



The World Leader in Microturbine Power Generation

The 7th Annual JMP Securities Research
Conference

May 19, 2008



Safe Harbor Statement



During the course of this presentation, we may make projections or other forward-looking statements regarding future events or financial performance of the Company within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including:

- reference to the potential market for our products;
- future results of operations;
- sales expectations;
- distribution capabilities and agreements with certain new distributors;
- manufacturing improvements and cost reductions;
- low emissions and energy efficiency of our products;
- our business initiatives and relationships with third parties and related expanded market opportunities;
- the advantages of our products over our competitors;
- expanded aftermarket service and remanufacturing business;
- new products and product platforms, including our C200 and C1000 products; and
- the value and savings to be realized by our customers.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties which may cause Capstone's actual results to be materially different from future results predicted or implied in such statements, including:

- our expectations about expansion into additional markets;
- new applications of our products may not be realized;
- certain strategic business initiatives may not be sustained and may not lead to increased sales;
- we may not be able to reduce costs, improve customer satisfaction, or increase our cash flow or profitability;
- our release of new products such as the C200 and C1000 may be delayed or new products may not perform as we expect;
- we may not be able to obtain or maintain customer, distributor and other relationships that result in an increase in volume and revenue; and
- we may not be able to retain or develop distributors or dealers in our targeted markets, in which case our sales would not increase as expected and product quality expectations may not be met.

We refer you to the Company's Form 10-Q, Form 10-K and other recent filings with the Securities and Exchange Commission for a description of these and other risk factors. Because of the risks and uncertainties, Capstone cautions you not to place undue reliance on these statements, which speak only as of today. We undertake no obligation and specifically disclaim any obligation to release any update or revise any forward-looking statements to reflect events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events.

Company Highlights



- Capstone is the world leader in microturbine power generation
 - Over 4,000 units shipped and over 18 million hours of operation
- Proven technology with customer demonstrated availability and reliability
 - Mean Time Between Failures (MTBF) of 14,000 hours for the C60 Series and over 15,000 hours for the C30
- Q308 was the best overall quarter since going public. Year over year improvements in:
 - Backlog: \$13.1M, up 62%
 - Revenue: \$9.2M, up 61%
 - Operating expenses \$8.2M, down 2%
 - Cash used in Operations \$3.3M, down 75%
 - Cash balance \$42.7M
 - Inventory: \$18.6M, down 20%



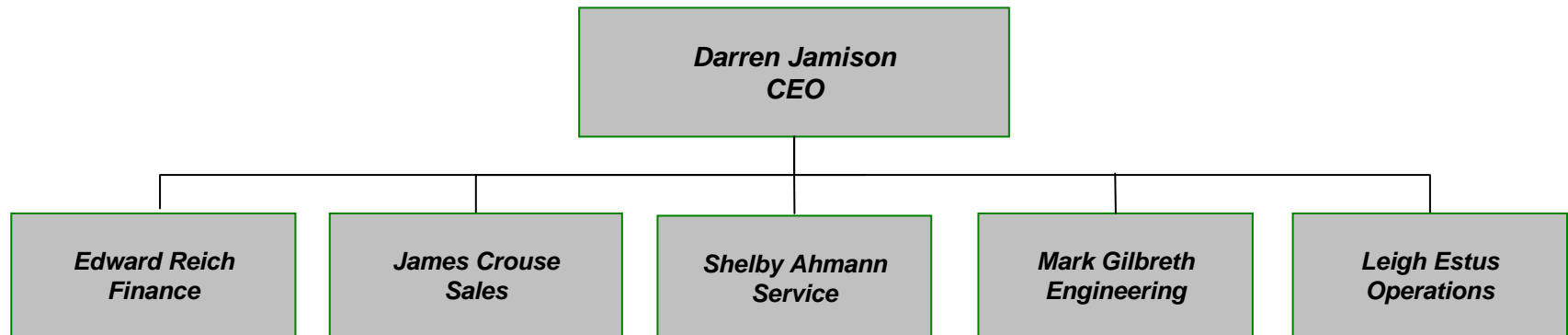
Installation at NY Downtown Marriott

Capstone History



- **Established in 1988**
- **Early Stage**
 - First successful test in a hybrid vehicle application
 - Development and testing of the Microturbine
 - Sale of the first commercial microturbine system
- **Capstone Initial Public Offering**
 - Listed on the NASDAQ exchange (ticker: CPST) in June 2000
- **Commercialization Stage**
 - C30 and C60 products are launched and operating in the field
 - Focus on product quality and reliability
 - Development of sales, service and distribution channel
 - Repositioned as Green technology
 - Introduction of C200 and C1000 products

New Management Team



Industry Experience

- **60+ years of direct distributed generation and co-generation experience**
- New management team has successfully sold competing products including GE Jenbacher, Caterpillar, Deutz, Waukesha and Elliott Microturbines
- Proven industry track record of managing high growth organizations

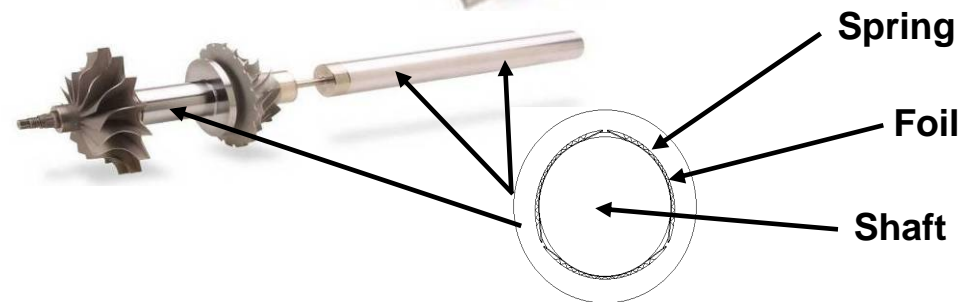
Keys to Growth

- Maturing distribution channel
- Expand and develop new markets
- Successful launch of C200/C1000 products
- Expand aftermarket service and remanufacturing business
- Leverage fixed cost structure
- Licensing and component sales
- Strategic partnerships

Capstone's Microturbine



- Over \$100M invested in product development
- 95 U.S. Technology Patents
 - Air bearing technology
 - One moving part
 - No coolants, oils or grease
- Flexible and economic technology
 - Flexible configuration
 - Lightweight & small footprint
 - Multi-fuel capability
 - Cost competitive positioning
- Capstone value proposition
 - Low total cost of ownership
 - Ultra low emissions
 - High reliability
 - Minimal scheduled maintenance



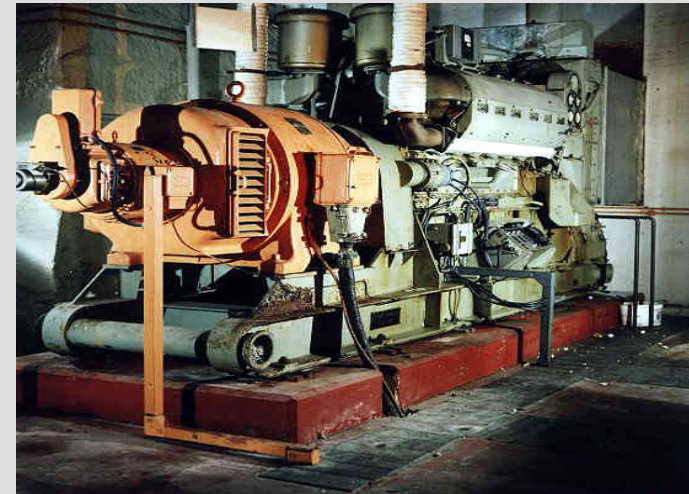
Microturbines vs Piston Engines



Capstone Microturbines



Traditional Piston Engines



Ultra low emissions

Local air permits and exhaust cleanup required

Low maintenance – Six hours per year

High maintenance – Every 200 hours

On board digital electronics

External controls without power electronics

Integrated utility protection & synchronizing

Requires external relays & control equipment

Lightweight & small footprint

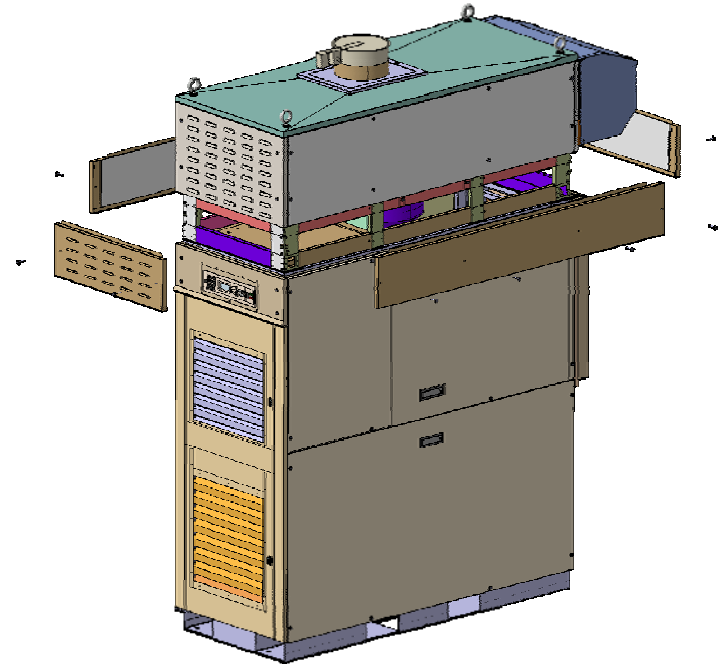
More than twice the weight & footprint

CARB Emissions



CARB Natural Gas Emission Standard				
	Units	2003	2007	Reduction
NOx	lb/MWh	0.5	0.07	86%
CO	lb/MWh	6.0	0.10	98%
VOC	lb/MWh	1.0	0.02	98%

- CARB 2007 is a World leading emissions standard
- Only Microturbines, Fuel Cells, Solar and Wind meet standard



Market Drivers

Rising Energy Prices

- 2005 much of the Eastern US and California experience double digit increases in energy costs
- 2006 constraints in capacity pushed energy prices to record levels
- 2007 Consolidated Edison releases an RFP for 158 MW of demand reduction

Grid Capacity Constraints

- 2006 report by the North American Electric Reliability Council
 - Warned demand for electricity in the U.S. is increasing three times as fast as resources are being added (20% from 2006 to 2015)
 - Estimated that the U.S. is on track for a shortfall of about 81 GW in 2015 (equivalent to 160 large power plants)

Power Security

- According to the Electric Power Research Institute, power outages and disturbances cost the U.S. economy \$188 billion per year
- The 9/11 attacks, Hurricane Katrina and the 2003 Northeast blackout have brought attention to the need for secure power

Climate Change

- Of the 12 warmest years on record, 11 have occurred since 1995
- Climate change is a major platform for both political parties
- More than 160 countries have signed the Kyoto treaty
- U.S. has implemented federal and state clean air initiatives to control greenhouse gas emissions and global warming

Accelerating “Green” Building



- Building growth
 - 15 million new buildings are projected to be built in the U.S. alone by 2015. (*U.S. Green Building Council, 2007, Buildings and Climate Change*)
 - China is building the equivalent of Japan’s entire building area every three years. (*World Business Council on Sustainable Development, 2007, Energy Efficiency in Buildings*)
 - UK goal that all new homes built after 2016 will be carbon-neutral.
- Greenhouse gas emissions
 - Building operations account for 43% of U.S. emissions.
 - More than either transportation or industrial sectors (*Oak Ridge National Laboratory, 2005*)
- CO₂ emissions
 - Conventional U.S. buildings
 - Emissions equal the combined emissions of Japan, France and the UK. (*U.S. DOE, 2006, Buildings Energy Data Book*)
 - Consume 71% of U.S. electricity output. (*U.S. DOE, 2006, Buildings Energy Data Book*)
 - Emissions from buildings are projected to grow faster than any other sector over the next 25 years. (*U.S. Green Building Council, 2007, Buildings and Climate Change*)
- LEED – Leadership in Energy and Environmental Design
 - 42,000 LEED certified architects in the U.S.
 - Federal Government agencies require *Silver* level on all new buildings.
 - Many new buildings are requiring some level of certification (Silver, Gold, Platinum).



Installation at Colorado Court, Santa Monica, CA
LEED Certified Building

Green Building - Oregon Health & Science University



- U.S. Green Building Council awarded Platinum LEED certification
 - The highest level of certification granted



- 16 Story 400,000 SF medical facility
- Grand Opening January 19, 2007
- Five C60-ICHP's
- Units provide 300kW of power and building heating

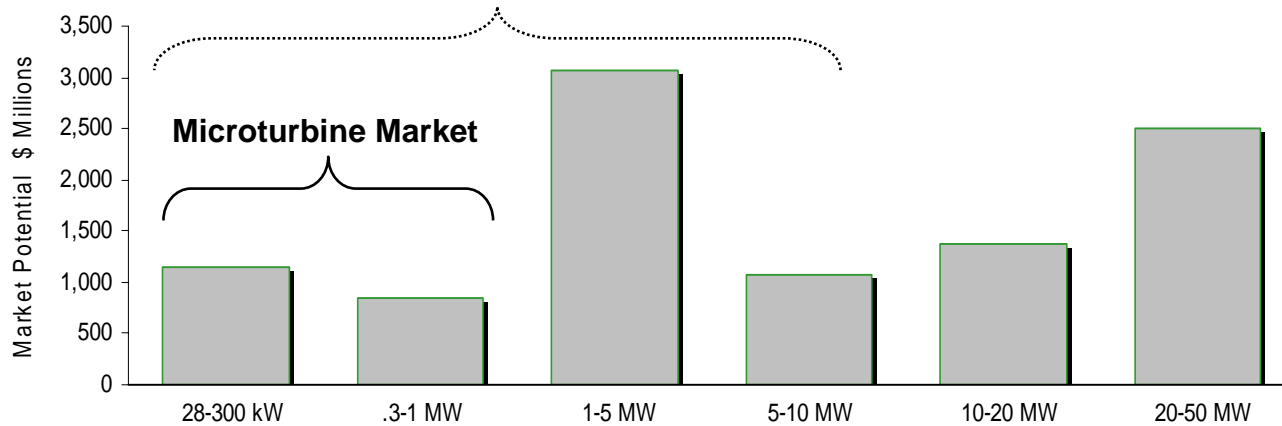


Cogeneration Market



CHP/CCHP Market Potential By Size

C200/C1000 Market Expansion



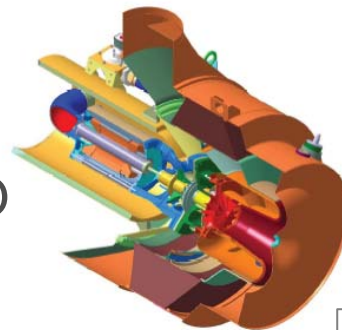
Source: Resource Dynamics Corporation (extrapolated based on industrial uses)

- Introduction of the C200 and C1000 increases addressable market by over approximately \$4 billion annually
- Integrated Energy Systems (IES) for Buildings: A Market Assessment prepared for the U.S. Dept. of Energy:
 - 16.8GW demand by 2010
 - Over 35.5GW demand by 2020
 - 62% straight CHP

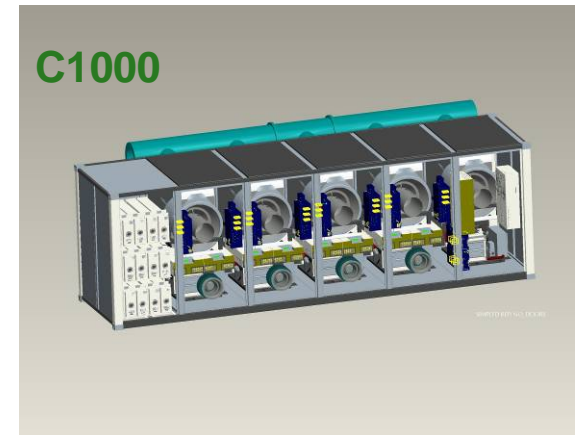
C200/C1000 Benefits



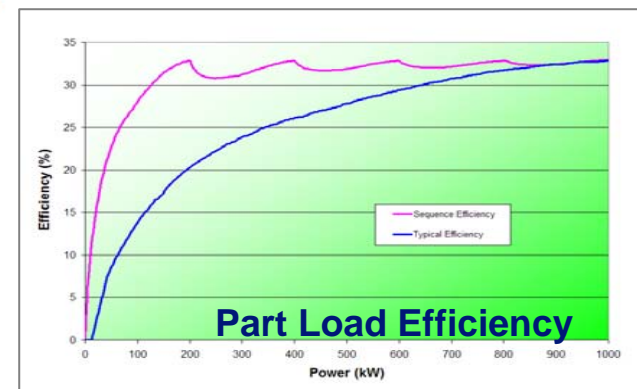
- Highest efficiency
 - Superior load matching
- Pricing competes with piston engines
- Built in redundancy
- Integrated package
 - Small footprint - 10' x 30' ISO
 - Stackable
 - Multi-pack to 10MW
- Ultra low emissions
 - 1/10th of best In class piston engine
- Low maintenance
 - High reliability



C200 MicroTurbine Engine

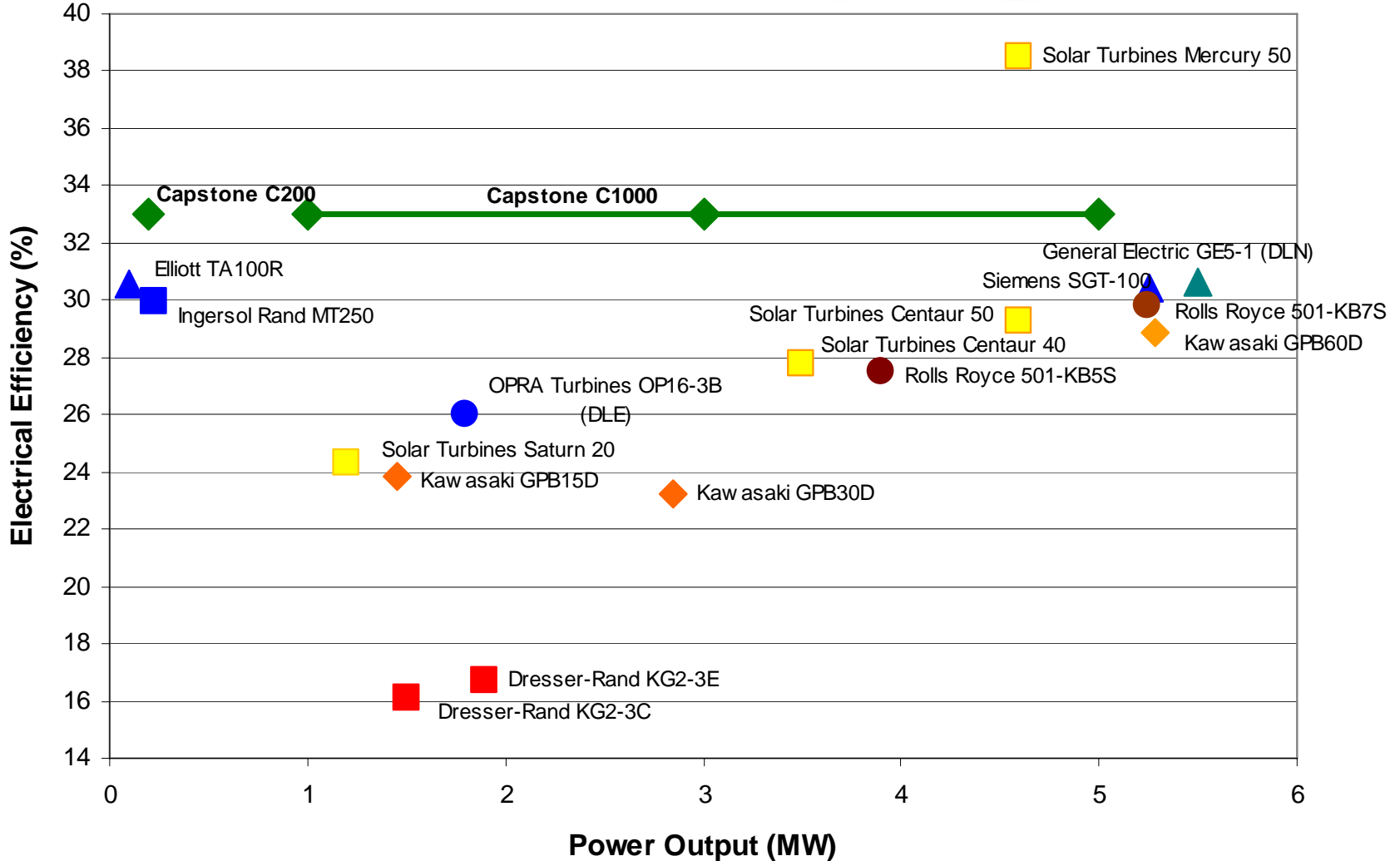


C1000



Piston Engine Price, Fuel Cell Emissions, Turbine Reliability

Gas Turbine Comparison



Highest Efficiency Less than 5 MW

Vertical Applications



CHP



CCHP



**Best Value for
Onsite Energy
Generation**

Resource Recovery



Secure Power



Market Segments



Large Retailers



Hospitals



Telecom



Office Buildings



Hotels



U.S. Gov't



Schools



Hybrid EV



Landfills



Digesters



Waste Water Plants



Oil & Gas



UTC Power
A United Technologies Company

PureComfort™ Solutions



Aurora, CO
360kW, 160RT¹
Outdoor installation



San Francisco, CA
240kW, 120RT¹
Outdoor installation



Simi Valley, CA
960kW, 420RT¹
Outdoor installation



Mount Kisco, NY
240kW, 120RT¹
Roof-mounted skid



Providence, RI
240kW, 120RT¹
80kW trigen
Indoor mechanical room



Mississauga, Ontario
240kW, 120RT¹
Indoor mechanical room

¹ RT = refrigeration tons

Resource Recovery Case Study: *BP Offshore Platform*



The Issues:

- Provide a reliable power source in a hazardous oil and gas application on an offshore platform in the Gulf of Mexico
- Recover value from onsite flare gas which is normally lost to the environment



The Solution:

- A Capstone microturbine, UL certified for hazardous oil and gas applications
- The microturbine runs on onsite unprocessed wellhead gas which is normally flared, providing a power source to the platform
- The microturbine cut maintenance time by ~95% compared to reciprocating engine generators
- The microturbine ran almost non-stop for 25,000 hours
- Capstone has microturbines running on other platforms in the Gulf of Mexico, Gulf of Alaska, Bay of Campeche, the North Sea, Mediterranean Sea, and South China Sea



Hybrid Electric Vehicle Case Study: *DesignLine / Hybrid Buses*



The Issues:

- Run low emission vehicles in densely populated areas
- Increase fleet efficiency
- Reduce maintenance
- Improve reliability

The Solution:

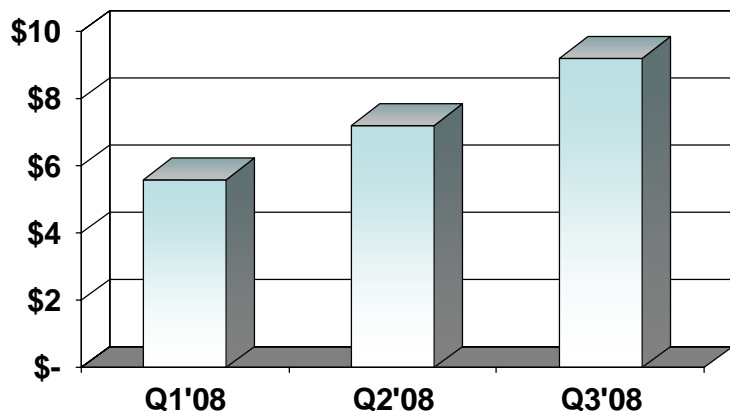
- The buses' Capstone turbine generates electricity to charge batteries, which run electric motors. The batteries are charged overnight and the turbine system recharges them when operating.
- The vehicles are fitted with remote monitoring which means Designline engineers can talk to the on-board computers monitoring performance and carry out diagnostic checking.



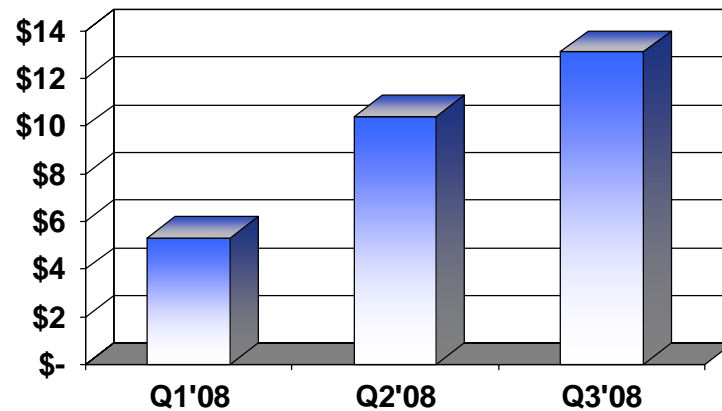
Building Momentum



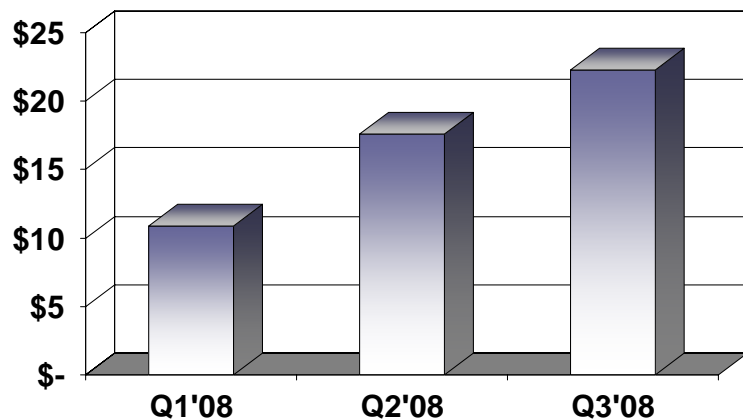
Net Revenue (\$ Millions)



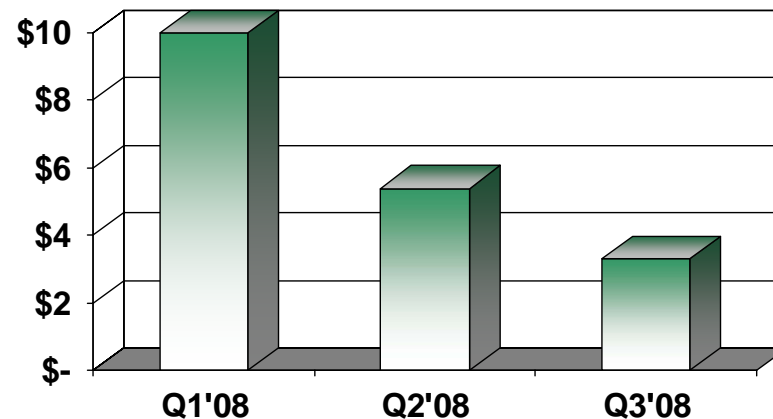
Backlog (\$ Millions)



Net Revenue/Backlog (\$ Millions)



Cash Used in Operations (\$ Millions)



Stock Price Reflects Momentum



- Institutional ownership
 - Approximately 30%
 - Targeting 50%
- Sell Side Analysts
 - Lazard Capital Markets
 - Ardour Capital Investments
 - Northland Securities
 - Merriman Curhan Ford & Co.



Capstone Summary



- New management team
- Strong market drivers
- Repositioned as Green technology
- First megawatt Microturbine solution
- Stronger than anticipated demand for C200 product
- Benefiting from restructured distribution
- Building sales momentum
- Improving financial results