cost and expense, except that any damages caused by Lessee's gross negligence or that of Lessee's employees, guests, agents or invitees shall be repaired at Lessee's cost and expense.

3. Lessor shall, at Lessor's sole cost and expense, keep the Garage in good order, condition and repair during the term of this lease, and any extensions thereof. Lessor's obligations shall include restorations, replacements or renewals when necessary to keep the Garage and all improvements thereon, or a part thereof, in good order, condition and state of repair. Any damages to the Garage caused by Lessee, Lessee's employees, or agents shall be repaired at Lessee's cost and expense, normal wear and tear excepted.

4. Lessor hereby consents of Lessee's roof penetrations to be made by Lessee immediately after the Start Date, as shown in working drawings of work to be performed by Lessee and attached to this Lease as Exhibit B, provided, however, that Lessee is responsible for any leaks caused by such penetrations of the roof.

5. The service contracts described in Paragraph 7.1(b), clauses (ii), (iv), (v), (vi), (vii) and (viii), are deleted and there is added a service contract for the elevator in the building.

6. To maintain a cohesive landscaping appearance throughout the business park in which the Premises are located, Lessor shall maintain all landscaping and irrigation system contracts, and Lessee shall reimburse Lessor for those costs pursuant to Addendum Paragraph 54. The current average monthly cost for landscaping and irrigation for the Premises is $350.00.

7. Paragraph 7.1(c) shall be modified to provide that Lessor and Lessee

shall be responsible for all Hazardous Substances in accordance with the provisions of Paragraph 6.2, as modified pursuant to Addendum Paragraph 64 above, and Lessor shall be responsible for all seismic retrofitting as necessary to comply with the Applicable Requirements.

7.3 UTILITY INSTALLATIONS; TRADE FIXTURES; ALTERATIONS

1. The figures $50,000 in the aggregate and $10,000 in any one year, appearing in the last line of Paragraph 7.3(a), are changed to $100,000 in the aggregate and $25,000 in any one year.

2. Lessee shall be entitled, at its sole cost and expense, to interconnect its electrical panels with the DWP grid, subject to DWP approval, in order to allow Lessee the ability to provide power generated by turbine motors.

3. In addition to any other improvements which Lessee is allowed to make to the Premises, in order to meet Lessee's necessary fuel storage requirements, Lessee shall have the right to construct an exterior fuel storage shed, currently anticipated to be approximately 20' x 25' and to be located on the southwesterly most portion of the Premises, subject to Lessor's approval of the design and location thereof, including, but not limited to, a design which is consistent with the existing architectural design of the Building, which such approval shall not be unreasonably withheld, and provided the construction and maintenance of such shed and Lessee's use thereof complies with all Applicable Requirements.

4. At the end of the term of the Lease, Lessee will not be required to remove or restore any portion of the Premises which has been constructed, installed or removed by Lessor or Lessee, including the mezzanine, pursuant to either Lessor's work or Lessee's work as described in Exhibit A or Exhibit B attached hereto.

UNAUTHORIZED ALTERATIONS Except for the roof penetrations to which Lessor has consented as provided above, Lessee shall inform Lessor of any work anticipated on the roof, in conjunction with its operation and obtain permission to do same prior to commencement of same. Lessor shall not make any alterations, improvements or additions to the Premises which require Lessor's consent in accordance with the dollar limitations set forth above unless and until Lessor's prior written consent has been obtained. Should Lessee make any alterations, etc. requiring Lessor's consent without having obtained the prior written consent of Lessor, Lessor may, at any time during the term of this Lease or upon its termination, require that Lessee, at its expense, remove any or all of the same and that Lessee pay to Lessor the amount of any damage to the roof caused by Lessee, or Lessor may remove same at Lessee's expense.

WINDOW COVERINGS Lessee shall obtain Lessor's prior written approval for the installation of any interior or exterior window coverings, including but not limited to drapes, blinds, sunshades, sunscreens, holiday or other decorations or any type of film window treatment. No exterior painting is permitted. In the event that any such unauthorized installations or alterations occur, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove all of the same at Lessee's expense, which shall be paid by Lessee upon demand by Lessor.

SECURITY Security bars or other security measures installed by Lessee require prior written consent of Lessor. Such installations, except for electronic security systems, shall remain as part of the Premises upon termination of the Lease unless Lessor requests removal of such installations and restoration of the Premises in accordance with Paragraph 7.4 of the Lease.

7.4 OWNERSHIP; REMOVAL; SURRENDER; AND RESTORATION

1. Lessee shall not be required to remove or restore any of the tenant improvements made by Lessor or Lessee prior to the Commencement Date, including the mezzanine, and described in Exhibit A or Exhibit B hereto.

2. The second sentence of Paragraph 7.4(a) is deleted. All of Lessee's improvements which are to be made by Lessee as described in Exhibit B hereto and any Alterations and Utility Installations made by Lessee

thereafter, for which Lessee shall have paid the cost thereof, including, but not limited to site specific electrical installations to accommodate turbine engines, shall not become the property of Lessor, but rather shall be Lessee's own property which Lessee may remove from the Premises prior to or at the end of the term of this Lease, provided that Lessee shall be responsible to repair any damages caused by the removal thereof.

3. Lessor's right under Paragraph 7.4(b) to require that any or all of Lessee's improvements and Lessee Owned Alterations or Utility Installations be removed by Lessee by the expiration or earlier termination of this Lease applies only to all tenant improvements made after the Commencement Date, including but not limited to improvements which were made to the Premises by Lessor after the Commencement Date at the request of Lessee and improvements made after the Commencement Date the cost of which was amortized over the term of this Lease or a portion thereof in the form of additional rent. As stated above, Lessor shall not have the right to require Lessee to remove any improvements made by Lessor or Lessee prior to the Commencement Date and described in Exhibit A or Exhibit B hereto.

67) INSURANCE; INDEMNITY (PARAGRAPHS 1.9 AND 8, CONTINUED)

1.9 INSURING PARTY. Lessee shall be the Insuring Party.

8.3 PROPERTY INSURANCE - BUILDING, IMPROVEMENTS AND RENTAL VALUE

(a) BUILDING AND IMPROVEMENTS

1. With reference to the property insurance required by Paragraph 8.3(a), Lessor and Lessee agree that the full replacement cost of the Premises will be not less than $6,045,000.00 as of the Commencement Date.

2. The sum of $1,000 per occurrence appearing in the penultimate line of Paragraph 8.3(a) is deleted and inserted in lieu thereof are the sum and words "$10,000 per occurrence, or such other deductible amount as the parties may mutually agree upon in writing."

3. Lessee shall be liable for the deductible amount in the event of an Insured Loss.

4. Lessee shall be entitled to obtain its own insurance for improvements made by Lessee as described in Exhibit B and for Lessee Owned Alternations and/or Utility Installations.

(b) RENTAL VALUE The amount of any rental insurance will be reduced by the amount of prepaid Base Rent for the periods described in Addendum Paragraph 54 above.

(c) ADJACENT PREMISES Paragraph 8.3(c) is deleted.

8.7 INDEMNITY In the first line of Paragraph 8.7 after the word "misconduct," there are inserted the words "Lessor's Breach of this Lease."

8.8 EXEMPTION OF LESSOR FROM LIABILITY

1. At the beginning of Paragraph 8.8 the following is added: "Except for Lessor's gross negligence, willful misconduct or Breach of this Lease,..."

2. Lessor will make reasonable efforts to enforce the rules and regulations applicable to the Garage, upon notice of a violation thereof.

68) DAMAGE OR DESTRUCTION (PARAGRAPH 9, CONTINUED)

9.1 DEFINITIONS

(a) "PREMISES PARTIAL DAMAGE" "Premises Partial Damage" shall mean any damage or destruction to the Improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which may be repaired at a cost which is less than forty percent (40%) of the then cost of replacement of the entire building located on the Premises and which can reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall obtain at least three (3) independent third party bids as to the cost and time to repair the damage

or destruction.

(b) "PREMISES TOTAL DESTRUCTION" "Premises Total Destruction" shall mean damage or destruction to the Improvements to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot be repaired at a cost which is less than forty percent (40%) of the then cost of replacement of the entire building located on the Premises and cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall obtain at least three (3) independent third party bids as to the cost and time to repair the damage or destruction.

9.2 PARTIAL DAMAGE -- INSURED LOSS

1. Lessor will exercise reasonable and good faith efforts to make any repairs Lessor is obligated to make pursuant to the terms of this Lease as efficiently and promptly as reasonably possible.

2. The last sentence of Paragraph 9.2 is deleted.

9.3 PARTIAL DAMAGE -- Uninsured Loss Lessor shall make any repairs due to a partial uninsured loss if the cost thereof does not exceed $300,000 and in such event Lessor shall not have the right to terminate this Lease.

9.4 TOTAL DESTRUCTION -- INSURED LOSS If a Premises Total Destruction occurs before the end of the fourteenth month of the original term of this Lease, Lessee shall be entitled to a refund of a portion of Lessee's prepaid Base Rent as follows:

1. If the date of the destruction or damage is on or prior to the Commencement Date, the amount of such refund shall be equal to fifty percent (50%) of the total amount of Lessee's prepaid Base Rent.

2. If the date of the destruction or damage is after the Commencement Date but prior to the last day of the fourteenth month of the original term of this Lease, then the amount of the refund shall be equal to (i) fifty percent (50%) of Lessee's prepaid Base Rent for the months (prorated for any portion of a month) which have not elapsed prior to the date of the destruction or damage, plus (ii) fifty percent (50%) of the amount of Lessee's prepaid Base Rent for the months (prorated for any portion of a month) which have elapsed prior to the date of the destruction or damage.

3. If the date of the destruction or damage occurs after the end of the fourteenth month of the original term of this Lease, Lessee shall not be entitled to any refund of Lessee's prepaid Base Rent.

9.5 DAMAGE NEAR END OF TERM Lessor's right to terminate this Lease pursuant to Paragraph 9.5 shall be applicable only to a Partial Damage Uninsured Loss.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES

(a) ABATEMENT The words "but not to exceed the proceeds received from the Rental Value insurance", appearing at the end of the first sentence, are deleted.

(b) REMEDIES The following time periods are changed: ninety (90) is change to sixty (60); sixty (60) is change to thirty (30); and thirty (30) is change to twenty (20).

69) REAL PROPERTY TAXES (PARAGRAPH 10, CONTINUED)

10.1 DEFINITION OF "REAL PROPERTY TAXES" During the first five (5) years of the original term of this Lease, Lessor shall not pass on to Lessee any increase in Real Property Taxes due to a transfer by Lessor or a change of ownership of all or a portion of the Premises os any interest therein.

10.3 JOINT ASSESSMENT Paragraph 10.3 of this Lease is deleted.

70) UTILITIES (PARAGRAPH 11, CONTINUED) The last sentence of Paragraph 11 of this Lease is deleted.

71) ASSIGNMENT (PARAGRAPH 12, CONTINUED)

12.1 LESSOR'S CONSENT REQUIRED

(b) and (c) Paragraphs 12.1(b) and (c) are deleted and replaced with the following:

"(b) Lessee may assign its interest in the Lease to a subsidiary company which is an affiliate of Lessee, or in the event of a sale of the majority of its stock, it may assign its interest in the Lease to the acquiring company provided that the use is the same and that the acquiring company has a net worth of no less than $25,000,000 as of the date of the assignment.

Notwithstanding anything set forth in the Lease to the contrary, Lessee shall have the right to assign, sublet, transfer, change its ownership or control without the consent of Lessor:

(i) in connection with the initial offering of the shares of Lessee; or

(ii) to any affiliate of Lessee, any subsidiary of Lessee, any parent of Lessee, or any subsidiary of any parent of Lessee, provided such subsidiary, parent or subsidiary of parent is an affiliate of Lessee; or

(iii) to any corporation with which Lessee may merge or consolidate provided such corporation has a net worth of no less than $25,000,000 as of the date of the merger or consolidation; or

(iv) in connection with any name change of Lessee.

For purposes of this Paragraph 12, an affiliate of Lessee shall mean any Person (i.e. any individual, corporation, partnership, joint venture, trust or other legal entity) which, whether directly or indirectly, controls, is controlled by, or is under common control with: (1) Lessee, or (2) any director, officer, or controlling partner or shareholder of Lessee. For purposes of this definition, control shall mean the power (whether through direct or indirect ownership of fifty-one percent (51%) or more of the voting equity interest of such Person, or otherwise) to direct management and policies of such Person. In the event Lessee's interest is transferred in accordance with this Paragraph 12, any change from the use herein permitted shall be subject to the Lessor's consent pursuant to this Lease. Lessee shall give Lessor prompt written notice of the transaction and a duly executed acceptance and assignment of the Lease by the assignee or a duly executed copy of the sublease."

(d) The words "or a noncurable Breach without the necessity of any notice or grace period", appearing in the second line of this Paragraph 12.1(d), and "(i) terminate this Lease", appearing in the third line, are deleted.

(e) Paragraph 12.1(e) is deleted.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING

(e) The fee which will be payable to Lessor for considering and processing a request for consent to an assignment or subletting shall be an amount which is equal to Lessor's actual out-of-pocket expenses for considering and processing said request.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING

1. Lessee shall pay to Lessor as additional Base Rent, fifty percent (50%) of any Profits (as defined below) actually received by Lessee pursuant to such approved assignment or sublease. Whenever Lessor is

entitled to share in any excess income resulting from an assignment or sublease of the Premises, the following shall constitute the definition of "Profits"; the gross revenue received from the assignee or sublessee during the sublease term or during the assignment, with respect to the space covered by the sublease or assignment ("Transferred Space"), less: (a) the gross revenue paid to Lessor by Lessee during the period of the sublease term or during the assignment with respect to the Transferred Space; (b) any improvement allowance or other economic concession (planning allowance, moving expenses, etc.) paid by Lessee to the sublessee or assignee; (c) brokers' commissions; (d) attorneys' fees; (e) lease takeover payments; (f) costs of advertising the space for sublease or assignment; (g) unamortized cost of initial and subsequent improvements to the Transferred Space by Lessee; and (h) any other costs actually paid in assigning or subletting the Transferred Space; provided, however, under no circumstances shall Lessor be paid any Profits until Lessee has recovered all of the items set forth in subparts (a) through (h) for such Transferred Space, it being understood that if in any year the gross revenues, less the deductions set forth in subparts (a) through (h) above (the "Net Revenues") are less than any and all costs actually paid in assigning or subletting the affected space (collectively "Transaction Costs"), the amount of the excess Transaction Costs shall be carried over to the next year and then deducted from Net Revenues with the procedure repeated until a Profit is achieved. Within five (5) days of Lessee entering into a written sublease of the Premises in accordance with this Paragraph 12, Lessee shall deliver to Lessor an executed copy of such sublease.

2. In the event Lessee requests Lessor's signature or consent to any other action or on any other document, including, but not limited to, loan or security documents relating to a loan transaction in which Lessee is taking part, Lessor may require Lessee to pay Lessor a fee for considering and processing said request in the amount described above in Paragraph 12.2(e) of this Addendum Paragraph 71.

72) DEFAULT; BREACH; REMEDIES (PARAGRAPH 13, CONTINUED)

13.1 DEFAULT; BREACH

(a) So long as Lessee is performing all of its obligations under this Lease, an abandonment or vacating of the Premises shall not constitute a Default.

(b) The words "whether to Lessor or a third party," appearing in the first and second lines of Paragraph 13.1(a), are deleted and the time period in the third line of "three (3) business days" is changed to "seven (7) business days."

(c) The time period of "ten (10) days" is changed to "thirty (30) days" unless a shorter time period is specified elsewhere in the Lease.

(E) The events described in this Paragraph 13.1(e) shall not, in and of themselves, be a cause for a Default so long as Lessee is satisfying all of its monetary and other obligations under the Lease.

13.3 INDUCEMENT RECAPTURE The provisions of Paragraph 13.3 of the Lease shall not require Lessee to re-install the mezzanine to the Premises or to pay Lessor for said mezzanine, and any concessions involving free rent or reduced rent or the costs of the improvements made by Lessor as described in Exhibit A shall not be subject to recapture.

13.4 LATE CHARGES The time period of "five (5) days," appearing in the fourth line, is changed to "ten (10) days," and the late charge of "ten percent (10%)," appearing in the fifth line, is changed to "six percent (6%)."

13.5 INTEREST The second sentence is deleted and replaced with "The interest ("Interest") charged shall be at the rate of ten percent (10%) per annum, but shall not exceed the maximum rate permitted by law."

13.6 BREACH BY LESSOR

(a) NOTICE OF BREACH The following language is added at the beginning of Paragraph 13.6 (a): "Except as provided elsewhere in the Lease, ..."

(b) PERFORMANCE BY LESSEE ON BEHALF OF LESSOR The words "the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor," appearing in the third and fourth lines, are deleted and replaced with "the actual amount spent by Lessee."

73) CONDEMNATION (PARAGRAPH 14, CONTINUED) In the event of a taking of Lessee's onsite parking spaces, Lessor will provide substitute parking in the Garage, in which case no other adjustments shall be made by reason of any taking of Lessee's onsite parking spaces. If Lessor does not provide for such substituted parking in the Garage, then Lessee shall have the right to terminate the Lease. In the event the taking includes any improvements made by Lessee to the Premises, Lessee shall be entitled to participate in the condemnation award to the extent of Lessee's investment in said improvements.

74) ESTOPPEL CERTIFICATES (PARAGRAPH 16, CONTINUED)

(a) Ten (10) days is changed to thirty (30) days in the first line of Paragraph 16(a).

(c) Financial statements required to be delivered by Lessee pursuant to Paragraph 16(c) will be those financial statements of Lessee which are prepared in the ordinary course of business.

75) NO RIGHT TO HOLDOVER (PARAGRAPH 26, CONTINUED)

1. The language "one hundred fifty percent (150%)" is deleted from the second sentence and replaced with "one hundred ten percent (110%)."

2. If Lessee remains in possession of the Premises after the expiration of the Lease term, without Lessor's written consent, then Lessee's occupancy of the premises shall be deemed to be a holdover tenancy upon all of the provisions of this Lease pertaining to obligations of Lessee, but not including any options or rights of first refusal, if any, granted to Lessee under this lease. If Lessee's hold-over tenancy exceeds ten (10) days, Lessee may terminate the tenancy only by giving sixty (60) days written notice of termination to Lessor, whereas Lessor may terminate the tenancy or change the terms of the Lease upon giving to Lessee sixty (60) days written notice thereof. The termination date shall be the last day of the month in which the notice requirement has been met.

3. Notwithstanding anything to the contrary contained in Paragraphs 1.3, 1.5, 3.1, 4 or elsewhere in this Lease, Lessee's obligation to pay rent shall continue until (i) Lessee has removed all of its property from the Premises, (ii) Lessee has made any repairs required under Paragraph 7.4(c), (iii) Lessee has removed all Alterations, improvements, additions and Utility Installations which Lessor requires Lessee to remove pursuant to Paragraph 7.4(b), and (iv) Lessee has notified Lessor in writing that all of the items (i) through (iii) of this paragraph, to the extent applicable, have been accomplished.

76) SUBORDINATION; ATTORNMENT; NON-DISTURBANCE (PARAGRAPH 30, CONTINUED)

30.1 SUBORDINATION

1. Lessor represents and warrants to Lessee that there are no Security Devices affecting the Premises or the Garage as of the date hereof, and no Security Devices shall be entered into from the date hereof through and including thirty (30) days after the Start Date.

2. Lessee shall be allowed to record a memorandum of the Lease in the form of Exhibit E, provided that if a memorandum of the Lease is recorded, Lessee shall be required to record a termination of the Lease within thirty (30) days after the date of the termination of the Lease.

77) ATTORNEYS' FEES (PARAGRAPH 31, CONTINUED) Wherever in this Lease attorneys'

fees and costs are to be paid, whether in this Paragraph 31 or in other provisions relating to indemnification, all such fees and costs shall be reasonable.

78) *LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS (PARAGRAPH 32, CONTINUED) Lessor agrees that it may show the Premises upon 24 hours prior notice and will use its best efforts not to interfere with Lessee's use of the Premises. The language "or liability" is deleted from the second sentence.*

79) *SIGNS (PARAGRAPH 34, CONTINUED) Lessee may install exterior and monument signs with Lessor's prior written consent.*

80) *GUARANTOR (PARAGRAPH 37, CONTINUED) Paragraph 37 of the Lease is deleted.*

81) *OPTIONS (PARAGRAPH 39, CONTINUED)*

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE Paragraph 39.2 of the Lease is deleted.

39.4 EFFECT OF DEFAULT ON OPTIONS

(a) Except for clause (iv), any Default by Lessee shall be curable by Lessee, and when and if cured by Lessee, shall not cause Lessee to lose a right to exercise an Option.

82) *MULTIPLE BUILDINGS (PARAGRAPH 40, CONTINUED) The language appearing at the end of this Paragraph "and that Lessee will pay its fair share of common expenses incurred in connection therewith" is deleted.*

83) *DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR NORTHPARK INDUSTRIAL CENTER. Lessee acknowledges receipt of a copy of the Declaration of Covenants, Conditions and Restrictions ("CC&R's") for Northpark Industrial Center recorded with the County of Los Angeles as document numbers 79-760182 and 85-1324915. Lessee has reviewed and approved said documents and agrees to be bound by all the terms and conditions therein. Lessee further agrees that said CC&R's shall be binding upon Lessee and any sublessee, successor and assign. Lessor's compliance covenants in Paragraph 2.3 of this Lease shall be deemed to include the CC&R's to the extent applicable to the Premises and Garage Start Date.*

84) *ENVIRONMENTAL SITE ASSESSMENT REPORT. Lessor acknowledges receipt of, and its satisfaction with, the Environmental Site Assessment Report prepared for the Premises by GlenFos, Inc., Project No. P1-91311-092799, dated October 11, 1999 (the "Report"). The Report recommends no further subsurface investigation. Prior to the Start Date, Lessor shall remove from the Premises approximately eight (8) 55-gallon drums of liquid referenced in the Report. Lessee shall provide Lessor with a similar report made as of a date which is no earlier than ninety (90) days prior to the termination date of the Lease and Lessee's vacancy of the Premises and Lessee shall deliver such report to Lessor no later than thirty (30) days prior to the termination date of the Lease and Lessee's vacancy of the Premises.*

85) *LESSOR'S TENANT IMPROVEMENTS. Attached hereto and marked Exhibit A to this Lease are plans and specifications describing the improvements and other work to be done by Lessor's cost and expense. In addition, Lessor, at Lessor's cost and expense, shall do the following:*

a. Re-stretch and repair (where required, to be mutually agreed upon by Lessor and Lessee) and steam clean all carpeting and flooring. Replace where necessary, to be mutually agreed upon by Lessor and Lessee, at a cost not to exceed $14.00 per yard inclusive of all costs (carpet, pad, base, installation, taxes, etc.)
b. Clean, smooth (if necessary) and seal warehouse floor.
c. Paint all offices, production and warehouse areas as needed.

86) *PARKING; GARAGE; RULES*

PARKING-GENERAL

1. Lessee or Lessee's employees, visitors, customers, or guests shall not use public driveways, alleyways or easement ways or other public areas for parking purposes.

2. No automotive repair, car washing, waxing and detailing, or covered parking is permitted at any time.

3. Prohibited vehicles are not permitted; examples of prohibited vehicles shall include, but shall not be limited to, trailers, campers, recreational vehicles, boats, "dead automobiles" or automobiles parked longer than 48 hours.

4. If Lessee permits or allows parking other than in the areas intended for parking or permits or allows any of the aforedescribed prohibited vehicles to park on any portion of the parking areas or anywhere else within the Premises, then Lessor shall have the right, without notice, in addition to other rights and remedies it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable by Lessee upon demand by Lessor.

5. Lessor shall not relocate any of Lessee's parking spaces except for onsite parking spaces in the event of condemnation, in which case Lessor may replace onsite parking spaces with an equivalent number of additional parking spaces in the Garage.

GARAGE-GENERAL

1. All parking in the Garage is on an unreserved first-come first-served basis. Lessee's right to use the Garage is strictly limited to the 160 parking spaces located there for Lessee's use as provided in Addendum Paragraph 51 above. there will be no additional fee payable by Lessee for the said 160 parking spaces located in the Garage. In no event may the Garage or any portion thereof be used by Lessee for testing equipment or for any other purpose. The Garage is accessible 365 days a year and 24 hours each day. Additional parking rules applicable to parking in the Garage are set forth in Exhibit C hereto. No portion of the Garage is specifically assigned to any tenant; provided, however, Lessor reserves the right to assign specific spaces and to reserve spaces for visitors, small cars, handicapped persons and for other legal requirements, and Lessee's use thereof shall comply with such reservations.

2. Except for Lessor's gross negligence, willful misconduct or Breach of the Lease, Lessor shall have no liability whatsoever for any damage to property or any other items located in the Garage, nor for any personal injuries or death arising out of any incident or matter relating to the Garage. In all events, Lessee agrees to look first to its insurance carrier for payment of any losses sustained in connection with Lessee's use of the Garage. Lessee hereby waives on behalf of its insurance carriers all rights of subrogation against Lessor.

3. Lessor also reserves the right to close all or any portion of the Garage from time to time in order to make repairs or perform maintenance services, or to alter, modify, re-stripe the Garage, or if required by casualty, strike, condemnation, act of God, governmental law or other reason beyond Lessor's reasonable control.

4. Lessee shall at all times comply with all Applicable Requirements concerning use of the Garage. Lessee shall extend all of its insurance policies required under this lease to include vehicles to be parked in the Garage hereunder and personal property located therein or thereon. Upon request, Lessee shall provide Lessor with certificates or other satisfactory evidence of such insurance.

5. Lessee will be issued one card-key for each of Lessee's parking spaces in the Garage. Prior to furnishing any card-keys to any person, Lessee shall provide Lessor with a list including all names, type of automobile, year of manufacture, drivers license number and automobile license number for all persons using the Garage at any time. Lessee shall be responsible for the return of said card-keys upon termination of the Lease. A replacement fee of $25.00 may be charged for any lost or damaged card-key, and if any card-key is not returned to Lessor upon termination of the Lease, Lessor may charge Lessee's Security deposit for such replacement fee.

GARAGE RULES Lessor reserves the right to adopt, modify, and enforce reasonable rules governing the use of the Garage from time to time, including any card-key, sticker or other identification or entrance system, and hours of operation. The Rules set forth in Exhibit C hereto are currently in effect. Lessee agrees to acquaint all persons to whom Lessee assigns parking spaces in the Garage of such Rules. Lessor may refuse to permit any person who violates such rules to park in the Garage, and any violation of the Rules shall subject the car to removal from the Garage. Lessor may deactivate the respective card-key of such person upon ten (10) days written notice if such person fails to cure the violation or is a repeat offender.

87) OPTION TO EXTEND - FIRST OF TWO

A. Lessor hereby grants to Lessee the option to extend the term of this lease for a five (5) year period commencing when the original term of this lease expires, upon each and all of the following terms and conditions;

(i) Lessee gives to Lessor and Lessor receives written notice of the exercise of the option to extend this Lease for said additional term no earlier than nine months and no later than six months prior to the time that the option period would commence if the option were exercised, time being of the essence. If said notification of the exercise of said option is not so given and received, this option shall automatically expire. The time period for the exercise of the options shall be set forth in the First Amendment to Lease provided for in Addendum Paragraph 59 above;

(ii) The provisions of Paragraph 39, including the provision relating to default of Lessee set forth in Paragraph 39.4 of this Lease are conditions of this option;

(iii) All of the terms and conditions of this Lease except where specifically modified by this option shall apply;

(iv) Subject to the provisions of the last sentence of this paragraph (iv), the rent payable for the first twelve months of the term of this option shall be one hundred percent (100%) of the fair market rental value for the Premises. Said fair market rental value shall be based upon the prevailing market rate at the commencement of the option term for rentals then being offered prospective tenants for new leases or recently executed leases for comparable space within a three (3) mile radius of the Premises. The determination of such fair market rental value shall also take into consideration all the elements

which are generally and usually considered in the real estate industry to establish a fair market value. In the event the fair market rental value is not able to be determined in accordance with the foregoing provisions of this paragraph (iv) due to a lack of comparable space within said three (3) mile radius from the Premises, or due to the fact that the parties are unable to agree with respect to said fair market rental value of the Premises or for any other reason, then, subject to the provisions of the last sentence of this paragraph (iv), the fair market rental value of the Premises shall be determined by appraisal in accordance with the following provisions:

a. If the fair market rental value of the Premises has not been determined in accordance with the foregoing provisions of this paragraph (iv), or by mutual agreement of the parties, within sixty (60) days of the commencement of this option period, then within ten (10) days thereafter both Lessor and Lessee shall each select an appraiser and the two appraisers so selected by Lessor and Lessee shall select a third appraiser;

b. Within thirty (30) days of the selection of the third appraiser, the three appraisers shall determine the fair market rental value of the Premises for the first twelve months of the term of this option. The determination of the fair market rental value of the Premises by a majority of the three appraisers shall be binding upon Lessor and Lessee, subject to the provisions of the last sentence of this paragraph

(iv);

c. If either Lessor or Lessee shall fail to select an appraiser within the aforesaid ten (10) day period, the appraiser timely selected by one of them may determine the fair market rental value of the Premises on his or her own, and said appraiser's determination shall be binding upon both parties, subject to the provisions of the last sentence of this paragraph (iv); and

d. Lessor and Lessee shall pay the cost of such appraisal equally.

Notwithstanding the foregoing provisions of this paragraph (iv), in no event shall the monthly rental for the first twelve months of the term of this option be less than one hundred percent (100%) of the rent payable for the month immediately preceding commencement of the term of this option.

(v) On the first day of the 13th month, 25th month, 37th month and 49th month of the term of this option, the monthly rent payable under paragraph (iv) shall all be adjusted by the increase, if any, from the date the term of this option commenced in the C.P.I. As used herein, the term "C.P.I." shall mean the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for All Urban Consumers, Los Angeles-Anaheim-Riverside, California (1982/84=100), "All Items", herein referred to as "C.P.I."

a. The monthly rent payable in accordance with Paragraph 87A(v) of this Addendum shall be calculated as follows: the rent payable for the first month of the term of this option, as determined in accordance with Paragraph 87A(iv) of this Addendum, shall be multiplied by a fraction the numerator of which shall be the C.P.I. of the calendar month immediately preceding the effective date of the subject rent escalation, and the denominator of which shall be the C.P.I. for the calendar month in which the term of this option commenced. The sum so calculated shall constitute the new monthly rent hereunder, but, in no event, shall such new monthly rent be less than the rent payable for the month immediately preceding the date for rent adjustment.

b. In the event the compilation and/or publication of the C.P.I. shall be discontinued, then the index most nearly the same as the C.P.I. shall be used to make such calculation. In the event that Lessor and Lessee cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the rules of said association and the decision of the arbitrators shall be binding upon the parties. The cost of said arbitrators shall be paid equally by Lessor and Lessee.

c. Lessor shall notify Lessee of any rental increases pursuant to this paragraph as soon as practicable after the relevant C.P.I. figures have been released. Until such notification, Lessee shall continue to pay the rent in effect during the prior rental period. After notification of a rental increase, Lessee shall commence making rental payments in the increased amount and shall, within ten (10) days after such notification, pay to Lessor the amount of any rental increases due for previous months.

B. If this option to extend is exercised, the term of this option shall commence on the first day following the date of the expiration of the original term of this Lease and shall end on the date which is five (5) years thereafter.

88) OPTION TO EXTEND -- SECOND OF TWO

A. In the event Lessee exercises the first option to extend the term of this Lease pursuant to Addendum Paragraph 87, then Lessor hereby grants to Lessee the option to extend the term of this Lease for a second five (5) year period upon the expiration of the term of the first option, upon each and all of the following terms and conditions:

(i) Lessee gives to Lessor and Lessor receives written notice of the

exercise of the option to extend this Lease for said additional term no earlier than nine months and no later than six months prior to the time that the term of this option would commence if the option were exercised, time being of the essence. If said notification of the exercise of said option is not so given and received, this option shall automatically expire;

(ii) The provisions of Paragraph 39, including the provision relating to default of Lessee set forth in Paragraph 39.4 of this Lease are conditions of this option;

(iii) All of the terms and conditions of this Lease except where specifically modified by this option shall apply;

(iv) Subject to the provisions of the last sentence of this paragraph (iv), the rent payable for the first twelve months of the term of this option shall be one hundred percent (100%) of the fair market rental value for the Premises. Said fair market rental value shall be based upon the prevailing market rate at the commencement of the term of this option for rentals then being offered prospective tenants for new leases or recently executed leases for comparable space within a three (3) mile radius of the Premises. The determination of such fair market rental value shall also take into consideration all the elements which are generally and usually considered in the real estate industry to establish a fair market value. In the event the fair market rental value is not able to be determined in accordance with the foregoing provisions of this paragraph (iv) due to a lack of comparable space within said three (3) mile radius from the Premises, or due to the fact that the parties are unable to agree with respect to said fair market rental value of the Premises or for any other reason, then, subject to the provisions of the last sentence of this paragraph (iv), the fair market rental value of the Premises shall be determined by appraisal in accordance with the following provisions:

a. If the fair market rental value of the Premises has not been determined in accordance with the foregoing provisions of this paragraph (iv), or by mutual agreement of the parties, within sixty (60) days of the commencement of this option period, then within ten (10) days thereafter both Lessor and Lessee shall each select an appraiser and the two appraisers so selected by Lessor and Lessee shall select a third appraiser;

b. Within thirty (30) days of the selection of third appraiser, the three appraisers shall determine the fair market rental value of the Premises for the first twelve months of the term of this option. The determination of the fair market rental value of the Premises by a majority of the three appraisers shall be binding upon Lessor and Lessee, subject to the provisions of the last sentence of this paragraph (iv);

c. If either Lessor or Lessee shall fail to select an appraiser within the aforesaid ten (10) day period, the appraiser timely selected by one of them may determine the fair market rental value of the Premises on his or her own, and said appraiser's determination shall be binding upon both parties, subject to the provisions of the last sentence of this paragraph (iv); and

d. Lessor and Lessee shall pay the cost of such appraisal equally.

Notwithstanding the foregoing provisions of this paragraph (iv), in no event shall the monthly rental for the first twelve months of the term of this option be less than one hundred percent (100%) of the rent payable for the month immediately preceding commencement of the term of this option.

(v) On the first day of the 13th month, 25th month, 37th month and 49th month of the term of this option, the monthly rent payable under paragraph (iv) shall all be adjusted by the increase, if any, from the date the term of this option commenced in the C.P.I. As used herein, the term "C.P.I." shall mean the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for All Urban Consumers, Los Angeles-Anaheim-Riverside, California (1982/84=100), "All Items", herein referred to as "C.P.I."

a. The monthly rent payable in accordance with Paragraph 88A(v) of this Addendum shall be calculated as follows: the rent payable for the first month of the term of this option, as determined in accordance with Paragraph 88A(iv) of this Addendum, shall be multiplied by a fraction the numerator of which shall be the C.P.I. of the calendar month immediately preceding the effective date of the subject rent escalation, and the denominator of which

shall be the C.P.I. for the calendar month in which the term of this option commenced. The sum so calculated shall constitute the new monthly rent hereunder, but, in no event, shall such new monthly rent be less than the rent payable for the month immediately preceding the date for rent adjustment.

b. In the event the compilation and/or publication of the C.P.I. shall be discontinued, then the index most nearly the same as the C.P.I. shall be used to make such calculation. In the event that Lessor and Lessee cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the rules of said association and decision of the arbitrators shall be binding upon the parties. The cost of said arbitrators shall be paid equally by Lessor and Lessee.

c. Lessor shall notify Lessee of any rental increases pursuant to this paragraph as soon as practicable after the relevant C.P.I. figures have been released. Until such notification, Lessee shall continue to pay the rent in effect during the prior rental period. After notification of a rental increase, Lessee shall commence making rental payments in the increased amount and shall, within ten (10) days after such notification, pay to Lessor the amount of any rental increases due for previous months.

B. If this option to extend is exercised, the term of this option shall commence on the first day following the date of the expiration of the term of the first option pursuant to Addendum Paragraph 87 of this Lease and shall end on the date which is five (5) years thereafter.

89) NOTICES (PARAGRAPH 23, CONTINUED)

23.1 NOTICE REQUIREMENTS:

1. Subject to change from time to time by written notice to Lessee, the address of Lessor is: c/o West America Construction Corporation, 8929 Wilshire Boulevard, Suite 400, Beverly Hills, California 90211.

2. Subject to change from time to time by written notice to Lessor, prior to the Commencement Date the address of Lessee is 6430 Independence Avenue, Woodland Hills, California 91367, attention Jeffrey R. Watts, Chief Financial Officer, and from and after the Commencement Date, the address of Lessee will be 21211 Nordoff Street, Chatsworth, California 91311, attention Jeffrey R. Watts, Chief Financial Officer.

LESSOR:

NORTHPARK INDUSTRIAL,
a California general partnership
By: NORTHWEST INDUSTRIAL CENTER,
a California limited partnership,
General Partner

By: /s/ MURRAY SIEGEL
Murray Siegel, General Partner

By: /s/ GARY SIEGEL
Gary Siegel, General Partner

By: NORTHPARK INDUSTRIAL-LEAHY DIVISION LLC,
a California limited liability company
General Partner

LESSEE:

CAPSTONE TURBINE CORPORATION,
a California corporation

By: /s/
Name: [illegible]
Title: CFO

By: /s/
Name: [illegible]
Title: President & CEO

By: WEST AMERICA CONSTRUCTION CORPORATION,
a California corporation,
Manager

By: /S/ NICHOLAS M. BROWN

Nicholas M. Brown, President

By: /s/ THOMAS L. HARNER

Thomas L. Harner, Secretary

NORTHWEST INDUSTRIAL CENTER,
a California limited partnership,

By: /S/ MURRAY SIEGEL

Murray Siegel, General Partner

By: /s/ GARY SIEGEL

Gary Siegel, General Partner

LESSOR'S SIGNATURES CONTINUED:

By: NORTHPARK INDUSTRIAL-LEAHY DIVISION LLC,
a California limited liability company

By: WEST AMERICA CONSTRUCTION CORPORATION,
a California corporation,
Manager

By: /S/ NICHOLAS M. BROWN

Nicholas M. Brown, President

By: /s/ THOMAS L. HARNER

Thomas L. Harner, Secretary

EXHIBIT A

[FIRST FLOOR PLAN]

LESSOR [Illegible] *LESSEE [Illegible]*
--- *---*

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EXHIBIT A CONT.

[SECOND FLOOR PLAN]

LESSOR [Illegible] *LESSEE [Illegible]*

_____ _____

_____ _____

_____

_____

EXHIBIT B

[FIRST FLOOR PLAN]

LESSOR [Illegible] LESSEE [Illegible]

_____ _____

_____ _____

_____

_____

EXHIBIT B CONT.

SECOND FLOOR PLAN

LESSOR [Illegible] LESSEE [Illegible]

_____ _____

_____ _____

_____

_____

EXHIBIT C
GARAGE PARKING RULES

a. Garage hours: Twenty-four (24) hours, seven (7) days a week.

b. Cars must be parked entirely within the stall lines painted on the floor, and only small cars may be parked in areas reserved for compacts. All cars must be parked head-in only.

c. All directional signs and arrows must be observed.

d. Speed limit shall be 5 miles per hour.

e. Parking is prohibited in all areas not expressly designated for parking, including without limitation:

1. Aisles.
2. Loading zones.
3. Areas not striped for parking.
4. Areas where "No Parking" signs are posted.
5. Ramps, right side up - left side down.

f. Spaces reserved for handicapped parking must be used only be vehicles properly designated.

g. Parking stickers, card-key or any other devices or forms of identification or entry supplied by Lessor shall remain the property of Lessor. Such devices must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Devices are not transferable and any device in the possession of any unauthorized holder will be void.

h. Garage managers or personnel are not authorized to make or allow any exceptions to these Rules.

i. Each driver of a vehicle is required to drive and park safely, and lock

and secure his or her own vehicle.

j. Loss or theft of parking identification, card-keys or other such devices must be reported to Lessor immediately. Any parking devices reported lost or stolen or found on any unauthorized car will be confiscated and the illegal holder will be fined at the prevailing written rate. Lost or stolen devices found by Lessee or its employees must be returned to Lessor.

k. Washing, waxing, cleaning or servicing of any vehicle is prohibited. Parking spaces may only be used for parking automobiles.

l. Parking space shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks. Prohibited vehicles are not permitted; examples of prohibited vehicles shall include, but shall not be limited to, vehicles exceeding 6'6" in height, trucks or trucking equipment, trailers, campers, recreational vehicles, boats, "dead automobiles" or automobiles parked longer than 48 hours. No automotive repair or work is permitted. Lessor shall have the right, without notice, in addition to other rights and remedies it may have, to remove or tow away any prohibited vehicle and charge the cost to the owner, which cost shall be immediately payable upon demand by Lessor.

m. Other prohibitions include but are not limited to: eating in Garage, loitering, throwing trash, leaky vehicles, damage to gates, arms, card-key readers, entry or exit equipment, other vehicles, real or personal property, fences, rails or walls.

n. Lessor may prohibit violators of Rules from using parking spaces provided to Lessor hereunder. In such case, Lessor shall void the violator's card-key and notify Lessee in writing. Said individual(s) would be prohibited from using Garage, until a fine of $75.00 is paid or until Lessor agrees to reinstate the violator, at Lessor's option.

EXHIBIT D
FORM OF
FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (the "First Amendment"), dated _____, 2001, is made by and between Northpark Industrial, a California general partnership, Northwest Industrial Center, a California limited partnership and Northpark Industrial-Leahy Division, LLC, a California limited liability company (collectively, "Lessor"), with offices at 8929 Wilshire Boulevard, Suite 400, Beverly Hills, California 90211, and CAPSTONE TURBINE CORPORATION, a California corporation ("Lessee"), with offices at 21211 Nordhoff Street, Chatsworth, California 91311.

WHEREAS, Lessor and Lessee have entered into that certain Standard Industrial Commercial Single-Tenant Lease - Net, including Addendum and Exhibits thereto, dated, for reference purposes only, December 1, 1999 ("Lease"), for a concrete tilt-up building consisting of approximately 98,370 square feet of area including 200 parking spaces located on certain real property known as 21211 Nordhoff Street, Chatsworth, California and 9151 Eton Avenue, Chatsworth, California.

WHEREAS, the provisions of the Lease specify that the Commencement Date shall be the date of the expiration of Lessee's 60-day Early Possession Period, as defined in Addendum Paragraph 53 to the Lease.

NOW THEREFORE, in consideration of the covenants and provisions contained herein, and other good and valuable consideration, the sufficiency of which Lessor and Lessee hereby acknowledge, Lessor and Lessee agree as follows:

1. CONFIRMATION OF DEFINED TERMS. Unless modified herein all terms previously defined and capitalized in the Lease shall hold the same meaning for the purposes of this First Amendment.

2. CONFIRMATION OF COMMENCEMENT DATE AND TERM. The Commencement Date is hereby confirmed to be _____, 2001, and the Term is hereby confirmed to be the ten (10) year period commencing on _____, 2001, and ending on _____, 2011.

3. CONFIRMATION OF BASE RENT AND BASE RENT PAYMENT PERIODS. The Base Rent payable for the Premises during the initial ten (10) year term of the Lease shall be as follows:

a. The Base Rent payable for the period of _____, 2001 through _____, 200_ shall be $30,000.00 per month;

b. The Base Rent payable for the period of _____, 200_ through _____, 200_ shall be $60,000.00 per month;

c. The Base Rent payable for the period of _____, 200__ through _____, 200__ shall be $63,000.00 per month. In addition, on _____, 200__, Lessee shall deposit with Lessor $3,000.00 as additional security deposit;

d. The Base Rent payable for the period of _____, 200__ through _____, 200__ shall be $66,150.00 per month. In addition, on _____, 200__, Lessee shall deposit with Lessor $3,150.00 as additional security deposit;

e. The Base Rent payable for the period of _____, 200__ through _____, 200__ shall be $69,457.50 per month. In addition, on _____, 200__, Lessee shall deposit with Lessor $3,307.50 as additional security deposit;

f. The Base Rent payable for the period of _____, 200__ through _____, 200__ shall be $72,930.38 per month. In addition, on _____, 200__, Lessee shall deposit with Lessor $3,472.88 as additional security deposit; and

g. The Base Rent payable for the period of _____, 200__ through _____, 200__ shall be $76,576.89 per month. In addition, on _____, 200__, Lessee shall deposit with Lessor $3,646.51 as additional security deposit.

4. CONFIRMATION OF FIRST OPTION TO EXTEND. Based upon the Commencement Date and Term specified hereinabove, the period of time in which Lessee is permitted to validly exercise its first Option to Extend the Term of the Lease is hereby confirmed to be _____ through _____.

5. CONFIRMATION OF SECOND OPTION TO EXTEND. Based upon the Commencement Date and Term specified hereinabove, the period of time in which Lessee is permitted to validly exercise its second Option to Extend the Term of the Lease is hereby confirmed to be _____ through _____.

6. WARRANTY OF AUTHORITY. If Lessor or Lessee signs as a corporation, partnership or limited liability company, each of the persons executing this First Amendment on behalf of Lessor and Lessee hereby covenants and warrants that the entity executing hereinbelow is a duly authorized and existing entity that is qualified to do business in California; that the persons(s) signing on behalf of either Lessor or Lessee have full right and authority to enter into this First Amendment; and that each and every person signing on behalf of either Lessor or Lessee are authorized in writing to do so.

7. SUCCESSORS AND HEIRS. The provisions of this First Amendment shall inure to the benefit of Lessor's and Lessee's respective successors, assigns, heirs and all persons claiming by, through or under them.

8. SUBMISSION OF DOCUMENT. No expanded contractual or other rights shall exist between Lessor and Lessee with respect to the Premises, as contemplated under this First Amendment, until both Lessor and Lessee have executed and delivered this First Amendment, whether or not any additional rental or security deposits have been received by Lessor, and notwithstanding that Lessor has delivered to Lessee an unexecuted copy of this First Amendment. Execution of this First Amendment by Lessee and its return to Lessor shall not be binding upon either party, notwithstanding any time interval, until Lessor has in fact executed and delivered this First Amendment to Lessee.

9. GOVERNING LAW. The provisions of this First Amendment shall be governed by the laws of the State of California.

10. REAFFIRMATION. Lessor and Lessee acknowledge and agree that the Lease, as amended herein, constitutes the entire agreement by and between Lessor and Lessee, and supersedes any and all other agreements written or oral between the parties hereto. Furthermore, except as modified herein, all other covenants and provisions of the Lease shall remain unmodified and in full force

and effect.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Lessor and Lessee have duly executed this document as of the day and year written below.

LESSOR:

NORTHPARK INDUSTRIAL,
a California general partnership

By: NORTHWEST INDUSTRIAL CENTER, a California limited partnership, General Partner

By: _____
Murray Siegel, General Partner

By: _____
Gary Siegel, General Partner

By: NORTHPARK INDUSTRIAL–LEAHY DIVISION LLC, a California limited liability company, General Partner

By: WEST AMERICA CONSTRUCTION CORPORATION, a California corporation, Manager

By: _____
Nicholas M. Brown, President

By: _____
Thomas L. Harner, Secretary

NORTHWEST INDUSTRIAL CENTER,
a California limited partnership

By: _____
Murray Siegel, General Partner

By: _____
Gary Siegel, General Partner

NORTHPARK INDUSTRIAL–LEAHY DIVISION LLC,
a California limited liability company

By: WEST AMERICA CONSTRUCTION CORPORATION, a California corporation, Manager

By: _____
Nicholas M. Brown, President

By: _____
Thomas L. Harner, Secretary

EXHIBIT E
FORM OF
MEMORANDUM OF LEASE
AND OPTION TO EXTEND

RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO:

Capstone Turbine Corporation
c/o Buchalter, Nemer, Fields & Younger
601 south Figueroa Street, Suite 2400
Los Angeles, California 90017
Attn: Dina Tecimer

- ----------

MEMORANDUM OF LEASE
AND OPTION TO EXTEND

THIS MEMORANDUM OF LEASE AND OPTION TO EXTEND ("Memorandum") of that certain Standard Industrial/Commercial Single Tenant Lease - Net ("Lease"), is entered into this ____ day of December, 1999, by and between Northpark Industrial, a California general partnership, Northwest Industrial Center, a California limited partnership and Northpark Industrial-Leahy Division, LLC (collectively, "Lessor"), and CAPSTONE TURBINE CORPORATION, a California corporation ("Lessee"), for the purpose of memorializing their execution of said Lease on December __, 1999.

1. Lessor does hereby lease to Lessee and Lessee does hereby rent from Lessor, at the rent and upon the terms and conditions described in the Lease and Addendum attached thereto, that certain real property located in the City of Chatsworth, County of Los Angeles, State of California, described in Exhibit "A" attached hereto and incorporated herein by this reference ("21211 Nordhoff").

2. In addition to the real property referenced in Paragraph 1 hereto, the Lease Premises include Lessee's right to use (i) forty (40) parking spaces on 21211 Nordhoff, and (ii) one hundred and sixty (160) parking spaces located on certain real property located in the City of Chatsworth, County of Los Angeles, State of California, described in Exhibit "B" attached hereto and incorporated herein by this reference ("9151 Eton").

3. The term of the Lease is for a period of ten (10) years commencing on the "Commencement Date" as defined in said Lease and ending ten (10) years after said "Commencement Date."

4. Pursuant to the Lease, Lessor grants to Lessee two (2) five (5) year options to extend the term of the Lease, the first of which commences when the original Term of this Lease expires ("First Option"), and the second of which option commences upon expiration of the First Option Period and continues for an additional five (5) years thereafter.

5. In the event of any conflict or inconsistency with the terms and conditions of this Memorandum and the terms and conditions of the Lease, then the terms and conditions of the Lease shall govern. This Memorandum may be executed in two or more counterparts with the combined counterparts constituting one integrated agreement.

This Memorandum shall be deemed to have been executed as of the date of the last acknowledged signature hereto, provided however, the signatories hereto intend that said Memorandum shall be deemed to be effective as of the date of the execution of the Lease.

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum as of the date first above-written.

LESSOR:

NORTHPARK INDUSTRIAL,
a California general partnership

By: NORTHWEST INDUSTRIAL CENTER, a California limited partnership, General Partner

By: _____
Murray Siegel, General Partner

By: _____
Gary Siegel, General Partner

By: NORTHPARK INDUSTRIAL-LEAHY DIVISION LLC, a California limited liability company, General Partner

By: WEST AMERICA CONSTRUCTION CORPORATION, a California corporation, Manager

By: _____
Nicholas M. Brown, President

By: _____
Thomas L. Harner, Secretary

NORTHWEST INDUSTRIAL CENTER,
a California limited partnership

By: _____
Murray Siegel, General Partner

By: _____
Gary Siegel, General Partner

LESSOR'S SIGNATURES CONTINUED:

NORTHPARK INDUSTRIAL-LEAHY DIVISION LLC,
a California limited liability company

By: WEST AMERICA CONSTRUCTION CORPORATION, a California corporation, Manager

By: _____
Nicholas M. Brown, President

By:
_____
Thomas L. Harner, Secretary

LESSEE:

CAPSTONE TURBINE CORPORATION,
a California corporation

By:
_____
Name:
_____
Title:
_____

By:
_____
Name:
_____
Title:
_____

EXHIBIT A

LOT 3 OF TRACT NO. 33398, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 896 PAGES 17 TO 20 INCLUSIVE OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT AS UNDIVIDED 1/4 INTEREST IN ALL PETROLEUM, OIL, ASPHALTUM, GAS AND OTHER HYDROCARBON SUBSTANCES IN AND UNDER SAID LAND, AS RESERVED IN THE DEED FROM GUINN WILLIAMS, RECORDED JANUARY 6, 1939 IN BOOK 16242 PAGE 356, OFFICIAL RECORDS BY A DEED RECORDED JUNE 14, 1960 AS INSTRUMENT NO. 4143, OFFICIAL RECORDS, SAID GUINN WILLIAMS QUITCLAIMED TO THE RECORD OWNERS OF SAID LAND ALL HIS RIGHT, TITLE AND INTEREST IN AND TO THAT PORTION OF SAID LAND LYING ABOVE A DEPTH OF 500 FEET, MEASURED VERTICALLY FROM THE SURFACE, TOGETHER WITH ANY RIGHT OF ENTRY ON THE SURFACE THEREOF.

ALSO EXCEPT THEREFROM AN UNDIVIDED 1/4 INTEREST IN ALL PETROLEUM, OIL, ASPHALTUM, GAS AND OTHER HYDROCARBON SUBSTANCES AS RESERVED IN THE DEED FROM B. F. PORTER ESTATE, A CORPORATION, RECORDED JANUARY 6, 1939 IN BOOK 16242 PAGE 356, OFFICIAL RECORDS, BY A DEED RECORDED SEPTEMBER 22, 1960 AS INSTRUMENT NO. 4090, OFFICIAL RECORDS, ALL RIGHTS TO ENTER UPON THE SURFACE AND THAT PORTION OF THE SUBSURFACE LYING ABOVE A DEPTH OF 500 FEET BELOW THE SURFACE OF SAID LAND WAS QUITCLAIMED TO THE RECORD OWNERS OF LOTS 1 TO 7 INCLUSIVE, 27 TO 33 INCLUSIVE 38, 39, 40 AND THAT PORTION OF LOTS 8, 9, 10, 26, 34 AND 37 LYING SOUTHERLY OF THE NORTHERLY LINE OF THE LAND DESCRIBED IN SAID DEED LASTLY ABOVE DESCRIBED EXCEPTING AND RESERVING AS A DRILL-SITE, THAT PORTION OF LOTS 7, 8 AND 9 LYING WITHIN THE AREA OF LAND AS THEREIN PROVIDED.

ALSO EXCEPT SUCH INTEREST IN THE REMAINDER OF THE OIL, GAS, MINERALS AND OTHER HYDROCARBON SUBSTANCES IN OR UNDER SAID LAND, AS RESERVED BY SECURITY PACIFIC NATIONAL BANK, A NATIONAL BANKING ASSOCIATION, AND JOHN J. TUTTLE, AS CO-EXECUTORS OF THE ESTATE OF MINNIE JOUGHIN, DECEASED, IN DEED RECORDED FEBRUARY 9, 1973 AS INSTRUMENT NO. 195, OFFICIAL RECORDS.

EXHIBIT "B"

LOT 40, EXCEPT THEREFROM THE NORTHERLY 9 FEET MEASURED ALONG THE WESTERLY LINE OF SAID LOT, OF TRACT NO. 33398, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 896 PAGES 17 TO 20 INCLUSIVE OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT AN UNDIVIDED 1/4 INTEREST IN ALL PETROLEUM, OIL, ASPHALTUM, GAS AND

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ALSO EXCEPT THEREFROM AN UNDIVIDED 1/4 INTEREST IN ALL PETROLEUM, OIL, ASPHALTUM, GAS AND OTHER HYDROCARBON SUBSTANCES, AS RESERVED IN THE DEED FROM B. F. PORTER ESTATE, A CORPORATION, RECORDED JANUARY 6, 1939 IN BOOK 16242 PAGE 356, OFFICIAL RECORDS, BY A DEED RECORDED SEPTEMBER 22, 1960 AS INSTRUMENT NO. 4090, ALL RIGHTS TO ENTER UPON THE SURFACE AND THAT PORTION OF THE SUBSURFACE LYING ABOVE A DEPTH OF 500 FEET BELOW THE SURFACE OF SAID LAND, WAS QUITCLAIMED ON THE RECORD OWNERS OF LOTS AS THEREIN DESCRIBED.

ALSO EXCEPT SUCH INTEREST IN THE REMAINDER OF THE OIL, GAS, MINERALS AND OTHER HYDROCARBON SUBSTANCES IN OR UNDER SAID LAND, AS RESERVED BY SECURITY PACIFIC NATIONAL BANK, A NATIONAL BANKING ASSOCIATION, AND JOHN J. TUTTLE, AS CO-EXECUTORS OF THE ESTATE OF MINNIE JOUGHIN, DECEASED, IN DEED RECORDED FEBRUARY 9, 1973 AS INSTRUMENT NO. 195.

No. 031263

VENDOR NO: 1183 VENDOR NAME: NORTHPARK INDUSTRIAL

INVOICE NO	INV DATE	INVOICE AMOUNT	DISC TAKEN	PAYMENT AMOUNT
DEPOSIT NEW BLDG PREPAID RENT $420,000 - SEC. DEP $60,000	12/30/1999	480,000.00	0.00	480,000.00
Total:		480,000.00	0.00	480,000.00

<TABLE>
<S> <C>

[CAPSTONE LOGO]

11-24
1210(8)

WELLS FARGO BANK
6001 TOPANGA CANYON BLVD.
WOODLAND HILLS, CA 91367

No. 031263

Pay FOUR HUNDRED EIGHTY THOUSAND USD and 00/100

DATE	AMOUNT
12/30/1999	$ ***480,000.00*

TO
THE NORTHPARK INDUSTRIAL
ORDER 21211 NORDHOFF
OF CHATSWORTH CA 91311

/s/

/s/

- ---

031263 121000248 4443 331152

</TABLE>

[THE SEELEY COMPANY LOGO]

MEMO

TO: *Karl Daly, Chicago Title – Pasadena Branch*

FROM: *Mike Tingus, Vice President*
The Seeley Company

DATE: *January 4, 2000*

SUBJECT: *21211 Nordhoff Street & 9151 Eton Avenue, Chatsworth, CA*

– ----------

Please record this document as an accommodation for these principals for the above referenced properties.

Should you have any questions, please do not hesitate to give me a call at (818) 905-5800.

Thank you.

MEMORANDUM OF LEASE
AND OPTION TO EXTEND

RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO:

Capstone Turbine Corporation
c/o Buchalter, Nemer, Fields & Younger
601 south Figueroa Street, Suite 2400
Los Angeles, California 90017
Attn: Dina Tecimer

– ----------

MEMORANDUM OF LEASE
AND OPTION TO EXTEND

THIS MEMORANDUM OF LEASE AND OPTION TO EXTEND ("Memorandum") of that certain Standard Industrial/Commercial Single Tenant Lease – Net ("Lease"), is entered into this 30th day of December, 1999, by and between Northpark Industrial, a California general partnership, Northwest Industrial Center, a California limited partnership and Northpark Industrial-Leahy Division, LLC (collectively, "Lessor"), and CAPSTONE TURBINE CORPORATION, a California corporation ("Lessee"), for the purpose of memorializing their execution of said Lease on December 30, 1999.

1. Lessor does hereby lease to Lessee and Lessee does hereby rent from Lessor, at the rent and upon the terms and conditions described in the Lease and Addendum attached thereto, that certain real property located in the City of Chatsworth, County of Los Angeles, State of California, described in Exhibit "A" attached hereto and incorporated herein by this reference ("21211 Nordhoff").

2. In addition to the real property reference in Paragraph 1 hereto, the Lease Premises include Lessee's right to use (i) forty (40) parking spaces on 21211 Nordhoff, and (ii) one hundred and sixty (160) parking spaces located on certain real property located in the City of Chatsworth, County of Los Angeles, State of California, described in Exhibit "B" attached hereto and incorporated herein by this reference ("9151 Eton").

3. The term of the Lease is for a period of ten (10) years commencing on the "Commencement Date" as defined in said Lease and ending ten (10) years after said "Commencement Date."

4. Pursuant to the Lease, Lessor grants to Lessee two (2) five (5) year options to extend the term of the Lease, the first of which commences when the original Term of this Lease expires ("First Option"), and the second of which option commences upon expiration of the First Option Period and continues for an additional five (5) years thereafter.

5. In the event of any conflict or inconsistency with the terms and conditions of this Memorandum and the terms and conditions of the Lease, then

the terms and conditions of the Lease shall govern. This Memorandum may be executed in two or more counterparts with the combined counterparts constituting one integrated agreement.

This Memorandum shall be deemed to have been executed as of the date of the last acknowledged signature hereto, provided however, the signatories hereto intend that said Memorandum shall be deemed to be effective as of the date of the execution of the Lease.

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum as of the date first above-written.

LESSOR:

NORTHPARK INDUSTRIAL,
a California general partnership

By: NORTHWEST INDUSTRIAL CENTER,
a California limited partnership,
General Partner

By: /s/ MURRAY SIEGEL

Murray Siegel, General Partner

By: /s/ GARY SIEGEL,

Gary Siegel, General Partner

By: NORTHPARK INDUSTRIAL-LEAHY
DIVISION LLC, a California
limited liability company,
General Partner

By: WEST AMERICA CONSTRUCTION
CORPORATION, a California
corporation, Manager

By: /s/ NICHOLAS M. BROWN

Nicholas M. Brown,
President

By: /s/ THOMAS L. HARNER

Thomas L. Harner,
Secretary

NORTHWEST INDUSTRIAL CENTER,
a California limited partnership

By: /s/ MURRAY SIEGEL

Murray Siegel, General Partner

By: /s/ GARY SIEGEL

Gary Siegel, General Partner

LESSOR'S SIGNATURES CONTINUED:

NORTHPARK INDUSTRIAL-LEAHY DIVISION LLC,
a California limited liability company

By: WEST AMERICA CONSTRUCTION
CORPORATION, a California
corporation, Manager

By: /s/ NICHOLAS M. BROWN
Nicholas M. Brown, President

By: /s/ THOMAS L. HARNER
Thomas L. Harner, Secretary

LESSEE:

CAPSTONE TURBINE CORPORATION,
a California corporation

By: /s/ AKE ALMGREN
Name: Ake Almgren
Title: President & CEO

BY: /s/ J. WATTS
Name: J. Watts
Title: CFO

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 22, 1999, before me, the undersigned, a notary public in and for said State, personally appeared Ake Amgren, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

DEBBIE BERNARD
Commission # 1237244
[LOGO] Notary Public - California
Los Angeles County
My Comm. Expires Oct 22, 2003

[SEAL]

/s/ DEBBIE BERNARD
Notary Public

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 22, 1999, before me, the undersigned, a notary public in and for said State, personally appeared Jeff Watts, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

DEBBIE BERNARD
Commission # 1237244

/s/DEBBIE BERNARD

[LOGO] Notary Public - California
Los Angeles County
My Comm. Expires Oct 22, 2003

Notary Public

[SEAL]

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 22, 1999, before me, the undersigned, a notary public in and for said State, personally appeared Nicholas M. Brown, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

LEONA DAVIS
Commission # 1125439
[LOGO] Notary Public - California
Los Angeles County
My Comm. Expires Feb 9, 2001

/s/ LEONA DAVIS

Notary Public

[SEAL]

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 22, 1999, before me, the undersigned, a notary public in and for said State, personally appeared Thomas L. Harner, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

LEONA DAVIS
Commission # 1125439
[LOGO] Notary Public - California
Los Angeles County
My Comm. Expires Feb 9, 2001

/s/ LEONA DAVIS

Notary Public

[SEAL]

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 30, 1999, before me, the undersigned, a notary public in and for said State, personally appeared Murray Siegel, proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

DEBBIE BERNARD
Commission # 1237244
Notary Public - California
Los Angeles County
My Comm. Expires Oct 22, 2003

/s/ DEBBIE BERNARD

Notary Public

[SEAL]

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 30, 1999, before me, the undersigned, a notary public in and for said State, personally appeared Gary Siegel, proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

DEBBIE BERNARD
Commission # 1237244
Notary Public - California
Los Angeles County
My Comm. Expires Oct 22, 2003

/s/ DEBBIE BERNARD

Notary Public

[SEAL]

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 22, 1999, before me, the undersigned, a notary public in and for said State, personally appeared Nicholas M. Brown, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

LEONA DAVIS
Commission # 1125439
Notary Public - California
Los Angeles County
My Comm. Expires Feb 9, 2001

/s/ LEONA DAVIS

Notary Public

[SEAL]

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On December 22, 1999, before me, the undersigned, a notary public in and

for said State, personally appeared Thomas L. Harner, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that such person executed the same in the person's authorized capacity, and that by the person's signature on the instrument, the person, or the entity on behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

- ------------------------------
LEONA DAVIS
Commission # 1125439
Notary Public - California
Los Angeles County
My Comm. Expires Feb 9, 2001
- ------------------------------

/s/ LEONA DAVIS

Notary Public

[SEAL]

EXHIBIT A

LOT 3 OF TRACT NO. 33398, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 896 PAGES 17 TO 20 INCLUSIVE OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT AN UNDIVIDED 1/4 INTEREST IN ALL PETROLEUM, OIL, ASPHALTUM, GAS AND OTHER HYDROCARBON SUBSTANCES IN AND UNDER SAID LAND, AS RESERVED IN THE DEED FROM GUINN WILLIAMS, RECORDED JANUARY 6, 1939 IN BOOK 16242 PAGE 356, OFFICIAL RECORDS BY A DEED RECORDED JUNE 14, 1960 AS INSTRUMENT NO. 4143, OFFICIAL RECORDS, SAID GUINN WILLIAMS QUITCLAIMED TO THE RECORD OWNERS OF SAID LAND ALL HIS RIGHT, TITLE AND INTEREST IN AND TO THAT PORTION OF SAID LAND LYING ABOVE A DEPTH OF 500 FEET, MEASURED VERTICALLY FROM THE SURFACE, TOGETHER WITH ANY RIGHT OF ENTRY ON THE SURFACE THEREOF.

ALSO EXCEPT THEREFROM AN UNDIVIDED 1/4 INTEREST IN ALL PETROLEUM, OIL, ASPHALTUM, GAS AND OTHER HYDROCARBON SUBSTANCES AS RESERVED IN THE DEED FROM B. F. PORTER ESTATE, A CORPORATION, RECORDED JANUARY 6, 1939 IN BOOK 16242 PAGE 356, OFFICIAL RECORDS, BY A DEED RECORDED SEPTEMBER 22, 1960 AS INSTRUMENT NO. 4090, OFFICIAL RECORDS, ALL RIGHTS TO ENTER UPON THE SURFACE AND THAT PORTION OF THE SUBSURFACE LYING ABOVE A DEPTH OF 500 FEET BELOW THE SURFACE OF SAID LAND WAS QUITCLAIMED TO THE RECORD OWNERS OF LOTS 1 TO 7 INCLUSIVE, 27 TO 33 INCLUSIVE 38, 39, 40 AND THAT PORTION OF LOTS 8, 9, 10, 26, 34 AND 37 LYING SOUTHERLY OF THE NORTHERLY LINE OF THE LAND DESCRIBED IN SAID DEED LASTLY ABOVE DESCRIBED EXCEPTING AND RESERVING AS A DRILL-SITE, THAT PORTION OF LOTS 7, 8 AND 9 LYING WITHIN THE AREA OF LAND AS THEREIN PROVIDED.

ALSO EXCEPT SUCH INTEREST IN THE REMAINDER OF THE OIL, GAS, MINERALS AND OTHER HYDROCARBON SUBSTANCES IN OR UNDER SAID LAND, AS RESERVED BY SECURITY PACIFIC NATIONAL BANK, A NATIONAL BANKING ASSOCIATION, AND JOHN J. TUTTLE, AS CO-EXECUTORS OF THE ESTATE OF MINNIE JOUGHIN, DECEASED, IN DEED RECORDED FEBRUARY 9, 1973 AS INSTRUMENT NO. 195, OFFICIAL RECORDS.

EXHIBIT "B"

LOT 40, EXCEPT THEREFROM THE NORTHERLY 9 FEET MEASURED ALONG THE WESTERLY LINE OF SAID LOT, OF TRACT NO. 33398, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 896 PAGES 17 TO 20 INCLUSIVE OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

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EXHIBIT 10.3

CAPSTONE TURBINE CORPORATION

1993 INCENTIVE STOCK PLAN

(AS AMENDED DECEMBER 1995 AND APRIL 1996)
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CAPSTONE TURBINE CORPORATION

1993 INCENTIVE STOCK PLAN,
as amended December 1995 and April 1996

1. Purposes of this Plan. The general purpose of this 1993 Incentive Stock Plan is to promote the interests of the Company and its shareholders by (i) providing certain Employees of and Consultants to the Company with additional incentives to continue and increase their efforts with respect to achieving success in the business of the Company and its Subsidiaries, and (ii) attracting and retaining the best available personnel to participate in the ongoing business operations of the Company and its Subsidiaries.

Options granted under this Plan may be either Incentive Stock Options or Nonstatutory Stock Options, as determined at the discretion of the Board and as reflected in the terms of the written option agreements. The Board may also grant Stock Purchase Rights hereunder.

2. Definitions. As used in this Plan, the following definitions shall apply:

(a) "Board" shall mean the Committee, if one has been appointed, or the Board of Directors of the Company, if no Committee is appointed.

(b) "Board of Directors" means the full Board of Directors of the Company.

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

(d) "Committee" shall mean the Committee appointed by the Board of Directors in accordance with Section 4(a) of this Plan, if one is appointed.

(e) "Common Stock" shall mean the Common Stock of the Company.

(f) "Company" shall mean the Capstone Turbine Corporation, a Delaware.

(g) "Consultant" shall mean any person who is engaged by the Company or by any Parent or Subsidiary to render consulting services and is compensated for such consulting services, and any director of the Company whether compensated for such services, or not.

(h) "Continuous Status as an Employee or Consultant" shall mean the absence of any interruption or termination of service as an Employee or Consultant, as applicable. Continuous Status as an Employee of Consultant shall not be considered interrupted in the case of sick leave, military leave, or any

other leave of absence approved by the Board; provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(i) "Disinterested Person" shall mean a member of the Board of Directors of the Company: (i) who was not during the one year prior to service as an administrator of this Plan granted or awarded equity securities pursuant to this Plan, or any other plan of the Company or any of its affiliates entitling the participants therein to acquire equity securities of the Company or any of its affiliates except as permitted by Rule 16b-3(c)(2)(i) promulgated under the Exchange Act ("Rule 16b-3(c)(2)(i)"); or (ii) who is otherwise considered to be a "disinterested person" in accordance with Rule 16b-3(c)(2)(i), or any other applicable rules, regulations or interpretations of the Securities and Exchange Commission.

(j) "Employee" shall mean any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company as a common-law employee. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(k) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(l) "Incentive Stock Option" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(m) "Major Event" shall be deemed to have occurred if (i) there shall be consummated any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's common stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; (ii) there shall be consummated any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; (iii) proceedings or actions for the liquidation or dissolution of the Company are initiated by the Company; or (iv) any "person" (as defined in Sections 13(d) and 14(d) of the Exchange Act) (other than persons who beneficially own more than 30% of the capital stock of the Company on a fully diluted and as converted basis outstanding as of January 1, 1993) becomes the "beneficial

owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30% or more of the Company's outstanding capital stock on a fully diluted and as converted basis at such time; provided, however, that a "Major Event" shall not be deemed to have occurred solely by reason of the consummation of a firmly underwritten public offering by the Company of common stock registered under the Securities Act.

(n) "Nonstatutory Stock Option" shall mean an Option which is not intended to qualify as an Incentive Stock Option.

(o) "Option" shall mean a stock option granted pursuant to this Plan.

(p) "Optioned Stock" shall mean the Common Stock subject to an Option.

(q) "Optionee" shall mean an Employee or Consultant who receives an Option.

(r) "Parent" shall mean a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(s) "Plan" shall mean this 1993 Incentive Stock Plan, as amended as of December, 1995.

(t) "Purchaser" shall mean an Employee or Consultant who exercises a Stock Purchase Right.

(u) "Securities Act" shall mean the Securities Act of 1933, as amended.

(v) "Share" shall mean a share of Common Stock, as adjusted in accordance with Section 11 of this Plan.

(w) "Stock Purchase Right" shall mean a right to purchase Common Stock pursuant to this Plan or the right to receive a bonus of Common Stock for past services.

(x) "Subsidiary" shall mean a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to this Plan. Subject to the provisions of Section 11 of this Plan, the maximum aggregate number of Shares under this Plan is 3,500,000. The Shares may be authorized but unissued, or reacquired Common Stock, or both.

If an Option or Stock Purchase Right should expire, terminate, be cancelled or become unexercisable for any reason without having been exercised in full, then the unpurchased Shares which were subject thereto shall, unless this Plan shall have been terminated, become available for future grant or sale

under this Plan. In addition, Shares issued under this Plan and later repurchased or otherwise reacquired by the Company shall, unless this Plan shall have been terminated, become available for future grant or sale under this Plan.

4. Administration of this Plan.

(a) Procedure. This Plan shall be administered by the Board of Directors of the Company unless and until the Board of Directors delegates administration to a Committee, as provided in this Section 4(a).

(i) Subject to Section 4(a)(ii), the Board of Directors may appoint a Committee consisting of not less than two persons (who need not be members of the Board of Directors) to administer this Plan on behalf of the Board of Directors, subject to such terms and conditions not inconsistent with this Plan as the Board of Directors may prescribe. Once appointed, the Committee shall continue to serve until otherwise directed by the Board of Directors. Members of the Board who are either eligible for Options and/or Stock Purchase Rights or have been granted Options and/or Stock Purchase Rights may vote on any matters affecting the administration of this Plan or the grant of any Options and/or Stock Purchase Rights pursuant to this Plan, except that no such member shall act upon the granting of an option to such member, but any such member may be counted in determining the existence of a quorum at any meeting of the Board during which action is taken with respect to the granting of Options and/or Stock Purchase Rights to such member.

(ii) Notwithstanding the foregoing Section 4(a)(i), if the Company registers any class of any equity security pursuant to Section 12 of the Exchange Act, from the effective date of such registration until six months after the termination of such registration, any grants of Options and/or Stock Purchase Rights to directors or officers who are subject to Section 16 of the Exchange Act shall be made only by a Committee consisting of two or more persons, each of whom shall be a Disinterested Person (if necessary to meet the requirements of Rule 16b-3 promulgated under the Exchange Act). The Board shall otherwise comply with the requirements of Rule 16b-3 promulgated under the Exchange Act, as from time to time in effect, unless the Board expressly declares that any such requirement shall not apply.

(iii) Subject to the foregoing Sections 4(a)(i) and 4(a)(ii), from time to time the Board of Directors may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer this Plan. Once appointed, the Committee shall continue to serve until otherwise directed by the Board of Directors.

(b) Powers of the Board. Subject to the provisions of this Plan, the Board shall have plenary authority, in its discretion and without limitation, to

do the following: (i) to grant Incentive Stock Options, Nonstatutory Stock Options or Stock Purchase Rights; (ii) to determine, upon review of relevant information and in accordance with Section 7 of this Plan, the fair market value of the Common Stock; (iii) to determine the exercise price per share of Options or Stock Purchase Rights to be granted, which exercise price shall be determined in accordance with Section 7 hereof; (iv) to determine the Employees or Consultants to whom, and the time or times at which, Options or Stock Purchase Rights shall be granted and the number of Shares to be represented by each Option or Stock Purchase Right; (v) to interpret this Plan; (vi) to prescribe, amend and rescind rules and regulations relating to this Plan, and in the exercise of this power, to correct any defect, omission or inconsistency in this Plan or in any agreement relating to an Option or Stock Purchase Right, in a manner and to the extent the Board shall deem necessary or expedient to make this Plan fully effective; (vii) to determine the terms and provisions of each Option or Stock Purchase Right granted (which need not be identical) and, with the consent of the holder thereof, modify or amend each Option or Stock Purchase Right; (viii) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Stock Purchase Right previously granted by the Board; and (ix) to make all other determinations deemed necessary or advisable for the administration of this Plan.

(c) Board Determinations. In making determinations under this Plan, the Board may take into account the nature of the services rendered by the respective Employees and Consultants, their present and potential contributions to the success of the Company, or its Subsidiaries, as the case may be, and such other factors as the Board in its discretion shall deem relevant. All decisions, determinations and interpretations of the Board shall be final and binding on all Optionees, Purchasers and any other holders of any Options and/or Stock Purchase Rights granted under this Plan.

5. Eligibility.

(a) Options and Stock Purchase Rights may be granted to Employees and Consultants, provided that Incentive Stock Options may only be granted to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if such Employee or Consultant is otherwise eligible, be granted additional Option(s) or Stock Purchase Right(s).

(b) No Incentive Stock Option may be granted to an Employee which, when aggregated with all other incentive stock options granted to such Employee by the Company or by any Parent or Subsidiary, would result in Shares having an aggregate fair market value (determined for each Share as of the date of grant

of the Option covering such Share) in excess of $100,000 becoming first available for purchase upon exercise of one or more incentive stock options during any calendar year.

(c) Section 5(b) of this Plan shall apply only to an Incentive Stock Option evidenced by a stock option agreement which sets forth the intention of the Company and the Optionee that such Option shall qualify as an Incentive Stock Option. Section 5(b) of this Plan shall not apply to any Option evidenced by a stock option agreement which sets forth the intention of the Company and the Optionee that such Option shall be a Nonstatutory Stock Option.

(d) On and after the effective date of the registration of any class of equity security of the Company pursuant to Section 12 of the Exchange Act, a member of the Board of Directors who is not an Employee shall not be eligible for the benefits of this Plan unless at the time an Option or Stock Purchase Right is granted to such member, the Board expressly declares that such exclusion will not apply.

6. Term of Plan. This Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by vote of the holders of a majority of the outstanding shares of the Company entitled to vote on the adoption of this Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 13 of this Plan.

7. Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued

pursuant to exercise of an Option or Stock Purchase Right shall be such price as is determined by the Board, but shall be subject to the following provisions:

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

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per share exercise price shall be no less than 110% of the fair market value per share on the date of grant.

(B) granted to any Employee other than an Employee described in Section 7(a)(i)(A), the per share exercise price shall be no less than 100% of the fair market value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option:

(A) granted to an Employee or Consultant who, at the time of the grant of such Options, owns stock

representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per share exercise price shall be no less than 110% of the fair market value per share on the date of the grant.

(B) granted to any Employee or Consultant, other than an Employee or Consultant described in Section 7(a)(ii)(A), the per share exercise price shall be no less than 85% of the fair market value per share on the date of grant.

(iii) In the case of a Stock Purchase Right granted to any person, the per share exercise price shall be no less than 85% of the fair market value per share on the date of grant; provided, however, that if such person at the time of the grant of such Stock Purchase Right, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per share exercise price shall be no less than 100% of the fair market value per share on the date of the grant.

(b) Fair market value shall be determined by the Board in its discretion; provided, however, that where there is an active public market for the Common Stock, the fair market value per share shall be determined as follows:

(i) If the Company's Common Stock is traded on an exchange or is quoted on the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") National Market System, then the closing or last sale price, respectively, on the date of grant, as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the NASDAQ System).

(ii) If the Company's Common Stock is not traded on an exchange or on the NASDAQ National Market System but is traded in the over-the-counter market, then the mean of the closing bid and asked prices on the date of grant as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the NASDAQ System).

(c) The consideration to be paid for the Shares to be issued upon exercise of an Option or Stock Purchase Right, including the method of payment, shall be determined by the Board and may consist entirely of cash, check, promissory note or other deferred payment arrangement, other Shares of Common Stock having a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option or Stock Purchase Right shall be exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares to the extent permitted under Sections 408 and 409 of the California General Corporation Law. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company (Section 315(b) of the California General Corporation Law).

8. Options.

(a) Term of Option. The term of each Option shall be ten (10) years from the date of grant thereof or such shorter term as may be provided in the stock option agreement relating to such Option; provided that the term of a Nonstatutory Stock Option may, as provided in Section 8(b)(iv), be extended for a period of up to six (6) months. However, in the case of an Option granted to an Employee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter time as may be provided in the stock option agreement relating to such Option.

(b) Exercise of Option.

(i) Procedure for Exercise; Rights as a Shareholder. Any Option granted under this Plan shall be exercisable at such times and under such conditions as determined by the Board, such as vesting conditions and/or performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of this Plan. The Board may, in its discretion, waive any vesting provisions contained in a stock option agreement. Notwithstanding anything herein to the contrary, no Option granted hereunder shall have a vesting period in excess of five (5) years.

An Option may, but need not, include a provision whereby at any time prior to termination of the Optionee's Continuous Status as an Employee or Consultant, the Optionee may elect to exercise the Option as to all or any part of the Shares subject to the Option prior to the stated vesting date of the Option or of any vesting installment or installments specified in the Option. Any shares so purchased from any unvested installment or Option may be subject to a repurchase right in favor of the Company or to any restriction the Board determines to be appropriate.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. An Option may not be exercised for a fraction of a Share. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 7 of this Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of

the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of this Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of this Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Status as an Employee or Consultant. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (as the case may be), such Optionee may, but only within thirty (30) days after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent that such Employee or Consultant was entitled to exercise it at the date of such termination. To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of such termination, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to exercise) within such thirty (30) day time period, the Option shall terminate.

(iii) Disability of Optionee. Notwithstanding the provisions of Section 8(b)(ii) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of such Employee's or Consultant's disability, such Employee or Consultant may, but only within six (6) months from the date of such termination (but in no event later than the date of expiration of the term of such option as set forth in the Option Agreement), exercise the Option to the extent such Employee or Consultant was entitled to exercise it at the date of such termination; provided however, that if the Option is an Incentive Stock Option and the disability is not a total and permanent disability (as defined in Section 422(c)(6) of the Code), then if the Optionee does not exercise the Option within three months after such termination, such Option shall automatically convert into a Nonstatutory Stock Option; and provided, further, that if the termination is as a result of a total and permanent disability (as defined in Section 422(c)(6) of the Code), such Employee or Consultant may within one (1) year from the date of such termination, but in no event later than the date of expiration of the term of such option as set forth in the Option Agreement), exercise the Option to the extent such Employee or Consultant was entitled to exercise it at the date of such termination. To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of termination, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to

exercise) within the time periods specified above, as the case may be, the Option shall terminate.

(iv) Death of Optionee. In the event of the death of an Optionee: (A) while the Optionee is an Employee or Consultant, (B) during the 30 (30) day period described in Section 8(b)(ii), or (C) during the one (1) year period described in Section 8(b)(iii), the Option may be exercised, at any time within one (1) year following the date of death (but, in the case of an Incentive Stock Option, in no event later than the date of expiration of the term of such Incentive Stock Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the time of death of the Optionee. To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of death, or if such Employee, Consultant, estate or other person does not exercise such Option (which such Employee, Consultant, estate or person was entitled to exercise) within the one (1) year time period specified in this Plan, the Option shall terminate.

9. Stock Purchase Rights.

(a) Rights to Purchase. After the Board determines that it will offer an Employee or Consultant a Stock Purchase Right, it shall deliver to the offeree a stock purchase agreement or stock bonus agreement, as the case may be, setting forth the terms, conditions and restrictions relating to the offer, including the number of Shares which such person shall be entitled to purchase, and the time within which such person must accept such offer, which shall in no event exceed six (6) months from the date upon which the Board made the determination to grant the Stock Purchase Right. The offer shall be accepted by execution of a stock purchase agreement or stock bonus agreement in the form approved by the Board.

(b) Issuance of Shares. Forthwith after payment therefor, the Shares purchased shall be duly issued; provided, however, that the Board may require that the Purchaser make adequate provision for any federal and state withholding obligations of the Company as a condition to the Purchaser purchasing such Shares.

(c) Repurchase Option. The Board may require, at its option, that a stock purchase agreement or stock bonus agreement grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the Purchaser's employment with the Company for any reason (including death or disability). The repurchase price shall be at the higher of the original purchase price or fair value of the Shares on the date of termination of employment. If the Board so determines, the purchase price for shares repurchased may be paid by cancellation of any indebtedness of the Purchaser to the Company. The

repurchase option must be exercised by the Company within 90 days of termination of employment for cash or cancellation of money indebtedness for the Shares and the right shall terminate when the Company's Common Stock becomes publicly traded. The repurchase option shall lapse at such rate as the Board may determine but, if the repurchase price is the original purchase price for the Shares, the right to repurchase at the original purchase price shall lapse at the rate of at least 20% per year over 5 years from the date the Shares were originally purchased by the Purchaser.

(d) Other Provisions. The stock purchase agreement or stock bonus agreement shall contain such other terms, provisions and conditions not inconsistent with this Plan as may be determined by the Board, including rights of first refusal as set forth in Section 20 hereof.

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

11. Adjustments Upon Changes in Capitalization, Merger or Other Events. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option and Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under this Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to this Plan upon cancellation or expiration of an Option or Stock Purchase Right, or repurchase of Shares from a Purchaser or Optionee upon termination of employment or otherwise, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock of the Company or the payment of a stock dividend with respect to the Common Stock or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Rights.

In the event of the dissolution or liquidation of the Company, all Options and Stock Purchase Rights will terminate immediately prior to the consummation of such proposed action if not previously exercised. The Board, at its option, may provide for one or more of the following from time to time or in any stock option agreement or stock purchase agreement that, in the event of a Major Event, then (A) all Options and Stock Purchase Rights will be assumed or equivalent options or stock purchase rights will be substituted by such surviving corporation (or other entity) or a parent or subsidiary of such surviving corporation (or other entity), (B) all Options and Stock Purchase Rights will continue in full force and effect, or (C) all Options and Stock Purchase Rights will terminate if not exercised prior to the consummation of the transaction.

The foregoing adjustments shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

The grant of an Option or Stock Purchase Right pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

12. Time of Grant. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Board makes the determination granting such Option or Stock Purchase Right. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

13. Amendment and Termination.

(a) Amendment. The Board may amend this Plan from time to time in such respects as the Board may deem advisable; provided that the shareholders of the Company must approve the following amendments or revisions within 12 months before or after the adoption of such revision or amendment:

(i) any increase in the number of Shares subject to this Plan, other than in connection with an adjustment under Section 11 of this Plan;

(ii) any change in the designation of the class of persons eligible to be granted Options (to the extent such modification requires shareholder approval in order for the plan to satisfy the requirements of Section 422(b) of the Code or to comply with the requirements of Rule 16b-3 promulgated under the Exchange Act); or

(iii) any other revision or amendment if such revision or amendment requires shareholder approval in order for this Plan to satisfy the requirements of Section 422(b) of the Code or to comply with the requirements of Rule 16b-3 promulgated under the Exchange Act.

(b) Shareholder Approval. If any amendment requiring shareholder approval under Section 13(a) of this Plan is made subsequent to the first registration of any class of equity securities by the Company under Section 12 of the Exchange Act, such shareholder approval shall be solicited as described in Section 17 of this Plan.

(c) Suspension and Termination. The Board may suspend or terminate this Plan at any time. No Options or Stock Purchase Rights may be granted while this Plan is suspended or after it is terminated.

(d) Effect of Amendment; Termination or Suspension. Any such amendment, termination or suspension of this Plan shall not affect Options or Stock Purchase Rights already granted and such Options or Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended, terminated or suspended, unless mutually agreed otherwise between the Optionee or Purchaser (as the case may be) and the Company, which agreement must be in writing and signed by the Optionee or Purchaser (as the case may be) and the Company.

14. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or other stock trading system upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to make such representations and warranties at the time of any such exercise as the Company may at that time determine, including without limitation, representations and warranties that (i) the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares in violation of applicable federal or state securities laws, and (ii) such person is knowledgeable and experienced in financial and business matters and is capable of evaluating the merits and the risks associated with purchasing the Shares.

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

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

16. Option, Stock Purchase and Stock Bonus Agreements. Options shall be evidenced by written stock option agreements in such form as the Board shall approve. Upon the exercise of Stock Purchase Rights, the Purchaser shall sign a stock purchase agreement or stock bonus agreement in such form as the Board shall approve.

17. Shareholder Approval.

(a) If the Company registers any class of equity securities pursuant to Section 12 of the Exchange Act, any required approval of the shareholders of the Company obtained after such registration shall be solicited substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder.

(b) If the Company registers any class of equity securities pursuant to Section 12 of the Exchange Act and if prior to such time either (x) the shareholders of the Company did not approve this Plan or (y) the Company did not solicit shareholder approval substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder, then the Company shall take all necessary actions to qualify the Plan under Rule 16(b)(3) promulgated under the Exchange Act at or prior to the later of (A) the first annual meeting of shareholders held subsequent to the first registration of any class of equity securities of the Company under Section 12 of the Exchange Act or (B) the granting of an Option hereunder to an officer or director after such registration.

18. Information to Optionees and Purchasers. The Company shall provide annually to each Optionee and Purchaser, during the period that such Optionee or Purchaser has one or more options or Stock Purchase Rights outstanding, copies of the financial statements of the Company, even if such statements are not provided to the shareholders of the Company.

19. Right of Company to Terminate Employment or Consulting Services. This Plan shall not confer upon any Optionee or holder of a Stock Purchase Right any right with respect to continuation of employment by or the rendition of consulting services to the

Company, any of its Subsidiaries or its Parent, nor shall it interfere in any way with his or her right or the Company's, any of its Subsidiaries' or its Parent's right to terminate his or her employment or services at any time, with or without cause.

20. Rights of First Refusal and Repurchase. The written agreements evidencing Options or Stock Purchase Rights may contain such provisions as the Board shall determine (or pursuant to a separate agreement) to the effect that (i) if an Optionee or Purchaser elects to sell all or any Shares that the Optionee or Purchaser acquired upon the exercise of an Option or Stock Purchase Right, then any proposed sale of such Shares by such Optionee or Purchaser shall be subject to a right of first refusal in favor of the Company; and (ii) upon the occurrence of certain specified events (including, without limitation, termination of employment, divorce, bankruptcy or insolvency) the Company shall have the right to repurchase from such Optionee or Purchaser all or any shares (if less than all, with the consent of the Optionee or the Purchaser, as the case may be) of Common Stock that such Optionee or Purchaser acquired upon the

exercise of an Option or Stock Purchase Right at the fair market value for such shares on the date that such right of repurchase is triggered. Certificates representing shares issued upon exercise of Options or Stock Purchase Rights shall bear a restrictive legend to the effect that the transferability of such shares is subject to the restrictions contained in this Plan and the applicable written agreement between the Optionee or Purchaser and the Company.

21. Withholding. The Company's obligation to deliver shares of Common Stock under this Plan shall be subject to applicable federal, state and local tax withholding requirements. To the extent provided by the terms of the stock option agreement relating to an Option, the Optionee may satisfy any federal, state or local tax withholding obligation relating to the exercise of such Option by any or a combination of the following means: (i) cash payment or wage withholding; (ii) authorizing the Company to withhold from the Shares otherwise issuable to the Optionee upon exercise of the Option the number of Shares having a fair market value less than or equal to the amount of the withholding tax obligation; or (iii) delivering to the Company unencumbered shares of Common Stock owned by the Optionee having a fair market value less than or equal to the amount of the withholding tax obligation; provided, however, that with respect to clauses (ii) and (iii) above the Board in its sole discretion may disapprove such payment and require that such taxes be paid in cash.

22. Separability. At a time when the Company has a class of equity securities registered pursuant to Section 12 of the Exchange Act, if any of the terms or provisions of this Plan conflict with the requirements of Rule 16b-3 promulgated under the Exchange Act and/or Section 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so

conflict with the requirements of Rule 16b-3 promulgated under the Exchange Act, and/or with respect to Incentive Stock Options, Section 422 of the Code. The foregoing sentence shall not apply with respect to the requirements of Rule 16b-3 promulgated under the Exchange Act if the Board has expressly declared that such requirements shall not apply. With respect to Incentive Stock Options, if this Plan does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out at length herein. To the extent any Option that is intended to qualify as an Incentive Stock Option cannot so qualify, such Option, to that extent, shall be deemed to be a Nonstatutory Stock Option for all purposes of this Plan.

23. Non-Exclusivity of this Plan. The adoption of this Plan by the Board shall not be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options and the awarding of stock and cash otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

24. Governing Law. This Plan shall be governed by, and construed in accordance with the laws of the State of California.

25. Cancellation of and Substitution for Nonstatutory Options. The Company shall have the right to cancel any Nonstatutory Stock Option at any time before it otherwise would have expired by its terms and to grant to the same Optionee in substitution therefor a new Nonstatutory Stock Option stating an option price which is lower (but not higher) than the option price stated in the cancelled Option. Any such substituted option shall contain all the terms and conditions of the cancelled Option; provided, however, that such substituted Option shall not be exercisable after the expiration of ten (10) years and one day from the date of grant of the cancelled Option.

26. Market Standoff. Unless the Board determines otherwise, each Optionee or Purchaser shall not sell or otherwise transfer any Shares or other securities of the Company during the 180-day period following the effective date of a registration statement of the Company filed under the Securities Act; provided, however, that such restriction shall apply only to the first two registration statements of the Company to become effective under the Securities Act which includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such 180-day period.

EXHIBIT 16.1

March 21, 2000

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Gentlemen:

We have read "Change of Auditors" section of Form S-1 dated March 21, 2000, of Capstone Turbine Corporation and are in agreement with the statements contained therein. We have no basis to agree or disagree with other statements of the registrant contained therein.

/s/ Ernst & Young LLP

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

To the Board of Directors and Stockholders of
Capstone Turbine Corporation:

We consent to the use in this Registration Statement of Capstone Turbine Corporation, on Form S-1 of our report dated March 20, 2000, appearing in the Prospectus, which is part of this Registration Statement and our report dated March 20, 2000, relating to the financial statement schedule appearing elsewhere in this Registration Statement.

We also consent to the reference to us under the headings "Experts" and "Selected Historical Financial Data" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
March 21, 2000

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated April 3, 1998 in the Registration Statement (Form S-1) and related Prospectus of Capstone Turbine Corporation for the registration of shares of its common stock.

/s/ ERNST & YOUNG LLP

Woodland Hills, California
March 21, 2000

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