

# CAPSTONE TURBINE CORPORATION

---

## Corporate Governance Principles

---

The Board of Directors (the “Board”) of Capstone Turbine Corporation (the “Company”) adopted the following principles of corporate governance (“Principles”) on July 20, 2004. These Principles, key practices of the Board, the charters of Board committees and the Company’s other corporate governance documents and practices provide the basis for governance of the Company. These Principles address the Board’s governance role and functions and should be interpreted in the context of all applicable laws and the Company’s Certificate of Incorporation, Bylaws and other corporate governance documents.

The Board will review these Principles on an annual basis or more often if deemed necessary.

### **Role of the Board of Directors**

The Board is elected by the Company’s stockholders to, among other things, select, advise, counsel and monitor the performance of the leadership team, oversee the Chief Executive Officer (the “CEO”), assist in defining the policies, direction and goals of the Company and provide an effective corporate governance framework for the Company. The Board is the ultimate decision-making body of the Company, except with respect to those matters reserved to or shared with the stockholders.

Each member of the Board (a “Director”) shall attend Board meetings as well as the meetings of any committee on which he or she serves, ask questions and engage in discussion at such meetings and spend the time needed to properly discharge his or her duties as a Director.

### **Director Selection and Qualifications**

Directors are elected each year by the Company’s stockholders at the annual meeting of the stockholders. The Director nomination process is described in full in the Company’s Policy Regarding Stockholder Communications, the Director Nomination Process and Director Attendance at Annual Meetings of the Stockholders (the “Policy”). The Nominating and Corporate Governance Committee selects nominees in accordance with its charter and the Policy. The Board recommends a slate of nominees to the stockholders for election at the annual meeting.

The Company shall maintain a procedure whereby stockholders may provide recommendations for candidates for Director. Stockholders may nominate Directors in accordance with the Company’s Bylaws and applicable laws.

The Nominating and Corporate Governance Committee shall review the qualifications of prospective candidates to determine whether they will make good candidates for membership on

the Company's Board. This consideration includes, at a minimum, a review of the criteria for Board membership contained in the Policy.

### **Director Independence**

A majority of the Board's members shall satisfy the independent requirements under the applicable rules of The Nasdaq Stock Market or any other securities exchange on which the Company's shares are traded.

### **Director Compensation**

The form and amount of Director compensation and benefits shall be determined by the Compensation Committee and then recommended to the full Board. Management shall provide an assessment of the Company's Director compensation measured against comparable companies to the Compensation Committee at least every three (3) years. Independent Directors will receive no additional compensation, in the form of consulting fees or other specific benefits, beyond that provided for service on the Board.

### **Regular Meetings of the Board**

The Board shall hold regularly scheduled meetings at least four times a year. The Chairman of the Board shall set the agenda for Board meetings but any Director may suggest items for inclusion on the agenda of any meeting. Board agendas may be supplemented and issues not listed on a meeting agenda may be raised, at any time, at a meeting by any member of the Board.

### **Regular Meetings of the Independent Directors**

The independent Directors shall meet in executive session, without members of the Company's management present, on a regular basis but at least once each year. Such meetings usually take place at the time of regularly scheduled Board meetings but may be called at any time. One of the independent Directors shall serve as the presiding Director at each meeting of the independent Directors.

### **Length of Board Service**

In accordance with the Company's Bylaws, a Director is elected to serve a term ending on the date of the next annual meeting following the annual meeting at which the Director was elected and until a successor has been elected and qualified or the earlier of his or her resignation or removal. To ensure that the Board remains composed of highly functioning members, the Nominating and Corporate Governance Committee shall evaluate the performance of each existing Director every year before recommending his or her nomination for an additional term to the Board.

### **Retirement Policy; Mandatory Resignation**

A Director shall not be eligible for nomination for a term that extends beyond his or her 72<sup>nd</sup> birthday. The Nominating and Corporate Governance Committee may, in appropriate circumstances, determine to grant exceptions to this policy when, in light of all the

circumstances, doing so is determined to be in the best interests of the Company and its stockholders.

Management Directors are expected to resign from the Board upon termination of their employment with the Company (other than as a result of normal retirement) either effective immediately or at the next meeting of the Board following such termination of employment. Upon termination of an independent Director's primary occupation or other significant change in business or professional circumstances, such Director must offer his or her resignation to the Board effective upon acceptance by the Board. The Board will decide whether to accept such Director's resignation in its sole discretion. The Board does not believe that Directors who retire from or change the primary occupation that they held when they were first elected to the Board should necessarily leave the Board in every instance. The Board should, however, have an opportunity to review the continued appropriateness of Board membership under the circumstances.

### **Service on Other Boards**

The Board recognizes that Directors benefit from service on the boards of other companies and it encourages such service. However, service as a Director is a significant commitment in terms of both time and responsibility, and the Board believes that it is critical that Directors have the opportunity to dedicate sufficient time to their services on the Company's Board. To that end, Directors must advise the Chair of the Board and the Chair of the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve on the board of another public company.

The Board further believes that, while the Company benefits from its senior officers serving on the boards of other companies, it is critical that the senior officers of the Company devote sufficient time and effort to their services to the Company. Accordingly, no senior officer of the Company may serve on the board of another for-profit company without obtaining the prior approval of the Board. In addition, senior officers shall not serve on more than one such board unless extenuating circumstances exist in the discretion of the Board.

### **Directors' Commitment**

Directors must be willing to devote sufficient time, energy and attention to carrying out their duties and responsibilities effectively.

### **Chairman of the Board**

The Board recognizes the current debate relating to the separation of roles of the Chairman of the Board and CEO. While the positions of Chairman and CEO are currently separated, the Board will continue to monitor this issue and may reconsider this matter in the future.

### **CEO Selection**

The Board selects the Company's CEO. Professional skill, experience and integrity, as well as the ability to work effectively as a team-member, among other things, are important factors in the selection of the Company's CEO.

## **Annual Review of CEO**

To ensure that the CEO is providing the best leadership for the Company, the Compensation Committee will define a review process, which will include a full Board evaluation of the CEO on an annual basis. The Compensation Committee shall consider this evaluation when it sets the CEO's compensation.

## **Officers of the Company**

The Board believes that the CEO should have the authority to supervise the senior officers of the Company. The Board will, however, provide counsel and oversight with respect to the evaluation, development and compensation of the Company's senior officers.

## **Management Succession Plan**

The Compensation Committee, together with the CEO, shall maintain a succession plan for the CEO and leadership team. This plan shall be discussed with the full Board at least annually. The CEO provides an annual assessment of senior officers and their potential ability to succeed him or her as the Company's CEO.

## **Director Access to Officers, Employees and Information**

Directors shall have full and free access to the Company's officers, employees, books and records. Independent Directors shall be free to contact senior officers or senior managers of the Company for any information. At the invitation of the Board, members of the leadership team may attend Board meetings or portions thereof for the purpose of participating in discussions. Any Director may request the attendance at a Board meeting of any member of the Company's management.

## **Access to Independent Advisors**

The Board and its committees shall have the right at any time to retain independent outside financial, legal or other advisors at the Company's expense.

## **Committees of the Board**

The Board currently has the following standing committees: Audit, Compensation, and Nominating and Corporate Governance. The Board believes that this committee structure best serves the Company's current needs but the Board may establish additional committees when it deems necessary or appropriate. Each committee shall consist of no fewer than three members of the Board, with such membership determined based on each committee's charter. Management Directors may not be members of standing committees.

Each committee has a charter. The committee charters set forth each committee's purpose, composition, responsibilities and authority. The Chair of each committee shall determine the frequency of committee meetings consistent with the committee's charter and the Company's needs.

## **Selection of Committee Members and Rotation of Committee Chairmanships**

The Nominating and Corporate Governance Committee shall propose a list of committee assignments to the Board at the first meeting of the Board following each annual meeting of the stockholders of the Company. Although not required, the Board believes that an effort should be made to appropriately rotate committee chairmanships among the Directors.

## **Annual Board and Committee Evaluations**

The Nominating and Corporate Governance Committee shall lead an annual evaluation of the Board and itself, and each other committee shall lead an annual self-evaluation. The evaluations are designed to assess whether the Board and its committees function effectively and make valuable contributions to the Company. The Company uses the evaluation process to uncover areas that are in need of improvement and as a forum for recommendations for change. A non-Board member shall review the completed evaluation forms, consolidate the responses and report findings to the Board. Proposals for change shall be made based on the results of the evaluations.

## **Conduct and Conflicts of Interest**

The Board expects its members, as well as the Company's officers and employees, to be committed to the highest standards of honest, ethical and legal behavior. The Company's Code of Business Conduct provides guidance to all Directors, officers and employees in this regard. Each Director, officer and employee must certify, in writing, that he or she has read, understands and will adhere to the Code of Business Conduct. The Code of Business Conduct provides that it is the responsibility of every Director, officer and employee to ensure that his or her interests remain free of conflicts in the performance of his or her duties and that he or she engages in ethical and honest conduct. Pursuant to the Code of Business Conduct, any potential or known conflict of interest must be reported as soon as recognized. Employees must promptly report violations of the Code of Business Conduct to the Corporate Ethics Manager and members of the Board and officers may contact the Audit Committee directly. A waiver of the Code of Business Conduct may be made only by the Board to the extent necessary and warranted and shall be promptly disclosed to the extent required by law or regulation of any applicable securities exchange or market.

## **Insider Trading**

The Company's Insider Trading Policy describes the trading restrictions imposed on any Director, officer and "designated employee" of the Company (each a "Covered Person"). "Designated employees" are certain employees who, because of their job responsibilities, are considered to be more likely to have access to material, non-public information and who are designated by the Company's CEO, Chief Financial Officer or other executive officer. Every Covered Person must review the Insider Trading Policy. The policies set forth in the Insider Trading Policy also apply to transactions by each Covered Person's (i) spouse, children or other relatives living in the same household ("family members"), (ii) corporations or other business entities controlled by the Covered Person or his or her family members, (iii) corporations or other business entities controlled by the Company and (iv) trusts in which the Covered Person or

any family member acts as trustee or otherwise has investment control. No person covered by the Insider Trading Policy shall purchase or sell any type of security while in possession of material, non-public information relating to the security, whether the issuer of such security is the Company or any other company. To provide assistance in preventing inadvertent violations of applicable securities laws and to avoid the appearance of impropriety in connection with the purchase and sale of the Company securities, all transactions in Company securities (including without limitation, acquisitions and dispositions of Company common stock and the sale of Company common stock issued upon exercise of stock options) by persons covered by the Insider Trading Policy must be precleared by the Company's Compliance Officer, with the exception of transactions by the Compliance Officer which must be precleared by the Chair of the Audit Committee. Questions regarding the Insider Trading Policy should be directed to the Company's Compliance Officer.

### **Reporting of Accounting or Auditing Concerns**

The Audit Committee of the Board shall address concerns raised by employees and others about the Company's accounting, internal controls or auditing matters. The Audit Committee has established procedures for the receipt, retention and treatment of related complaints. Employees of the Company may submit confidential, anonymous complaints regarding accounting, internal controls or auditing matters in accordance with procedures outlined in the Capstone Employee Handbook.

### **Stockholder Communications with the Board**

The Company sees the value in open communication between stockholders and the Board. Stockholders may communicate directly with the Company's Board or individual members of the Board in accordance with a policy established by the Board.

### **Director Orientation and Continuing Education**

The Company will provide each new Director with materials and information about the Company reasonably necessary for a new Director to perform his or her duties. The Company familiarizes new Directors with, among other things, the Company's business and strategic plans, significant financial, accounting and risk management issues, compliance programs, conduct codes, principal officers and auditing practices. In addition, a new Director may request additional materials or information. Any current Director may attend orientation presentations or request a copy of the written materials given to new Directors.

The Company arranges for appropriate continuing education for the Company's Directors. At a minimum, the Company will keep Directors adequately informed of changes in applicable laws, rules and regulations as well as current best practices in corporate governance.

### **Media Communications**

The Company has a disclosure policy. In order to ensure compliance with applicable securities laws and to avoid the potential detriment to the interests of the Company that could result from inconsistent communications, the members of the Board agreed to abide by the Company's disclosure policy and will not respond to media inquiries or make statements to the media

regarding the Company and its business without consultation with, and approval by, the Chairman of the Board or the Board of Directors.

Adopted: July 20, 2004

Amended: March 24, 2009

Amended: November 10, 2010

Amended: November 16, 2011

Amended: November 13, 2013