

CAPSTONE TURBINE CORP

Form 10-Q

February 09, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2005
- 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

*(State or other jurisdiction of
incorporation or organization)*

95-4180883

*(I.R.S. Employer
Identification No.)*

21211 Nordhoff Street, Chatsworth, California 91311

(Address of principal executive offices and zip code)

(Registrant's telephone number, including area code)

818-734-5300

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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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of outstanding shares of the registrant's common stock as of January 31, 2006 was 102,735,649.

CAPSTONE TURBINE CORPORATION

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****CAPSTONE TURBINE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2005	March 31, 2005
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 66,190	\$ 63,593
Accounts receivable, net of allowance for doubtful accounts and sales returns of \$779 at December 31, 2005 and \$536 at March 31, 2005	5,949	3,150
Inventories	14,702	11,273
Prepaid expenses and other current assets	932	992
Total current assets	87,773	79,008
Equipment and Leasehold Improvements, net	8,519	10,529
Non-Current Portion of Inventories	2,939	3,990
Intangible Asset, net and Other Long-Term Assets	1,469	1,663
Total	\$ 100,700	\$ 95,190
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 6,835	\$ 5,796
Accrued salaries and wages	1,109	1,442
Accrued warranty reserve	7,984	8,667
Deferred revenue	1,419	1,522
Current portion of notes payable and capital lease obligations	19	19
Total current liabilities	17,366	17,446
Long-Term Portion of Notes Payable and Capital Lease Obligations	50	64
Other Long-Term Liabilities	690	1,002
Stockholders Equity:		
Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued		
Common stock, \$.001 par value; 415,000,000 shares authorized; 103,252,461 shares issued and 102,701,253 shares outstanding at	103	85

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December 31, 2005; 85,379,446 shares issued and 84,828,238 shares
outstanding at March 31, 2005

Additional paid-in capital	571,963	530,931
Accumulated deficit	(488,714)	(453,469)
Deferred stock compensation	(245)	(356)
Treasury stock, at cost; 551,208 shares	(513)	(513)
Total stockholders' equity	82,594	76,678
Total	\$ 100,700	\$ 95,190

See accompanying notes to condensed consolidated financial statements.

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CAPSTONE TURBINE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31, 2005		Nine Months Ended December 31, 2005	
	2004		2004	
	(Unaudited)			
	(In thousands, except per share data)			
Revenue	\$ 7,040	\$ 4,683	\$ 16,552	\$ 11,563
Cost of Goods Sold	9,793	6,829	23,785	18,299
Gross Loss	(2,753)	(2,146)	(7,233)	(6,736)
Operating Expenses:				
Research and development	3,093	2,793	7,926	9,126
Selling, general and administrative	9,045	5,210	21,570	14,856
Total operating expenses	12,138	8,003	29,496	23,982
Loss from Operations	(14,891)	(10,149)	(36,729)	(30,718)
Interest income	708	378	1,481	937
Interest expense	(1)	(2)	(22)	(37)
Other Income	3	3	27	369
Loss Before Income Taxes	(14,181)	(9,770)	(35,243)	(29,449)
Provision for Income Taxes			2	2
Net Loss	\$ (14,181)	\$ (9,770)	\$ (35,245)	\$ (29,451)
Net Loss Per Share of Common Stock Basic and Diluted	\$ (0.14)	\$ (0.12)	\$ (0.39)	\$ (0.35)
Weighted Average Shares Used to Calculate Basic and Diluted Net Loss Per Share	102,341	84,412	90,624	84,337

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CAPSTONE TURBINE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended December 31, 2005 2004 (Unaudited) (In thousands)	
Cash Flows from Operating Activities:		
Net loss	\$ (35,245)	\$ (29,451)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,231	3,586
Provision for doubtful accounts and sales returns	244	41
Inventories write-down	1,526	207
Provision for warranty expenses	1,243	957
(Gain)Loss on disposal of equipment	(21)	30
Non-cash stock compensation	753	254
Changes in operating assets and liabilities:		
Accounts receivable	(3,043)	2,149
Inventories	(3,904)	(2,312)
Prepaid expenses and other assets	53	194
Accounts payable	(652)	1,354
Accrued salaries and wages, and other accrued and long-term liabilities	983	(990)
Accrued warranty reserve	(1,926)	(2,039)
Deferred revenue	(103)	226
Net cash used in operating activities	(36,861)	(25,794)
Cash Flows from Investing Activities:		
Acquisition of and deposits on equipment and leasehold improvements	(966)	(605)
Proceeds from disposal of equipment and leasehold improvements	30	1
Net cash used in investing activities	(936)	(604)
Cash Flows from Financing Activities:		
Net proceeds from sale of common stock	39,089	
Repayment of notes payable and capital lease obligations	(14)	(593)
Exercise of stock options and employee stock purchases	1,319	304
Net cash provided by(used in) financing activities	40,394	(289)
Net Increase (Decrease) in Cash and Cash Equivalents	2,597	(26,687)
Cash and Cash Equivalents, Beginning of Period	63,593	102,380
Cash and Cash Equivalents, End of Period	\$ 66,190	\$ 75,693

Supplemental Disclosures of Cash Flow Information:

Cash paid during the period for:

Interest	\$	22	\$	37
Income taxes	\$	2	\$	2

Supplemental Disclosures of Non-Cash Information:

During the nine months ended December 31, 2005 and 2004, the Company purchased on account \$63 and \$29 of fixed assets, respectively

See accompanying notes to condensed consolidated financial statements.

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CAPSTONE TURBINE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business and Organization

Capstone Turbine Corporation (the Company) develops, manufactures, markets and services microturbine technology solutions for use in stationary distributed power generation applications, including secure power, cogeneration (combined heat and power (CHP) and combined cooling, heat and power (CCHP)), and resource recovery (including renewable fuels). In addition, the Company's microturbines can be used as generators for hybrid electric vehicle applications. 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 revenue 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, as amended (the Exchange Act). They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated balance sheet at March 31, 2005 was derived from audited financial statements included in the Company's annual report on Form 10-K for the year ended March 31, 2005. In the opinion of management, the interim condensed consolidated 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2005. This quarterly report on Form 10-Q (Form 10-Q) refers to the fiscal years ending March 31, 2010, March 31, 2009, March 31, 2008, March 31, 2007 and March 31, 2006, and the fiscal years ended March 31, 2005 and March 31, 2004 as Fiscal 2010 , Fiscal 2009 , Fiscal 2008 , Fiscal 2007 , Fiscal 2006 , Fiscal 2005 and Fiscal 2004 , respectively.

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

The condensed consolidated financial statements include the accounts of the Company and Capstone Turbine International, Inc., its wholly owned subsidiary that was formed in June 2004, after elimination of inter-company transactions.

3. Customer Concentrations and Accounts Receivable

Individually, three customers accounted for 26%, 17% and 12% of revenue, respectively, for the third quarter of Fiscal 2006, totaling approximately 55% of revenue. For the same quarter a year ago, individually, two customers accounted for approximately 27% and 13% of revenue, respectively, totaling approximately 40% of revenue. United Technologies Corporation (UTC) accounted for 26% and 4% of revenue for the third quarter of Fiscal 2006 and Fiscal 2005, respectively. For the nine months ended December 31, 2005, one customer accounted for 23% of revenue. For

the same period a year ago, one customer accounted for approximately 13% of revenue. UTC accounted for 23% and 9% of revenue for the nine months ended December 31, 2005 and 2004, respectively. While the Company has individual customers who, in any given period, may represent a significant portion of the Company's business, overall, the Company is not dependent on any single customer or particular group of customers.

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Individually, two customers accounted for 22% and 19% of net accounts receivable, respectively, as of December 31, 2005, totaling approximately 41% of net accounts receivable. UTC accounted for 19% and 47% of net accounts receivable as of December 31, 2005 and March 31, 2005, respectively.

4. Inventories

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

	December 31, 2005	March 31, 2005
	(In thousands)	
Raw materials	\$ 13,748	\$ 11,333
Work in process	1,017	2,580
Finished goods	2,876	1,350
Total	17,641	15,263
Less non-current portion	2,939	3,990
Current portion	\$ 14,702	\$ 11,273

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

5. Equipment and Leasehold Improvements

Equipment and leasehold improvements consisted of the following:

	December 31, 2005	March 31, 2005
	(In thousands)	
Machinery, equipment and furniture	\$ 19,471	\$ 18,760
Leasehold improvements	8,642	8,563
Molds and tooling	3,166	3,096
	31,279	30,419
Less: accumulated depreciation and amortization	22,760	19,890
Total equipment and leasehold improvements, net	\$ 8,519	\$ 10,529

