UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X]	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2003

OR

[ ]	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________ .

Commission file number: 001-15957

CAPSTONE TURBINE CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [X] No [ ]

The number of outstanding shares of the registrant’s common stock as of December 31, 2003 was 83,240,545.

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PART I — FINANCIAL INFORMATION

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

CAPSTONE TURBINE CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2003	March 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 111,719,000	$ 132,584,000
Accounts receivable, net of allowance for doubtful accounts and sales returns of $508,000 at December 31, 2003 and $414,000 at March 31, 2003	2,406,000	3,748,000
Inventory	9,149,000	12,121,000
Prepaid expenses and other current assets	1,719,000	1,341,000
Total current assets	124,993,000	149,794,000
Equipment and Leasehold Improvements:		
Machinery, equipment, and furniture	21,136,000	23,914,000
Leasehold improvements	8,499,000	8,480,000
Molds and tooling	4,345,000	4,365,000
	33,980,000	36,759,000
Less accumulated depreciation and amortization	17,749,000	16,857,000
Total equipment and leasehold improvements, net	16,231,000	19,902,000
Non-Current Portion of Inventory	4,783,000	4,412,000
Intangible Asset, net	1,761,000	1,961,000
Other Assets	472,000	578,000
Total	$ 148,240,000	$ 176,647,000
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 2,282,000	$ 2,156,000
Accrued salaries and wages	1,725,000	1,472,000
Other accrued liabilities	1,888,000	1,117,000
Accrued warranty reserve	6,725,000	6,657,000
Deferred revenue	1,077,000	1,253,000
Current portion of capital lease obligations	808,000	1,411,000
Total current liabilities	14,505,000	14,066,000
Long-Term Portion of Capital Lease Obligations	105,000	736,000
Other Long-Term Liabilities	1,185,000	1,277,000
Commitments and Contingencies	—	—
Stockholders' Equity:		
Common stock, $.001 par value; 415,000,000 shares authorized; 83,791,753 shares issued and 83,240,545 shares outstanding at December 31, 2003; 81,700,735 shares issued and 81,248,782 shares outstanding at March 31, 2003	84,000	82,000
Additional paid-in capital	529,652,000	527,188,000
Accumulated deficit	(396,238,000)	(366,281,000)
Less: Deferred stock compensation	(540,000)	—
Less: Treasury stock, at cost; 551,208 shares at December 31, 2003; 451,953 shares at March 31, 2003	(513,000)	(421,000)
Total stockholders' equity	132,445,000	160,568,000
Total	$ 148,240,000	$ 176,647,000

See accompanying notes to consolidated financial statements.

CAPSTONE TURBINE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2003	2002	2003	2002
Revenues	$ 3,251,000	$ 3,643,000	$ 9,730,000	$ 14,938,000
Cost of Goods Sold	6,359,000	16,049,000	17,649,000	33,981,000
Gross Loss	(3,108,000)	(12,406,000)	(7,919,000)	(19,043,000)
Operating Expenses:				
Research and development	3,034,000	2,028,000	7,886,000	5,527,000
Selling, general and administrative	5,688,000	6,779,000	15,007,000	23,486,000
Impairment loss on marketing rights	—	—	—	15,999,000
Total operating expenses	8,722,000	8,807,000	22,893,000	45,012,000
Loss from Operations	(11,830,000)	(21,213,000)	(30,812,000)	(64,055,000)
Interest Income	302,000	574,000	1,011,000	2,017,000
Interest Expense	(38,000)	(90,000)	(154,000)	(292,000)
Other Income	(1,000)	(3,000)	(2,000)	5,000
Loss Before Income Taxes	(11,567,000)	(20,732,000)	(29,957,000)	(62,325,000)
Provision for Income Taxes	—	—	—	—
Net Loss	$(11,567,000)	$(20,732,000)	$(29,957,000)	$(62,325,000)
Weighted Average Common Shares Outstanding	82,705,535	80,168,807	81,908,416	78,378,535
Net Loss Per Share of Common Stock – Basic and Diluted	$ (0.14)	$ (0.26)	$ (0.37)	$ (0.80)

See accompanying notes to consolidated financial statements.

CAPSTONE TURBINE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended December 31, 2003	Nine Months Ended December 31, 2002
Cash Flows from Operating Activities:		
Net loss	$ (29,957,000)	$ (62,325,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,747,000	6,808,000
Impairment loss on fixed assets and manufacturing license	—	5,016,000
Impairment loss on marketing rights	—	15,999,000
Provision for doubtful accounts and sales returns	280,000	90,000
Inventory write-down	56,000	4,321,000
Provision for warranty expenses	3,454,000	5,328,000
Loss on disposal of equipment	243,000	65,000
Non-employee stock compensation	74,000	—
Employee and director stock compensation	462,000	759,000
Changes in operating assets and liabilities:		
Accounts receivable	1,062,000	167,000
Inventory	2,545,000	331,000
Prepaid expenses and other current assets	(378,000)	(1,027,000)
Other assets	—	100,000
Accounts payable	126,000	1,543,000
Accrued salaries and wages and deferred compensation	227,000	791,000
Other accrued liabilities	705,000	867,000
Accrued warranty reserve	(3,386,000)	(3,098,000)
Deferred revenue	(176,000)	(653,000)
Net cash used in operating activities	(19,916,000)	(24,918,000)
Cash Flows from Investing Activities:		
Acquisition of and deposits on fixed assets	(1,111,000)	(2,121,000)
Proceeds from disposal of fixed assets	26,000	—
Net cash used in investing activities	(1,085,000)	(2,121,000)
Cash Flows from Financing Activities:		
Repayment of capital lease obligations	(1,162,000)	(994,000)
Exercise of stock options and employee stock purchases	1,390,000	200,000
Net proceeds from issuance of common stock	—	3,985,000
Purchase of treasury stock	(92,000)	(206,000)
Net cash provided by financing activities	136,000	2,985,000
Net Decrease in Cash and Cash Equivalents	(20,865,000)	(24,054,000)
Cash and Cash Equivalents, Beginning of Period	132,584,000	164,364,000
Cash and Cash Equivalents, End of Period	$111,719,000	$140,310,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 154,000	$ 292,000
Income taxes	$ —	$ —

See accompanying notes to consolidated financial statements.

CAPSTONE TURBINE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Organization

Capstone Turbine Corporation (the "Company") develops, manufactures and sells microturbine generator sets for use in combined heat and power generation, resource recovery, hybrid electric vehicles and other power, heat and cooling applications in the markets for distributed power generation around the world. The Company was organized in 1988 and has been commercially producing its microturbine generators since 1998.

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

2. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q and Regulation S-X promulgated under the Securities Exchange Act of 1934. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the interim financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial condition, results of operations and cash flows for such periods. Results of operations for any interim period are not necessarily indicative of results for any other interim period or for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

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

3. Change in Fiscal Year

On December 12, 2003, the Company changed its fiscal year end from December 31 to March 31. A report for the three-month transition period from January 1, 2003 through March 31, 2003 was filed with the Securities and Exchange Commission on January 26, 2004. The Company's new fiscal year commenced on April 1, 2003 and ends on March 31, 2004.

4. New Accounting Pronouncements

In December 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (revised in December 2003) ("FIN 46-R"). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities ("VIEs") that either: (i) do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (ii) are owned by equity investors who lack an essential characteristic of a controlling financial interest. Generally, application of FIN 46-R is required in financial statements of public entities that have interests in structures commonly referred to as special-purpose entities for periods ending after December 15, 2003, and, for other types of VIEs, for periods ending after March 15, 2004. The Company has reviewed this pronouncement and determined it is not applicable since the Company does not own or have an investment in any VIEs.

5. Inventory

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

	December 31, 2003	March 31, 2003
Raw materials	$9,625,000	$12,724,000
Work in process	1,959,000	2,271,000

CAPSTONE TURBINE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

	December 31, 2003	March 31, 2003
Finished goods	2,348,000	1,538,000
Total	13,932,000	16,533,000
Less non-current portion	4,783,000	4,412,000
Current portion	$ 9,149,000	$12,121,000

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

6. Intangible Asset

The intangible asset represents the license granted to the Company to use a former supplier's intellectual property for the design and manufacture of licensed product for use in microturbines. Additional information is as follows:

	December 31, 2003	March 31, 2003
Gross carrying amount	$3,663,000	$3,663,000
Less accumulated amortization and impairment loss	1,902,000	1,702,000
Net	$1,761,000	$1,961,000

This intangible asset, which was acquired in 2000, is being amortized over its estimated useful life of ten years. Related amortization expense for the three-month and nine-month periods ended December 31, 2003 was $67,000 and $200,000, respectively, compared with $94,000 and $281,000 for the same periods last year. This intangible asset is scheduled to be fully amortized by 2010 with corresponding amortization estimated to be $66,000, $267,000, $267,000, $267,000, $267,000 and $627,000, for the remainder of fiscal 2004, fiscal years 2005, 2006, 2007, 2008, and thereafter, respectively.

7. Stock-Based Compensation

The following table is presented in accordance with SFAS No. 148 and illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123:

	Three Months Ended December 31,		Nine Months Ended December 31,	
In Thousands (except per share amounts)	**2003**	**2002**	**2003**	**2002**
Net loss, as reported	$(11,567)	$(20,732)	$(29,957)	$(62,325)
Add: Stock-based employee and director compensation included in reported net loss	135	244	462	759
Deduct: Total stock-based employee and director compensation expense determined under fair value based method	(1,270)	(2,124)	(4,175)	(6,876)
Pro forma net loss	$(12,702)	$(22,612)	$(33,670)	$(68,442)
Net loss per share – Basic and Diluted:				
As reported	$ (0.14)	$ (0.26)	$ (0.37)	$ (0.80)
Pro forma	$ (0.15)	$ (0.28)	$ (0.41)	$ (0.87)

During 1999 and 2000, the Company granted options at less than the fair value of its common stock. In addition, in 2003, the Company issued shares of restricted common stock at less than the fair value of its common stock. Accordingly, the Company recorded stock-based compensation expense based on the vesting of these issuances as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2003	2002	2003	2002
Cost of goods sold	$ 14,000	$ 8,000	$ 44,000	$ 30,000
Research and development	53,000	64,000	167,000	199,000
Selling, general and administrative	68,000	172,000	251,000	530,000
Total	$135,000	$244,000	$462,000	$759,000

CAPSTONE TURBINE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

As of December 31, 2003, the Company had $66,000 in deferred employee and director stock-based compensation (excluding deferred stock compensation related to restricted stock described below), which will be amortized through fiscal 2005 based on the vesting periods.

During the quarter ended December 31, 2003, the Company issued a total of 245,000 non-qualified common stock options outside of the 2000 Equity Incentive Plan ("2000 Plan") at exercise prices equal to the fair market value of its common stock, as inducement grants to three new employees of the Company. Accordingly, no stock-based compensation was recorded for these grants.

During the quarter ended September 30, 2003, the Company also issued a total of 1,950,000 non-qualified common stock options outside of the 2000 Plan, at exercise prices equal to the fair market value of its common stock, as inducement grants to two new executive officers and two new employees of the Company. Accordingly, no stock-based compensation was recorded for these grants.

On August 1, 2003, the Company issued 2,000,000 non-qualified common stock options outside of the 2000 Plan at an exercise price equal to the fair market value of its common stock on that date. Accordingly, no stock-based compensation was recorded for this grant. In addition, on August 4, 2003, the Company sold 500,000 shares of restricted common stock at a price of $0.001 per share. Deferred stock compensation of $590,000 was recorded for this issuance. Both issuances were part of the compensation package for the Company's new President and Chief Executive Officer. Both issuances are subject to the following vesting provisions: 1/4th vests one year after the issuance date and 1/48th vests on the first day of each full month thereafter, so that all shall be vested on the first day of the 48th month after the issuance date; provided, however, that if he is terminated by the Company other than for cause prior to the one-year anniversary of the date of the issuance, 1/48th vests on the one-month anniversary of the issuance date until the termination date. The deferred stock compensation related to the restricted common stock is being amortized through fiscal 2008 based on the vesting period.

On July 31, 2003, the Company canceled 3,174,194 unvested non-qualified common stock options issued outside of the 2000 Plan to the Company's former Interim Chief Executive Officer.

On June 25, 2003, the Company made a tender offer to eligible employees to exchange options with exercise prices greater than or equal to $2.00 per share. 610,950 options were tendered by eligible employees in the exchange offer. The tendered options were cancelled on July 25, 2003. On January 26, 2004, the Company granted 486,313 new options at an exercise price of $2.36 per share. Each new option is a non-statutory stock option, with vesting as follows: 12.5% vested on January 26, 2004, and the remainder to vest monthly over the next 42 months, subject to the option holders' continued employment.

On March 20, 2003, the Board of Directors approved an amendment to the 2000 Plan to increase the number of shares of common stock available for grant by 2,500,000 shares. The Plan amendment required approval of stockholders within twelve months after the action of the Board of Directors. During the quarter ended December 31, 2003, the Board of Directors rescinded this prior action.

8. Accrued Warranty Reserve

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

During the quarter ended December 31, 2003, the Company recorded warranty expenses of $1,176,000 related to specific committed plans to provide accommodations to Japanese distributors related to products no longer under warranty.

Changes in accrued warranty reserve during the nine months ended December 31, 2003 are as follows:

CAPSTONE TURBINE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Balance, March 31, 2003	$ 6,657,000
Reductions for payments made in cash or in kind	(3,386,000)
Additions for warranties issued during the period	978,000
Changes for accruals related to preexisting warranties, accomodations or reliability repair programs	2,476,000
Balance, December 31, 2003	$ 6,725,000

9. Commitments and Contingencies

As of December 31, 2003, the Company had firm commitments to purchase inventories of approximately $6,800,000.

In December 2001, a purported shareholder class action lawsuit was filed against the Company, two of its officers, and the underwriters of the Company's initial public offering. The suit purports to be a class action filed on behalf of purchasers of the Company's common stock during the period from June 28, 2000 to December 6, 2000. An amended complaint was filed on April 19, 2002. No date has been set for the Company to respond to the complaint. Plaintiffs allege that the underwriter defendants agreed to allocate stock in the Company's June 28, 2000 initial public offering and November 16, 2000 secondary offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectuses for these two public offerings were false and misleading in violation of the securities laws because they did not disclose these arrangements. A committee of the Company's Board of Directors conditionally approved a proposed partial settlement with the plaintiffs in this matter. The settlement would provide, among other things, a release of the Company and of the individual defendants for the conduct alleged in the action to be wrongful in the Amended Complaint. The Company would agree to undertake other responsibilities under the partial settlement, including agreeing to assign away, not assert, or release certain potential claims the Company may have against its underwriters. Any direct financial impact of the proposed settlement is expected to be borne by the Company's insurers. The committee agreed to approve the settlement subject to a number of conditions, including the participation of a substantial number of other defendants in the proposed settlement, the consent of the Company's insurers to the settlement, and the completion of acceptable final settlement documentation. Furthermore, the settlement is subject to a hearing on fairness and approval by the Court.

In June 2003, the Company was sued by a party that conducts business with the Company, claiming damages for a breach of contract in excess of $10 million. In January 2004, this breach of contract lawsuit was dismissed, however, the contract provides for arbitration. In the event of arbitration, the ultimate outcome of such a proceeding is uncertain.

10. Related Party Transactions

Mr. Eliot Protsch is the Chairman of the Company's Board of Directors. Mr. Protsch is Senior Vice-President and Chief Financial Officer of Alliant Energy Corporation. He is also President of Interstate Power and Light Company, a subsidiary of Alliant Energy Corporation. Alliant Energy Resources, Inc., a subsidiary of Alliant Energy Corporation, is a distributor for the Company. Sales to Alliant Energy Resources, Inc. for the three-month and nine-month periods ended December 31, 2003 were $-0- and $25,000, respectively. Sales to Alliant Energy Resources, Inc. for the three-month and nine-month periods ended December 31, 2002 were $-0-and $1.5 million, respectively, with $1.4 million of sales in that nine-month period made under a firm purchase contract.

11. Net Loss Per Common Share

Basic loss per common share is computed using the weighted-average number of common shares outstanding for the period. For purposes of computing basic loss per share and diluted loss per share, shares of restricted common stock which are contingently returnable (i.e., subject to repurchase if the purchaser's status as an employee or consultant terminates) are not considered outstanding until they are vested. Diluted loss per share is also computed without consideration to potentially dilutive instruments because the Company incurred losses which would make them antidilutive. Outstanding stock options at December 31, 2003 and 2002 were 8,590,000 and 10,592,000, respectively. As of December 31, 2003, 500,000 shares of restricted common stock are contingently returnable.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this Quarterly Report and within the Company's Annual Report on Form 10-K for the year ended December 31, 2002. This document contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) pertaining to, among other things, the Company's future results of operations, research and development ("R&D") activities, sales expectations, our ability to develop markets for our products, sources for parts, federal, state and local regulations, and general business, industry and economic conditions applicable to the Company. When used in the following discussion, the words "believes", "anticipates", "intends", "expects", "plans" and similar expressions are intended to identify forward-looking statements. These statements are based largely on the Company's current expectations, estimates and forecasts and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Factors that can cause actual results to differ materially include, but are not limited to, those listed in Item 5 - Other Information of this Form 10-Q. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The following factors should be considered in addition to the other information contained herein in evaluating the Company and its business. We undertake no obligation to revise or update publicly any of the forward-looking statements after the filing of this Form 10-Q to conform such statements to actual results or to changes in our expectations, except as required by law.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ from management's estimates. We believe the critical accounting policies listed below affect our more significant accounting judgments and estimates used in the preparation of the consolidated financial statements. These policies are described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2002.

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

Change in Fiscal Year

On December 12, 2003, the Company changed its fiscal year end from December 31 to March 31. A report for the three-month transition period from January 1, 2003 through March 31, 2003 was filed with the Securities and Exchange Commission on January 26, 2004. The Company's new fiscal year commenced on April 1, 2003 and ends on March 31, 2004.

Overview

We develop, manufacture and market microturbines for use in stationary distributed power generation applications such as combined heat and power ("CHP"), resource recovery, power quality and reliability and in non-stationary applications such as hybrid electric vehicles. Our microturbines provide power at the site of consumption and to hybrid electric vehicles that combine a primary source battery with an auxiliary power source, such as a microturbine, to enhance performance. We expect our microturbines to provide both the commercial power generation industry and hybrid electric vehicles with clean, multifunctional, and scalable distributed power sources. We sell complete microturbine units, subassemblies and components and perform limited service work, such as product refurbishments. The microturbines are sold primarily through our distributors. Authorized Service Providers ("ASPs") provide installation and service. Successful implementation of the microturbine relies on the quality of the microturbine, the ability of the distributors to sell into appropriate applications, and ASPs providing quality installations and support.

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

We began commercial sales of our Model C30 products in 1998. In September 2000, we shipped the first commercial unit of our Model C60 microturbine. As of December 31, 2003, we have sold a total of 2,769 commercial units; however, we believe roughly 20% of these units are still in our distributors' inventories. We are in the final stages of development of our C-200 microturbine. We expect beta testing of the new product to begin in the first quarter of fiscal year 2005, which begins April 1, 2004. We anticipate that in the third quarter of fiscal year 2005, based on the results of the beta testing, we will be able to announce our plans for the launch of the C-200.

Although our products offer significant advantages over competing products in many applications, the rate of adoption for our technology has been slower than anticipated. The present economic conditions, including tight restrictions for capital expenditures, impact our opportunities as well. We have incurred significant losses since inception, which were funded primarily through private and public equity offerings. We believe that our cash balance is sufficient to fund current operations, commitments for capital expenditures and contractual obligations.

In August 2003, John Tucker joined the Company as our Chief Executive Officer. Since then, he immediately began to establish new leadership throughout the organization, in particular, sales and service, operations, engineering, human resources, quality and business development. In our efforts to become profitable, we are currently focused on three specific initiatives:

- enhancing the robustness of our products;
- improving quality and lowering total product cost; and
- completing the C200 development.

We are continuing to make progress on these issues. Historically, while we are addressing the robustness and quality of our products, we have incurred warranty charges and inventory charges that are higher than we believe should be necessary for a business of our nature. We expect to continue to incur high warranty and inventory charges as well as incremental costs to execute our enhancement and quality programs, until such time that the improvements we are implementing yield benefits.

We are currently developing a Strategic Plan to set the direction of the Company for the next three years. For this plan, we will focus on attractive market opportunities and selecting vertical markets we believe can offer high returns, evaluating the product and sales channel requirements to penetrate these target markets, and reducing total product cost. The strategic planning process is the first element of three core processes being implemented, which are: Strategic Planning, developing an Annual Operating Plan and executing a Management Review Process. These processes are linked together; the Strategic Plan goals and activities are tied to our Annual Operating Plan, which will set our revenue, expense, operating result and cash budgets. The Management Review Process will take the Annual Operating Plan and align employees' objectives to the plan. We expect to complete the plans in April 2004. Our Strategic Plan is important for how we move forward to develop business opportunities that are more consistent and repeatable which we believe is key to improving profitability. We expect variability in our operating results until such time as we establish target vertical markets that yield more consistent, recurring business.

Results of Operations

Three Months Ended December 31, 2003 and 2002

Revenues. Revenues for the quarter ended December 31, 2003 decreased $0.4 million to $3.3 million from $3.7 million for the same period last year. Although product shipments during the quarter of 2.4 megawatts were about 70% of the volume shipped for the same period a year ago, the related revenues for the quarter of $2.2 million were about 80% of the revenue a year ago. This was a result of a higher portion of products sold in the current period into more favorably priced markets. Revenues from accessories, parts and service for the quarter of $1.1 million were the same a year ago. Revenues are reported net of sales returns and allowances.

We entered the third quarter with 4.3 megawatts of outstanding orders. We received new orders of 4.3 megawatts and shipped 2.4 megawatts, leaving outstanding orders of 6.2 megawatts at the end of the quarter.

Two customers accounted for approximately 39% of revenues for the third quarter of 2004. One customer accounted for approximately 23% of revenues for the same quarter a year ago.

Gross Loss. We had a gross loss of $3.1 million for the quarter ended December 31, 2003, compared with $12.4 million for the same period last year. The reduction in gross loss was the result of several factors including:

- We recognized a partial impairment loss of $5.0 million on fixed assets and a manufacturing license related to our recuperator core facility a year ago.
- In addition to our warranty accrual for units shipped in the period, a year ago we recorded additional warranty charges of $3.6 million, whereas this period we recorded $1.7 million. These charges were based on additional information gathered during the periods about the costs of providing warranty for units shipped in prior periods and warranty accommodations made in each period.
- Inventory write-downs were $1.9 million lower this quarter than last year.

Our cost of goods sold has exceeded revenues each period. We expect this trend to continue until such time that we can sell a sufficient number of units to achieve a break-even margin. In addition, in our focus to improve reliability of our products, we expect variability in our warranty costs, which may impact our margin.

R&D Expenses. R&D expenses for the quarter ended December 31, 2003 increased $1.0 million to $3.0 million from $2.0 million for the same period last year. R&D expenses are reported net of benefits from cost sharing programs. There were no such benefits this quarter, compared with $1.5 million a year ago. The benefits from cost sharing programs vary from period-to-period depending on the phases of the programs. In addition, in 2003, we suspended billings to the United States Department of Energy (“DOE”), which funds the C200 development, because of a lack of committed program funding. As soon as additional funds are appropriated for this project, we will resume billing the DOE.

Selling, General, and Administrative (“SG&A”) Expenses. SG&A expenses for the quarter ended December 31, 2003 decreased $1.1 million to $5.7 million from $6.8 million for the same period last year. Overall spending was lower in the current quarter compared with last year in areas such as headcount, consulting and facilities costs.

Interest Income. Interest income for the quarter ended December 31, 2003 decreased $0.3 million to $0.3 million from $0.6 million for the same period last year. The decrease was primarily attributable to lower cash balances. We expect decreasing cash balances from our use of funds will continue to diminish our interest income.

Nine Months Ended December 31, 2003 and 2002

Revenues. Revenues for the nine months ended December 31, 2003 decreased $5.2 million to $9.7 million from $14.9 million for the same period last year. Revenues from product shipments decreased $3.5 million to $7.3 million from $10.8 million a year ago. Shipments during the period were 8.9 megawatts compared with 14.0 megawatts for the same period in the prior year. Revenues from accessories, parts and service for the nine months ended December 31, 2003 decreased $1.0 million to $3.2 million from $4.2 million. Revenues are reported net of sales returns and allowances.

Two customers accounted for approximately 23% of revenues for the current period. One customer accounted for approximately 10% of revenues for the same period a year ago.

Gross Loss. We had a gross loss of $7.9 million for the nine months ended December 31, 2003, compared with $19.0 million for the same period last year. The reduction in gross loss was the result of several factors including:

- We recognized a partial impairment loss of $5.0 million on fixed assets and a manufacturing license related to our recuperator core facility a year ago.
- Inventory write-downs were $4.6 million lower this year than last year.
- Warranty charges were $1.9 million lower this year than last year.

We had previously fully written-down inventories of recuperator cores and have started using some of these cores in production, which had a favorable impact on our margin. During the nine months ended December 31, 2003, we used $0.3 million of these cores.

R&D Expenses. R&D expenses for the nine months ended December 31, 2003 increased $2.4 million to $7.9 million from $5.5 million for the same period last year. R&D expenses are reported net of benefits from cost sharing programs. These benefits were $0.2 million for the nine months ended December 31, 2003, compared with $4.4 million for the same period a year ago. The benefits from cost sharing programs vary from period-to-period depending on the phases of the programs. In addition, in 2003, we suspended billings to the DOE, which funds the C200 development, because of a lack of committed program funding. As soon as additional funds are appropriated for this project, we will resume billing the DOE.

SG&A Expenses. SG&A expenses for the nine months ended December 31, 2003 decreased $8.5 million to $15.0 million from $23.5 million for the same period last year. Overall spending was lower in the current year in areas such as headcount, legal, consulting and facilities costs. In addition, there was no amortization expense from marketing rights in the nine months ended December 31, 2003, compared with $1.3 million for the same period last year.

Impairment Loss. During the quarter ended June 30, 2002, as a result of a change in our sales forecast, the Company evaluated the remaining book value of the marketing rights and determined that this asset was impaired based on the assessment of the expected cash flows that can be generated during its remaining term. Expected favorable margins in the latter years of the term of the marketing rights were not sufficient to offset losses in the early years. The recorded impairment loss was approximately $16.0 million, representing the remaining carrying value of the asset.

Interest Income. Interest income for the nine months ended December 31, 2003 decreased $1.0 million to $1.0 million from $2.0 million for the same period last year. The decrease was primarily attributable to lower cash balances. We expect decreasing cash balances from our use of funds will continue to diminish our interest income.

Liquidity and Capital Resources

Our cash requirements depend on many factors, including our product development activities and our commercialization efforts. We expect to continue to devote substantial capital resources to running our business, including enhancing reliability of both new and existing products and completing the development of our C200 microturbine.

We have invested our cash in an institutional fund that invests in high quality short-term money market instruments to provide liquidity for operations and for capital preservation.

We used cash of $20.9 million during nine months ended December 31, 2003, compared with $24.1 million for the same period last year.

Our net cash used in operating activities was $19.9 million for the nine months ended December 31, 2003, compared with $24.9 million for the same period last year. The decrease reflects a decline of $2.9 million in net loss, after adjusting for non-cash items, and a working capital change of $2.1 million. The change in working capital was primarily as a result of using inventory as described below.

Accounts receivable decreased $1.3 million to $2.4 million as of December 31, 2003 from $3.7 million as of March 31, 2003, as a result of improved collections in the period, mostly from the DOE.

Total inventory decreased $2.6 million to $13.9 million as of December 31, 2003 from $16.5 million as of March 31, 2003. At December 31, 2003, non-current inventory of $4.8 million represents that portion of the inventory in excess of amounts expected to be sold or used in the next twelve months. As of December 31, 2003, the Company had firm commitments to purchase inventories of approximately $6.8 million.

Net cash used in investing activities for acquisition of fixed assets was $1.1 million for the nine months ended December 31, 2003, compared to $2.1 million for the same period last year.

Our net cash provided by financing activities was $0.1 million for the nine months ended December 31, 2003, compared with $3.0 million for the same period last year. This decrease was primarily the result of net proceeds from sale of common stock last year of $4.0 million, offset by higher proceeds from exercise of stock options and employee stock purchases of $1.2 million this year. In October 2002, our Board of Directors approved a stock repurchase program under which we may purchase up to $10 million of our common stock. We may purchase shares from time to time through open market and privately negotiated transactions at prices deemed appropriate by management. The program has no termination date. Since the inception of the program, we have repurchased 551,208 shares for an aggregate price of $0.5 million.

Except for scheduled payments made in 2003, there have been no material changes in the Company's remaining commitments under non-cancelable operating leases and capital leases as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

In 2000, the DOE awarded us $10.0 million under a Cooperative Agreement to develop an Advanced Microturbine System. The $10.0 million award was to be distributed over a five-year period. The program was estimated to cost $23.0 million over five years, which would require us to provide approximately $13.0 million of our own R&D expenditures. We have billed $8.0 million to the DOE under this agreement since inception of the contract, leaving a balance of $2.0 million to be billed through 2005.

Impact of Recently Issued Accounting Standards

In December 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (revised in December 2003) ("FIN 46-R"). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities ("VIEs") that either: (i) do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (ii) are owned by equity investors who lack an essential characteristic of a controlling financial interest. Generally, application of FIN 46-R is required in financial statements of public entities that have interests in structures commonly referred to as special-purpose entities for periods ending after December 15, 2003, and, for other types of VIEs, for periods ending after March 15, 2004. We have reviewed this pronouncement and determined it is not applicable since we do not own or have an investment in any VIEs.

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

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in its Annual Report on Form 10-K for the year ended December 31, 2002.

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

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management team, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures were effective, as of December 31, 2003, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2003, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. ***Legal Proceedings***

In June 2003, the Company was sued by a party that conducts business with the Company, claiming damages for a breach of contract in excess of $10 million. In January 2004, this breach of contract lawsuit was dismissed, however, the contract provides for arbitration. In the event of arbitration, the ultimate outcome of such a proceeding is uncertain.

Item 5. ***Other Information***

Business Risks

Investors should carefully consider the risks described below before making an investment decision. These risks are not the only ones facing our Company. In addition, risks of which we are not aware or that we believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. These factors are described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2002 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003.

- We have a limited operating history characterized by net losses, and we anticipate continued losses;
- Our success depends in significant part upon the services of management and key employees;
- In any period, our sales may be significantly dependent upon sales to a few customers;
- The economic downturn has made potential customers hesitant to make capital expenditures;
- If we do not effectively implement our sales and marketing plans, our sales will not grow and we will not achieve profitability;
- A sustainable market for microturbines may never develop or may take longer to develop than we anticipate, which would adversely impact our revenues and profitability;
- We have limited experience in international sales and may not succeed in growing our international sales;
- Product quality and reliability expectations may not be met adversely impacting market acceptance;
- We depend upon the development of new products and enhancements of existing products;
- We operate in a highly competitive market and may not be able to compete effectively as a result of factors affecting the market for our products;
- Our competitors, some of which 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, and we may be unable to compete effectively;
- Changes in government regulations and the electric utility industry restructuring may affect demand for our microturbines;
- We operate in a highly regulated business environment and changes in regulation could impose costs on us or make our products less economical;
- Utility companies could place barriers to our entry into the marketplace, and we may not be able to sell our products effectively;
- We may not be able to retain or develop additional strategic partners and distributors in our targeted markets, in which case our sales would not increase as expected;
- We are subject to risks associated with our strategic alliance with United Technologies Corporation;
- Our ability to identify and develop Authorized Service Providers can significantly impact our success;
- 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;
- We may not achieve production cost reductions necessary to price our product competitively, which would impair our sales;
- Our products involve a lengthy sales cycle and we may not anticipate sales levels appropriately, which could impair our profitability;
- We may not effectively expand our production capabilities, which would negatively impact our sales;
- We may not be able to control our warranty exposure and our warranty reserve may not be sufficient to meet our warranty expense, which could impair our financial condition;

- Termination of certain Supply and Distribution Agreements may require us to repurchase parts inventory;
- The market price of our common stock is highly volatile and may decline regardless of our operating performance;

- Our business is subject to the risk of earthquake;
- We may not be able to manage our growth effectively or improve our operational, financial and management information systems, which would impair our profitability;
- We depend on our intellectual property to make our products competitive, and if we are unable to protect our intellectual property, our business will suffer;
- Potential intellectual property, shareholder or other litigation may adversely impact our business;
- We may be unable to fund our future operating requirements, which could force us to curtail our operations;
- We face fluctuations in operating results, which could impact our stock price; and
- Our announced stock repurchase program may not produce benefits for stockholders.

Item 6. ***Exhibits and Reports on Form 8-K:***

(a) *Index to Exhibits.*

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

Exhibit Number	Description
3.1(2)	Second Amended and Restated Certificate of Incorporation of Capstone Turbine Corporation
3.2(3)	Fifth Amended and Restated Bylaws of Capstone Turbine Corporation
4.1(2)	Specimen stock certificate
10.1(1)	Code of Business Conduct
10.2(1)	Code of Ethics for Senior Financial Officers and Chief Executive Officer
31.1(1)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2(1)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32(1)	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Filed herewith.

(2) Incorporated by reference to Capstone Turbine's Registration Statement on Form S-1 (File No. 333-33024).

(3) Incorporated by reference to Capstone Turbine's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 (File No. 001-15957).

(b) *Reports on Form 8-K.*

On December 15, 2003, the Company filed a Report on Form 8-K, furnishing under Item 8 a change in its fiscal year from December 31 to March 31.

On November 6, 2003, the Company filed a Report on Form 8-K, furnishing under Item 12 a November 6, 2003 press release announcing its financial results for the quarter ended September 30, 2003. Such press release is not incorporated by reference herein or deemed "filed" within the meaning of Section 18 of the Securities Act.

SIGNATURES

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

CAPSTONE TURBINE CORPORATION

Date: February 13, 2004

By: /s/ KAREN CLARK

Karen Clark
Senior Vice President,
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 10.1

Capstone Turbine Corporation
Code of Business Conduct

Capstone Turbine Corporation ("Capstone") strives to be the world leader in the application of microturbine solutions for distributed generation power. In achieving this goal, we must remain committed to the highest standards of ethical and legal behavior. We firmly believe that operating with a strong sense of integrity is critical to maintaining trust and credibility with all of our stakeholders, including our customers, stockholders and employees. Our Code of Business Conduct (the "Code") provides guidance to all Capstone directors and employees and assists us in carrying out our daily activities within appropriate ethical and legal standards. Our Code also summarizes our expectations of accountability and the responsibility of all Capstone directors and employees. The general principles that guide our conduct go beyond mere compliance with laws and regulations. They are the foundation to the kind of company we want to be.

Introduction

We will uphold the highest professional standards in all global business operations. Likewise, the ethics of our suppliers, service providers and business partners is of utmost importance. We expect those with whom we do business to have, and follow, a similar code of ethical conduct.

While we are all obligated to follow this Code and are responsible and accountable for our own conduct, Capstone expects our leaders to set the example - to be in every respect a model. They must ensure that those who report to them have sufficient information to comply with law, regulation, and policy, as well as the resources to resolve ethical dilemmas. They must foster and maintain a culture within Capstone that promotes the highest standards of ethics and compliance. This culture must encourage everyone in the organization to raise concerns when they arise. We must never sacrifice ethical and compliant behavior in the pursuit of business objectives. Everyone is responsible and accountable for promptly reporting any potential violations of the Code or any law or regulation. We must do more than follow the letter of the law – we must do the right thing.

When in doubt - ask. Capstone employees who have questions regarding business conduct or possible violations and/or want to report a potential violation should contact the Corporate Ethics Manager who has direct access to the Audit Committee of the Board of Directors, as needed. All inquiries and/or reporting violations are confidential and may be made anonymously. You may contact the Corporate Ethics Manager via e-mail, mail, or telephone:

Debbie Bernard	
Email:	dbernard@capstoneturbine.com
Phone:	(818) 734-5431
Address:	21211 Nordhoff St. Chatsworth, CA 91311

Members of the Board of Directors may contact the Chairman of the Audit Committee directly. The Code supplements, and must be read together with, the policies and procedures contained in Capstone's Employee Handbook, as amended from time-to-time.

Conflicts of Interest

Directors and employees are expected to make or participate in business decisions and actions in the course of their employment with Capstone based solely on the best interests of the company as a whole, free of conflicts of interest. A conflict of interest may occur if your outside activities or personal interests influence or appear to influence your ability to make objective decisions in the course of your job responsibilities. A conflict of interest may also exist if the demands of any outside activities hinder or distract you from the performance of your job or cause you to use Capstone's resources for purposes other than Capstone's. It is your obligation to ensure that your interests remain free of conflicts in the performance of your responsibilities at Capstone. It is impossible to identify all potential conflicts of interests, but they may include investments that may create a conflict, the outside development of technology or intellectual property within Capstone's industry, outside directorships or serving on technical advisory boards and the receipt or giving of any gift. Any potential conflict of interest must be reported as soon as it is recognized. No employee shall accept a position as a director, officer, partner or employee with any other non-Capstone business, without the consent of the Corporate Ethics Manager. If you have any question as to whether any action may create a conflict of interest, you must first discuss the matter with our Corporate Ethics Manager.

Gifts

Capstone may receive or evaluate appropriate complimentary products or services. Capstone may also make a gift of equipment to a company or organization, provided that the gift is openly given, with full knowledge by the company or organization, and is consistent with applicable law. Any gifts received should be turned over to the Corporate Ethics Manager for appropriate disposition. In all cases, the exchange of gifts will be conducted so there is no appearance of impropriety. Gifts may only be given in accordance with applicable laws, including the U.S. Foreign Corrupt Practices Act ("FCPA").

Corporate Opportunities

Directors and employees of Capstone stand in a fiduciary relationship to Capstone and must advance its legitimate interests when the opportunity to do so arises. It is a breach of this duty for any such person to take advantage of a business opportunity for his or her own or another person's personal profit or benefit when the opportunity is within the corporate powers of Capstone and when the opportunity is of present or potential practical advantage to Capstone unless Capstone's Board of Directors knowingly elects not to avail itself of such opportunity and such person's participation is approved in advance by the Board of Directors. If such a person appropriates such a Capstone corporate opportunity, Capstone may claim the benefit of the transaction or business and such person exposes himself or herself to liability in this regard.

Confidential and Proprietary Information

It is essential that every director and employee maintain confidentiality regarding information and trade secrets encountered at work. Confidential information may not be released to or discussed with outside parties or with other employees who do not have a valid business reason to know the information. Capstone's business and business relationships depend upon the confidential and proprietary nature of our information and of those with whom we do business - customers, vendors, suppliers, agents, and others. The use of confidential and proprietary information (whether Capstone's or a third-party's) should be covered by a written confidential disclosure agreement or non-disclosure agreement.

Financial Reporting

As a public company, Capstone's filings with the Securities and Exchange Commission must be accurate and timely. Each Capstone employee is responsible for the integrity and accuracy of our documents and records, not only to comply with regulatory and legal requirements but also to ensure that records are available to defend our business practices and actions. No one may alter or falsify information on any record or document. Depending on their position with Capstone, employees may be called upon to provide information to assure that the Company's public reports are complete, fair and understandable. Every employee, therefore, plays a role in accurate and ethical financial reporting, and is accountable for that responsibility. Furthermore, the Code of Ethics for Senior Financial Officers and Chief Executive Officer applies to all Senior Financial Officers, as defined therein, and is attached hereto as Exhibit A for reference purposes.

Insider Trading

Directors and employees must read and comply with Capstone's Insider Trading Policy, which details the trading restrictions imposed on any director, employee, or any person related to that director or employee. Trading restrictions are imposed when a director or employee is in possession of material, non-public information relating to Capstone or any other company, including our customers or suppliers, if such director or employee has material, non-public information about that company which the director or employee obtained in the course of his or her service of or employment by Capstone.

International Business, Laws, and Governments

As a U.S.-based company with international operations, Capstone is subject to laws and regulations both in the U.S. and abroad. In addition to contradicting this Code, violation of governing laws and regulations subjects Capstone (and, in many cases, the individual who caused the violation) to significant risk in the form of fines, penalties and damaged reputation. Each employee, therefore, must comply with applicable laws, regulations and corporate policies.

Foreign Corrupt Practices Act (FCPA)

Capstone requires full compliance with the FCPA by all of its employees, consultants, agents, distributors, and resellers. The anti-bribery and corrupt payment provisions of the FCPA make illegal any corrupt offer, payment, promise to pay or authorization to pay any money, gift or anything of value to any foreign official, or any foreign political party, candidate or official, for the purpose of:

- Influencing any act, or failure to act, in the official capacity of that foreign official or party
- Inducing the foreign official or party to use influence to affect a decision of a foreign government or agency, in order to obtain or retain business for anyone, or direct business to anyone.

Export, Re-Export, and Transfer

Export of design, development, and production technology is subject to national security, foreign policy, and anti-terrorism laws and regulations. Employees will obtain written authorization from Capstone's Senior Vice President, Engineering and Operations before providing design, development, or production technology to other countries, or nationals of other countries.

Customs Compliance for International Shipping

Capstone's policy is to comply fully with customs laws, regulations and policies in all countries where Capstone does business. Accurate customs information on shipping documents is required for all international shipments.

Antitrust

The economy of the U.S., and of most nations in which Capstone does business, is based on the principle that competition and profit will produce high-quality goods at fair prices. To ensure that this principle is played out in the marketplace, most countries have laws prohibiting certain business practices that could inhibit effective competition. Capstone fully appreciates these concepts.

Government Business

Capstone employees should understand that special requirements might apply when contracting with any government body (including national, state, provincial, municipal, or other similar government divisions in local jurisdictions). Because government officials are obligated to follow specific codes of conduct and laws, special care will be taken in government contracts. These contracts must have requisite legal review and approval.

Political Contributions

No Capstone assets may be contributed to any political candidate, political actions committee (aka "PAC"), political party, or ballot measure without the permission of the Corporate Ethics Manager. Of course, Capstone directors and employees may participate in any political activities of their choice on an individual basis, with their own money and on their own time.

Using Third-Party Intellectual Property

Intellectual property includes copyrights, trademarks and patents. Capstone employees may sometimes need to use third-party copyrighted material to perform their jobs. Before such third-party material may be used, appropriate authorization from the copyright holder will be obtained. It is against Capstone policy and it may be unlawful for any employee to copy, reproduce, scan, digitize, broadcast, or modify third-party copyrighted material, unless written permission from the copyright holder has been obtained prior to the proposed use.

Environmental Responsibility

One of our key environmental goals is to conduct our operations in an environmentally responsible manner. We are committed to reducing any negative environmental impact of our company by working together with the government, industry and our customers to develop policies and practices that will ensure a healthy environment for present and future generations.

Waivers of the Code of Business Conduct

Any waiver of this Code may be made only by the Board of Directors to the extent necessary and warranted and will be promptly disclosed if required by law or regulation of any applicable securities exchange or market.

Reporting Any Illegal or Unethical Behavior

Employees are encouraged to talk to the Corporate Ethics Manager, supervisors, managers or other appropriate personnel about observed illegal or unethical behavior and when in doubt about the best course of action in a particular situation. Capstone will not tolerate retaliation for reports made in good faith, and provides full protection for those reporting violations. Anyone who retaliates or attempts to retaliate against a reporting employee will be subject to discipline, up to and including termination. Employees are expected to cooperate in internal investigations of misconduct.

Employees must read Capstone's Business Conduct Reporting Methods in Addendum 1 of the Employee Handbook, which describes Capstone's procedures for the receipt, retention and treatment of complaints received by the Audit Committee regarding accounting, internal accounting controls or auditing matters. Any employee may submit a good faith concern regarding questionable accounting or auditing matters without fear of dismissal or retaliation of any kind.

Investigations of Reports, Corrective Action and Discipline

The Board of Directors, through the Corporate Ethics Manager and/or the Audit Committee, will investigate all reported concerns promptly, fairly and confidentially to the extent possible. All employees are expected to cooperate fully in internal investigations of misconduct. The Board, or the Audit Committee, will assess any findings from the investigation and recommend appropriate discipline, up to and including possible termination, corrective action or other changes that need to be made.

Final Words of Advice

This Code is not intended to be all-inclusive. All employees are required to comply with each of the rules, regulations and policies outlined above, as well as others adopted by Capstone in the exercise of its right to manage its business.

A reasonable and practical standard of ethical behavior in business decisions and actions is that which would not be embarrassing to you, your family, or Capstone, if it were revealed publicly. If you have any doubt about what you're doing, don't do it. No resource is more important to Capstone than the contributions made by its employees. We strive to create and maintain a work environment that fosters honesty, personal growth, teamwork, open communication and a dedication to our values. Our employees are the source from which our ideas, actions and performance flow. The full potential of Capstone is best realized in an environment that breeds fairness, self-fulfillment, teamwork and dedication to excellence.

Remember, your words, as well as your actions, illustrate your commitment to ethical and lawful behavior and adherence to the policies of Capstone. Misconduct by a few can discredit and harm our company's reputation. Each individual is ultimately responsible for his or her own ethical practices. By working together, each of us can contribute to the continuing growth, quality, productivity and SUCCESS of Capstone.

Adopted October 21, 2003

Capstone Turbine Corporation
Code of Business Conduct
Acknowledgement

I have received the Capstone Turbine Corporation Code of Business Conduct (the "Code"). I certify that I have read, understand and will comply with the Code. I understand that my failure to comply in all respects with Capstone Turbine Corporation's policies and codes, including the Code, is basis for disciplinary action against me up to and including termination of my employment or relationship with Capstone Turbine Corporation.

Dated: ____________________

____

(Signature)

____

(Print Name)

Exhibit 10.2

Capstone Turbine Corporation
Code of Ethics for Senior Financial Officers and Chief Executive Officer

This Code of Ethics (this “Code”) applies to the principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions (collectively, the “Senior Financial Officers”), of Capstone Turbine Corporation (the “Company”). They are uniquely capable and empowered to ensure that all stakeholders’ interests are appropriately balanced, protected and preserved. The Company adopted the Capstone Turbine Corporation Code of Business Conduct (our “Code of Conduct”), which is the basis of our commitment to the highest ethical and legal standards. Our Code of Conduct governs all of our directors and employees, including our Senior Financial Officers. Each of the provisions of this Code is addressed in our Code of Conduct, and each of our Senior Financial Officers is subject to, and has agreed to abide by, the Code of Conduct. Moreover, in light of the requirement contained in the Sarbanes-Oxley Act of 2002 that each public company disclose whether it has a code of ethics for senior financial officers, we have prepared this Code in order to specifically addresses the unique role of these officers in corporate governance. The Code provides principles to which the Senior Financial Officers are expected to adhere and which they are expected to advocate. The Code is intended to deter wrongdoing and to promote:

(a) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(b) full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company;

(c) compliance with applicable laws, rules and regulations;

(d) the prompt internal reporting of violations of the Code; and

(e) accountability for adherence to the Code.

All of our Senior Financial Officers must conduct themselves in accordance with the Code and seek to avoid even the appearance of improper behavior. The Code is neither a contract nor a legal document that creates a contractual relationship. This Code does not summarize all of our policies. Senior Financial Officers must also comply with our other policies, including those set forth in our Code of Conduct.

1. **Compliance With Laws**. Obeying the law, both in letter and in spirit, is the foundation on which the Company’s ethical standards are built. All Senior Financial Officers must respect and obey the laws, rules and regulations of the jurisdictions in which we operate. It is important for Senior Financial Officers to ensure compliance with these laws, rules and regulations and to take action promptly on any reports of violations or suspected violations.

2. **Conflicts Of Interest**. The Company expects and requires its Senior Financial Officers to act honestly and ethically and to avoid actual or apparent conflicts of interest with the Company, except when acting in compliance with policies or guidelines approved by the Board of Directors.

3. **Public Company Reporting**. As a public company, the Company must provide full, fair, accurate, timely and understandable disclosure in reports and documents that it files with, or submits to, the Securities and Exchange Commission and in other public communications. The Senior Financial Officers are directly involved in that process and have several responsibilities, including the following:

- Assuring that our public reports are complete, fair and understandable. We expect you to take this responsibility very seriously.

- Maintaining our books, records, accounts and financial statements in reasonable detail while ensuring that they appropriately reflect our transactions and conform both to applicable legal requirements and are subject to the Company's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained.

- Retaining or destroying records according to our record retention policies. In accordance with those policies, in the event of litigation or governmental investigation, please consult the Company's counsel immediately.

- Assuring that our public reports fairly and accurately reflect the business and finances of the Company. If you believe that they do not, you have a responsibility to bring your concerns to the attention of the Company's the Chairman of the Audit Committee.

- Complying with the Company's disclosure controls and procedures.

Every Senior Financial Officer who has, or who hears expressed by another person, any concerns about the manner in which the Company's financial statements or public reports are prepared, the sufficiency of its internal financial controls, the honesty or competence of its financial management or independent auditors or any other matter within the purview of the Audit Committee (the "Audit Committee") of the Board of Directors is directed to report the matter promptly to the Chairman of the Audit Committee. The Audit Committee will not tolerate retaliation against any person who reports potential issues to the Audit Committee in good faith.

4. Waivers Of The Code Of Business Conduct And Ethics. Any waiver of this Code for Senior Financial Officers may be made only by the Board of Directors to the extent necessary and warranted and will be promptly disclosed to the extent required by law or regulation of any applicable securities exchange market.

5. Reporting Illegal Or Unethical Behavior. The Senior Financial Officers are required to report promptly in accordance with the reporting procedures established by our Code of Business Conduct any observed illegal or unethical behavior, or other violations of this Code. In the rare case that a Senior Financial Officer becomes aware of a serious legal violation or a breach of fiduciary duty by a director, officer or employee of the Company, he or she is required to contact the the Chairman of the Audit Committee or another member of the Audit Committee.

Retaliation for reports of misconduct is strictly prohibited. Anyone who retaliates or attempts to retaliate against a reporting employee will be subject to discipline, up to and including termination.

6. Investigations of Reports, Corrective Action and Discipline. The Board of Directors, through the Audit Committee, will investigate all reported concerns promptly and confidentially to the extent possible. Senior Financial Officers are expected to cooperate fully in internal investigations of misconduct. The Board, or appropriate committee, will assess any findings from the investigation and recommend corrective action or changes that need to be made.

7. Administration Of Code. The Code shall be administered by the Company's Audit Committee. Senior Financial Officers are encouraged to seek guidance regarding the application or interpretation of this Code from the Company's counsel or the the Chairman of the Audit Committee and are expected to cooperate fully in any investigation of any potential violation of this Code.

Capstone Turbine Corporation
Code of Ethics for Senior Financial Officers and Chief Executive Officer
Acknowledgement

I have received the Company's Code of Ethics for Senior Financial Officers and Chief Executive Officer. I certify that I have read, understand and will comply with the Code. I understand that my failure to comply in all respects with the Company's policies and codes, including the Code of Ethics, is basis for disciplinary action against me up to and including termination of my employment or relationship with the Company.

Dated: ____________________

____
(Signature)

____
(Print Name)

Exhibit 31.1

CERTIFICATION

I, John Tucker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended December 31, 2003 of Capstone Turbine Corporation (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

   (b) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: February 13, 2004

By: /s/ JOHN TUCKER

John Tucker
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Karen Clark, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended December 31, 2003 of Capstone Turbine Corporation (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

   (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: February 13, 2004

By: /s/ KAREN CLARK

Karen Clark
Chief Financial Officer

Exhibit 32

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

In connection with the Quarterly Report of Capstone Turbine Corporation (the “Company”) on Form 10-Q for the quarterly period ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), John Tucker, Chief Executive Officer of the Company, and Karen Clark, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), that the Report complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JOHN TUCKER

John Tucker
President and Chief Executive Officer

By: /s/ KAREN CLARK

Karen Clark
Chief Financial Officer

Date: February 13, 2004