



FBR 2012 Energy & Industrials One-on-One Series

May 7, 2012
NASDAQ: CPST



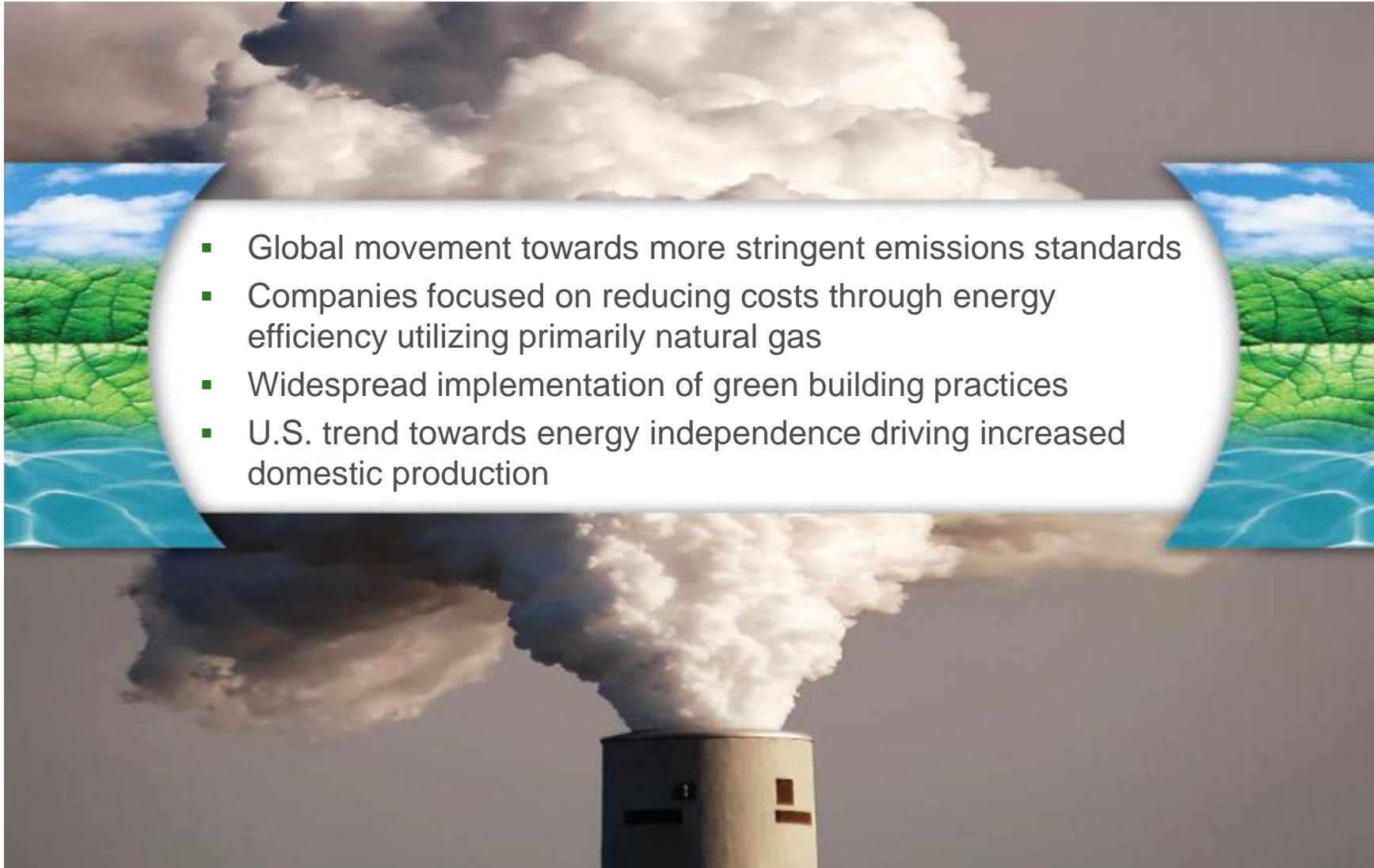
Safe Harbor Statement



This presentation contains "forward-looking statements," as that term is used in the federal securities laws, about market expansion; new product development; growth in revenue, gross margin and backlog; attaining profitability; improvement in certain key performance indicators; low cost of ownership and advantages over competing technologies. Forward-looking statements may be identified by words such as "expects," "objective," "intend," "targeted," "plan" and similar phrases. These forward-looking statements are subject to numerous assumptions, risks and uncertainties described in Capstone's Form 10-K, Form 10-Q and other recent filings with the Securities and Exchange Commission that may cause Capstone's actual results to be materially different from any future results expressed or implied in such statements. Capstone cautions viewers not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. Capstone undertakes no obligation, and specifically disclaims any obligation, to release any revisions to any forward-looking statements to reflect events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events.

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The World is Changing

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- Global movement towards more stringent emissions standards
 - Companies focused on reducing costs through energy efficiency utilizing primarily natural gas
 - Widespread implementation of green building practices
 - U.S. trend towards energy independence driving increased domestic production

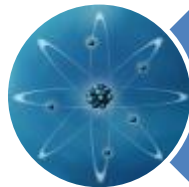
Capstone Technology Solutions



Solutions for
Crucial
Social,
Economic &
Environmental
Needs



We want to save on energy costs.



We need reliable power.



We want to be clean and green.



We want energy independence.



Capstone At A Glance

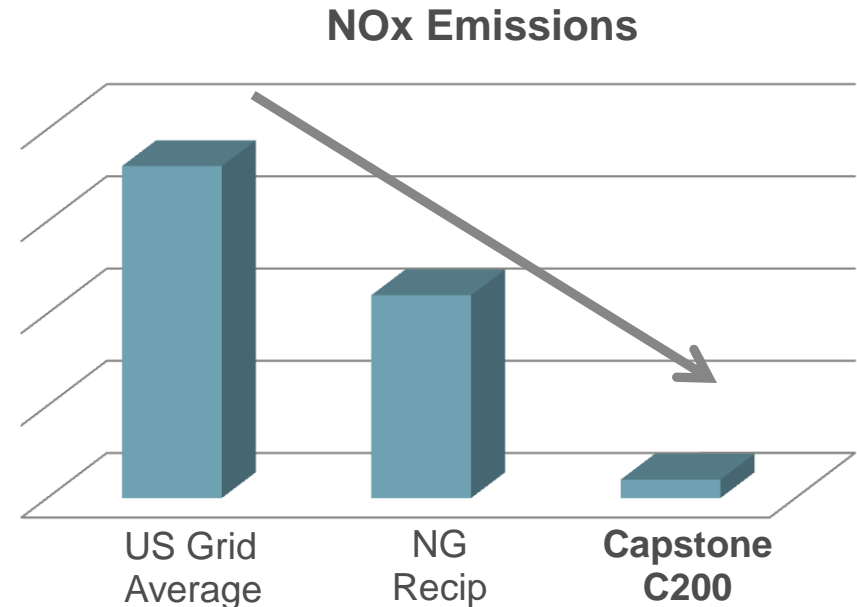
Mission	Clean, green, reliable and economic energy management solutions
Leadership	First to market with commercially viable air bearing turbine technology
Innovation	Compact, lightweight, environmentally friendly power generation
Value	Higher energy efficiency & reliability making exceptionally clean power
IP	High value portfolio of 110 U.S. and 36 international patents
Global	Locations in U.S., U.K., China, Singapore, Mexico



Clean, Green & Reliable Energy



- Capstone emissions are less than 1/10th that of internal combustion engines
- Qualified by California Air Resources Board (CARB) – the world’s highest emission standards
 - Extremely stringent emissions standard that exceeds the requirements of federal standards
 - First power generation technology to receive CARB 2008 Waste Gas Emissions certification for operation on landfill and digester gas
 - C30 HEV certified on diesel and natural gas



Source: EPA and ASME

Well positioned for global move toward increasingly stringent emissions standards

Global Market Segments

Energy Efficiency



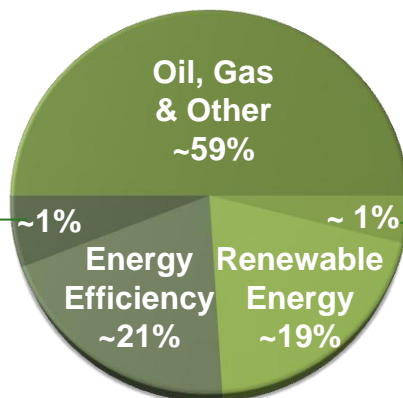
Renewable Energy



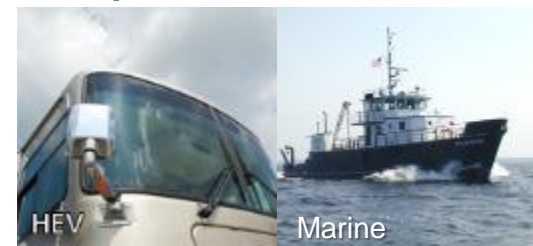
Oil, Gas & Other Natural Resources



Critical Power Supply

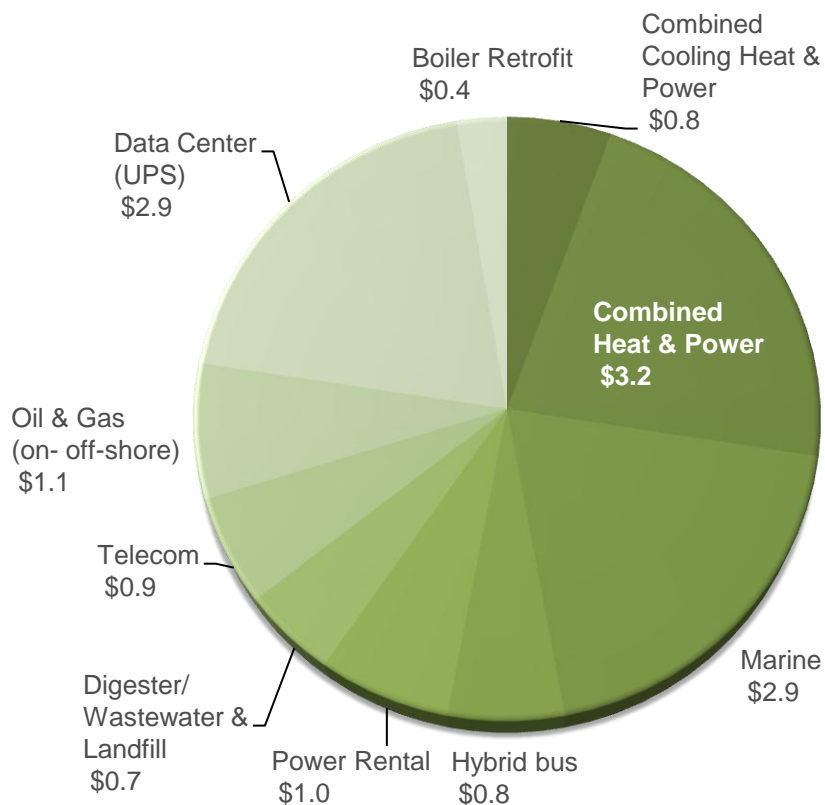


Transportation Products

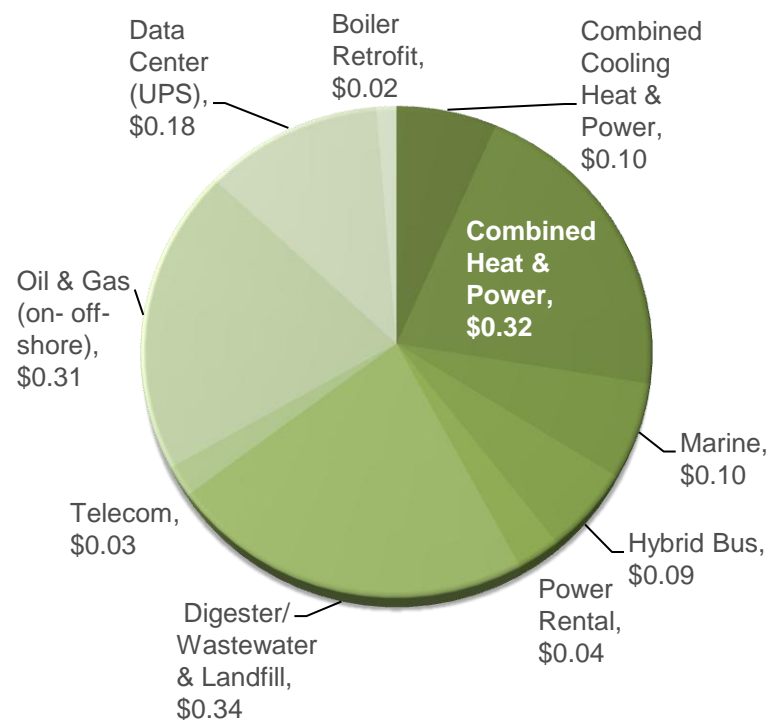


Sizing the Opportunity

Total Market Opportunity



Management's Estimate of Potential Capture



**\$14.6 billion market opportunity;
\$1.5 billion potential capture**



Broad Suite of Products

All Capstone MicroTurbines operate:

- Continuously or on-demand
- Stand alone or grid connect
- Individually or multi-pack
- Smart grid compatible
- Remote dispatch & diagnosis

All are multi-fuel capable:

- Low or high pressure natural gas
- Biogas (landfill, wastewater treatment centers, anaerobic)
- Associated flare gas
- Diesel
- Propane
- Kerosene

Low-emission, clean-and-green Capstone products are scalable from 30kW to 10MW+



Products based on the 200kW turbine are also available in 600kW, 800kW, and 1MW configurations

Customer Value Proposition



Capstone MicroTurbine

- **6 hrs** planned maintenance per year
- Scheduled/unscheduled maintenance
\$0.015 / kW-hr
- Average uptime **99%**

Operating Hours	Item	Action
8,000	Air/fuel filters, Igniter	Inspect, replace
20,000	Injectors, batteries	Replace
40,000	Engine/generator, injectors, batteries	Overhaul



Internal Combustion Engine

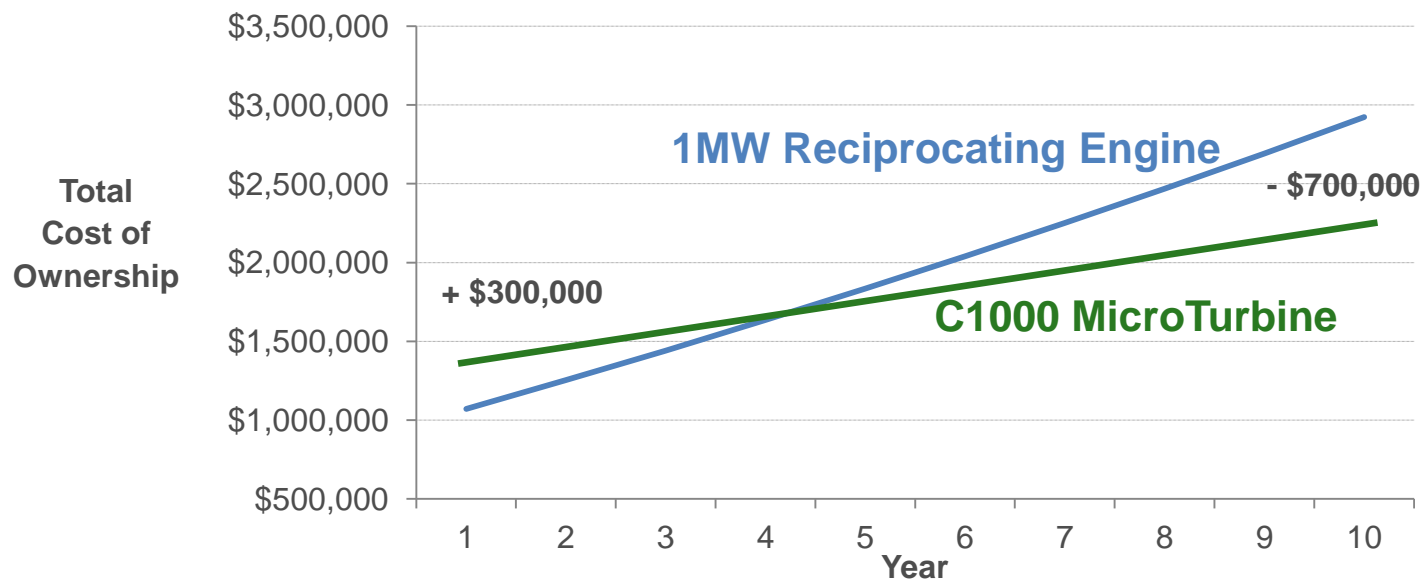
- **120 hrs** planned maintenance per year
- Scheduled/unscheduled maintenance
\$0.018 to \$0.022 / kW-hr
- Average uptime **82%**

Operating Hours	Item	Action
1,000 – 2,000	Air & oil filters, oil, spark plugs	Inspect, replace
1,500	Top end	Inspect
20,000	Top end	Overhaul
40,000	Bottom end	Overhaul

**Significantly lower total cost of ownership:
Maintenance costs are 25% lower on average.**



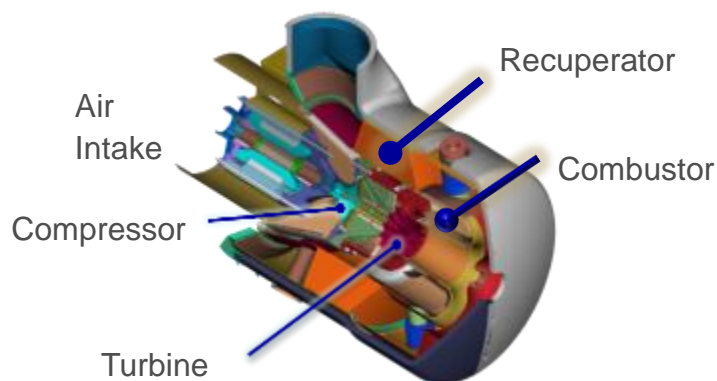
Why Capstone?



Competing Solution	Manufacturers	Why We Win
Reciprocating gas engines	GE Jenbacher/Waukesha, Caterpillar/MWM, Deutz, Cummins, Tecogen	<ul style="list-style-type: none"> • Lower total cost of ownership • More environmentally friendly • Higher system uptime
Fuel cells	Fuel Cell Energy, Bloom Energy, UTC Power	<ul style="list-style-type: none"> • Not reliant on government subsidies • Lower total cost of ownership
Microturbines	Flex Energy, Turbec	<ul style="list-style-type: none"> • Stronger brand and distribution • More attractive warranty program
Gas turbines	Solar Turbine, Kawasaki	<ul style="list-style-type: none"> • Lower efficiency below 4.5 Mw

Future Product Development

Enhanced features of base products:



C250 Product



C370 Product

Two phase development program:

- Phase 1: Improve C200 engine to increase power output and electrical efficiency for targeted power output of 250 kW and projected electrical efficiency of 35%
- Phase 2: Further engine efficiency improvements to 42% with targeted power output of 370 kW, supported by DOE grant of \$5.0 million for development



High Profile Installations – U.S.



Public Facility: The Ronald Reagan Presidential Library, Simi Valley, CA

95% of its energy comes from 16 Capstone C60 microturbines, which can produce 960kW of electricity



Education/Data Center: Syracuse University Syracuse, NY

Uses 50% less energy powered by 12 Hybrid UPS microturbines



Hospitality: Four Seasons Hotel Philadelphia, PA

3 natural gas C65 ICHP Capstone microturbines provide electrical and thermal power



Manufacturing: Astor Chocolate Lakewood, NJ

5 C65 microturbines provide most of the 120,000 sq ft facility's secure-power needs



Office Building: 1350 Avenue of the Americas New York, NY

12 Capstone microturbines provide electricity and heat for this 35-story office tower in Manhattan



Residential: Masonic Village Elizabethtown, PA

5 Capstone microturbines generate electricity and heat for this 1,400 acre complex serving 1,700+ residents



Supermarket: A&P Fresh Market Mount Kisco, NY

4 65Kw Capstone microturbines provide cooling heating and power



Oil & Gas: Dominion Transmission Waynesburg, PA

3 C65 ICHP Capstone microturbines provide all electricity and heat for the 5 acre site

Over 6,500 systems shipped to customers worldwide.



Key Strategic Initiatives

Increase sales mix toward larger units

Generate higher gross margins through increased prices, lower costs

Expand penetration into new and existing markets

Improve electrical efficiency and lower emissions of products

Strengthen brand awareness and distribution channels

Maintain a strong balance sheet



Key Performance Indicators

Key production rates	<ul style="list-style-type: none">• Solid product revenue• Increased C200 engine build to 88 units from 76 in 2Q12
Average selling prices	<ul style="list-style-type: none">• Continued to improve in 3Q12• Improved 24% quarter-over-quarter
Direct materials costs	<ul style="list-style-type: none">• 3Q12 lower from 2Q12 levels
New orders	<ul style="list-style-type: none">• Strong quarterly orders of approximately \$23 million• \$74 million in orders over last three quarters
Cash	<ul style="list-style-type: none">• Cash increased \$2.6 million including \$8.0 million from warrants• Management expects lower operating spend in 4Q12 from 3Q12 level

KPIs are indicating positive business trends.



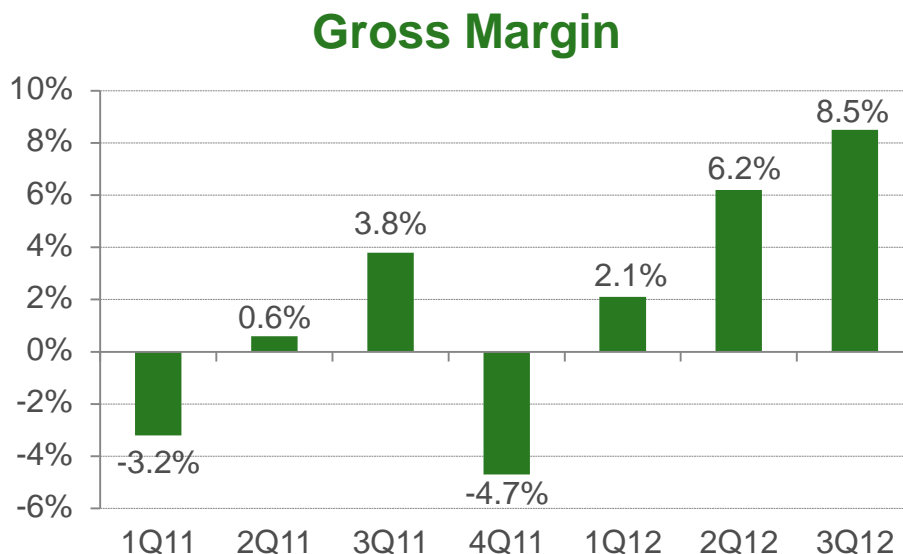
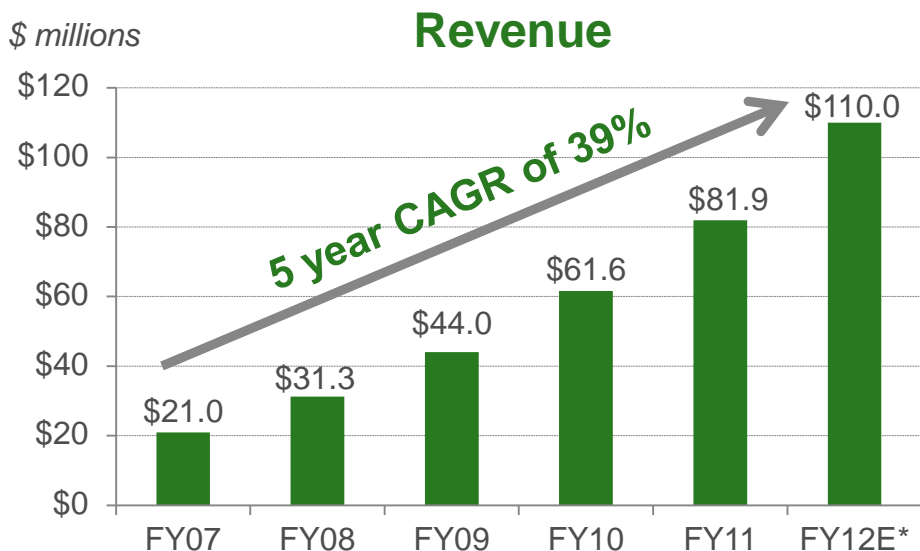
Recent Performance

	3Q12 ended 12/31/11	Year-over- Year	Quarter- over- Quarter
Revenue	\$27.5 M	+14%	Flat
Average revenue per unit	\$161 k	+46%	+24%
Gross margin	8.5%	+470 bps	+240 bps
R&D expense	\$1.8 M	+28%	-19%
SG&A expense *	\$8.3 M	+39%	+26%
Net loss *	(\$8.9 M)	+10%	-795%
Free cash flow	(\$6.4 M)	-260%	-19%
Cash and equivalents	\$22.9 M	-17%	+12%
Shipments (MW)	23.5	+18%	Flat
Backlog	\$115.1 M	+36%	+1%

* Includes \$1.9M bad debt reserve



Revenue & Margin Expansion



*Includes analysts' consensus estimate for 4Q12 revenue of \$30.2 M

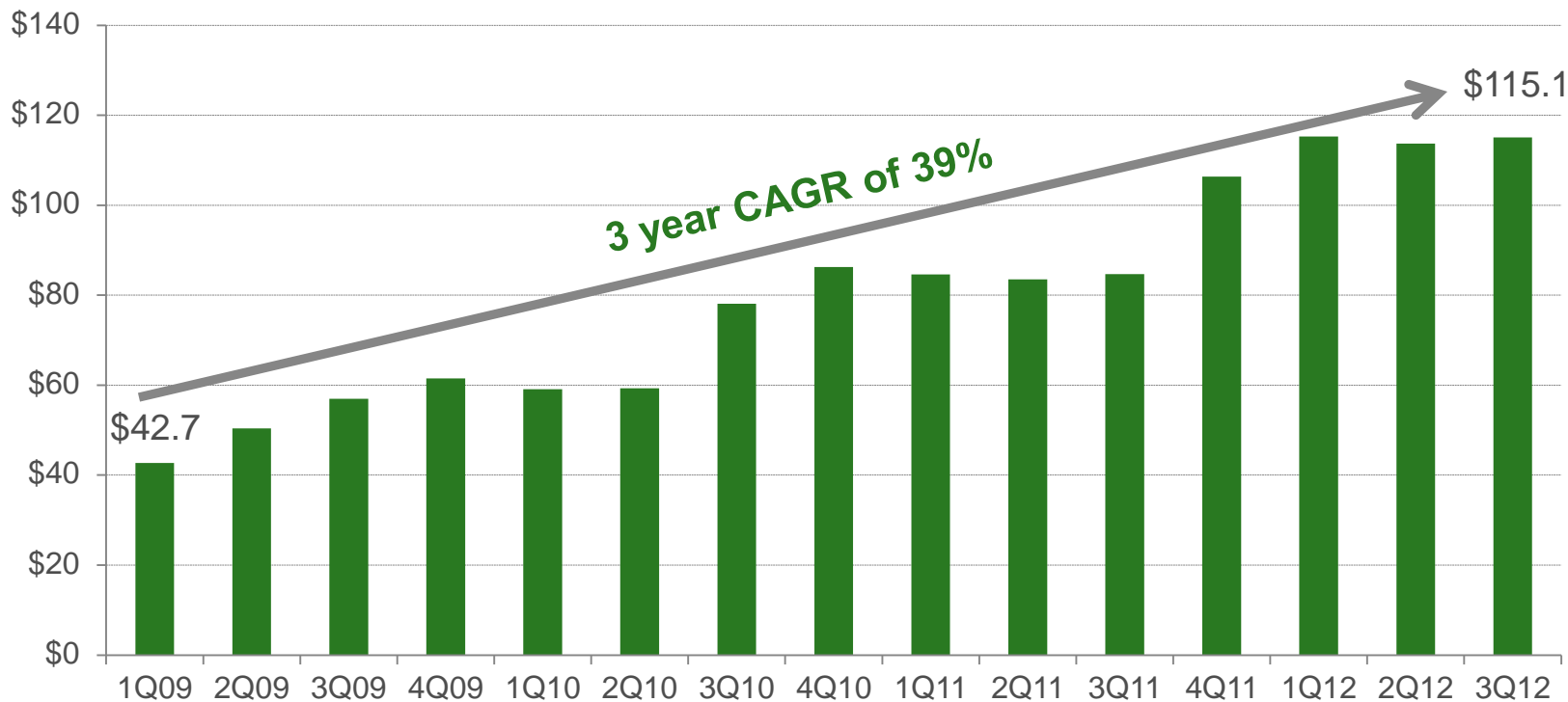
Consecutive quarterly revenue growth for last 19 quarters.

Consecutive gross margin improvement in 5 of last 6 quarters.

Growing Product Backlog



\$ millions



\$74 million in new orders over last three quarters.



Target Financial Model

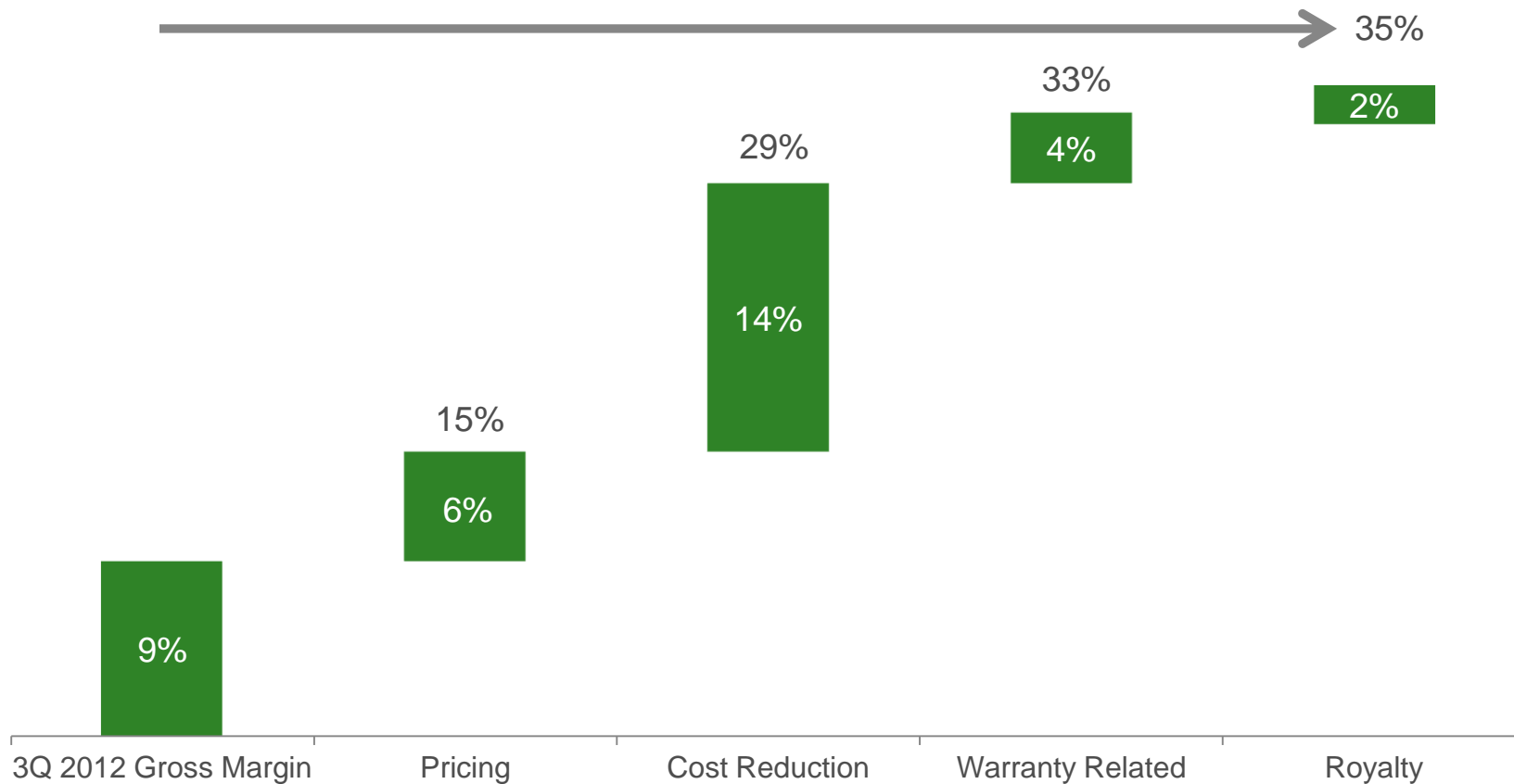
Gross margin	35%
Research & development expense (% of revenue)	5%
Selling, general & administrative expense (% of revenue)	15%
Operating margin	15%

Positive operating margins to be driven by improved gross margins and operating leverage.



Path to Higher Margins

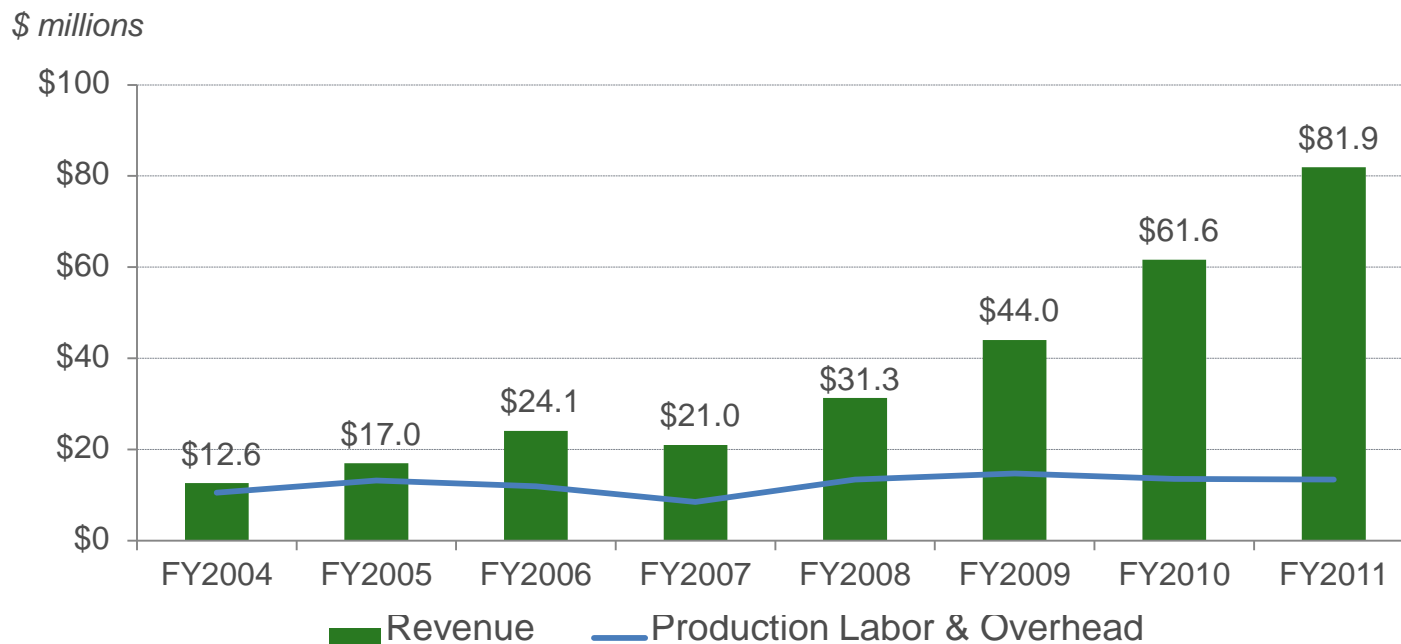
Operating Model Targets 35% Margin



Profitability achievable at lower gross margins based on higher revenue growth.




Substantial Operating Leverage



- Improving production efficiencies
- Implementation of lean manufacturing practices
- Larger units at higher ASPs without significant increases to production labor and overhead
- 35% capacity utilization leaves ample room for production expansion

Production labor and overhead flat on improving revenue.

Key Takeaways

- 
- Market expansion and new product development across high growth segments
 - Strong growth trends in revenue, gross margin and backlog
 - Clear path to profitability through operating leverage and margin expansion initiatives
 - Favorable outlook based on key performance indicators



Appendix



Key Quarterly Financial Data

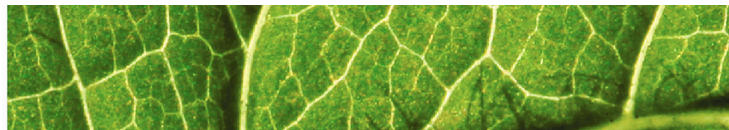


Key Quarterly Financial Data

(\$ in millions except gross margin, net income per share data, megawatts, units shipped and average sales price)

(Unaudited)

	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q3'12 Y/Y	Q3'12 Q/Q
Revenue	\$ 24.2	\$ 22.8	\$ 24.3	\$ 27.5	\$ 27.5	14%	0%
Gross margin (loss) %	3.8%	-4.7%	2.1%	6.1%	8.5%	+470 bps	+240 bps
Research and development	1.4	2.0	2.2	2.2	1.8	28%	-19%
Selling, general and administrative	6.0	7.2	6.6	6.6	8.3	39%	26%
Loss from operations	(6.5)	(10.3)	(8.3)	(7.2)	(7.8)	21%	9%
Change in fair value of warrant liability	(1.2)	(18.7)	5.6	8.6	(0.8)	-34%	-109%
Income tax expense	0.2	(0.2)	-	-	-	-100%	0%
Net income (loss)	(8.1)	(28.8)	(2.9)	1.3	(8.9)	10%	-803%
Share count - Diluted	245.8	250.2	259.4	259.4	266.0	8%	3%
Net income (loss) per share - Diluted	\$ (0.03)	\$ (0.12)	\$ (0.01)	\$ 0.00	\$ (0.03)	1%	-785%
Stock-based compensation expense	\$ 0.6	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.4	-36%	-9%
Capital expenditures	0.3	0.1	0.3	0.4	0.2	-38%	-53%
Cash and cash equivalents	27.5	33.5	22.1	20.3	22.9	-17%	12%
<i>See also Notes to our Condensed Consolidated Financial Statements</i>							
Supplemental Data (Unaudited)							
Net cash (used in) provided by operating activities	4.3	(5.0)	(12.3)	(7.4)	(6.2)	-245%	-17%
-Acquisition of and deposits on equipment and leasehold improvements	(0.3)	(0.1)	(0.3)	(0.4)	(0.2)	-38%	-53%
= Free cash flow	4.0	(5.1)	(12.7)	(7.8)	(6.4)	-260%	-19%
New Orders	\$ 20.2	\$ 40.8	\$ 29.7	\$ 20.8	\$ 23.3	15%	12%
New Orders in megawatts	21.2	44.5	33.2	20.5	26.5	25%	29%
Microturbine products shipped	171	168	170	172	136	-20%	-21%
Megawatts shipped	20.0	20.5	21.9	23.6	23.5	18%	0%
Total Backlog	\$ 84.8	\$ 106.4	\$ 115.3	\$ 113.7	\$ 115.1	36%	1%
Microturbine average sales price	\$ 110	\$ 114	\$ 122	\$ 130	\$ 161	46%	24%



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dependable power source
now more than ever.**



Oil&Gas

Renewable

Energy Efficiency

Mobile Products

Critical Power

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than toughest global standards.**

*Reliable power when and where you need it.
Clean and simple.*

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