CAPSTONE TURBINE Corp
Form 10-Q/A
November 20, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

o 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 (Address of principal executive offices)	**91311** (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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant s common stock as of October 31, 2013 was 309,922,737.

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 (this Amendment) to the Quarterly Report on Form 10-Q of Capstone Turbine Corporation (the Company or Capstone) for the quarter ended September 30, 2013 (the Original Filing), originally filed with the U.S. Securities and Exchange Commission (the SEC) on November 7, 2013, is being filed to correct an unintentional typographical error referencing the date of the Original Filing included on Exhibit 32.

The certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed as Exhibits 31.1, 31.2 and 32, respectively, to the Original Filing, have been revised, re-executed and re-filed as of the date of this Amendment.

Except as described above, this Amendment does not modify or update the disclosures presented in, or exhibits to, the Original Filing in any way. This Amendment speaks as of the date of the Original Filing and does not reflect events occurring after the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing, as well as any other filings made by the Company with the SEC pursuant to Section 13(a) or 15(d) of Securities Exchange Act of 1934, as amended, subsequent to the filing of the Original Filing.

Table of Contents

CAPSTONE TURBINE CORPORATION

INDEX

		Page Number
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets as of September 30, 2013 and March 31, 2013	3
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2013 and 2012	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2013 and 2012	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	28
Item 4.	Mine Safety Disclosures	28
Item 5.	Other Information	28
Item 6.	Exhibits	29
Signatures		30

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CAPSTONE TURBINE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)
(Unaudited)

	September 30, 2013	March 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 28,267	$ 38,817
Accounts receivable, net of allowance for doubtful accounts of $2,382 at September 30, 2013 and $2,142 at March 31, 2013	18,402	17,941
Inventories	20,830	18,513
Prepaid expenses and other current assets	2,456	2,588
Total current assets	69,955	77,859
Property, plant and equipment, net	3,177	3,543
Non-current portion of inventories	2,980	3,252
Intangible assets, net	2,043	2,313
Other assets	313	371
Total	$ 78,468	$ 87,338
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 26,777	$ 24,121
Accrued salaries and wages	1,903	1,721
Accrued warranty reserve	2,382	2,299
Deferred revenue	2,909	3,089
Revolving credit facility	11,796	13,476
Current portion of notes payable and capital lease obligations	131	361
Warrant liability		10
Total current liabilities	45,898	45,077
Long-term portion of notes payable and capital lease obligations	185	233
Other long-term liabilities	112	142
Commitments and contingencies (Note 15)		
Stockholders Equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized; none issued		
Common stock, $.001 par value; 515,000,000 shares authorized, 306,341,011 shares issued and 305,197,737 shares outstanding at September 30, 2013; 305,661,276 shares issued and 304,622,573 shares outstanding at March 31, 2013	306	306
Additional paid-in capital	797,958	796,767
Accumulated deficit	(764,661)	(753,975)
	(1,330)	(1,212)

Treasury stock, at cost; 1,143,274 shares at September 30, 2013 and 1,038,703 shares at March 31, 2013				
Total stockholders equity		32,273		41,886
Total	$	78,468	$	87,338

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CAPSTONE TURBINE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Revenue	$ 35,291	$ 30,118	$ 59,664	$ 58,930
Cost of goods sold	30,399	27,512	51,449	54,155
Gross margin	4,892	2,606	8,215	4,775
Operating expenses:				
Research and development	1,956	2,413	4,291	4,617
Selling, general and administrative	6,641	6,428	14,209	13,876
Total operating expenses	8,597	8,841	18,500	18,493
Loss from operations	(3,705)	(6,235)	(10,285)	(13,718)
Other (expense) income	(6)	4	(20)	26
Interest expense	(176)	(128)	(362)	(319)
Change in fair value of warrant liability	10	302	10	451
Loss before income taxes	(3,877)	(6,057)	(10,657)	(13,560)
Provision for income taxes	11	124	29	396
Net loss	$ (3,888)	$ (6,181)	$ (10,686)	$ (13,956)
Net loss per common share basic and diluted	$ (0.01)	$ (0.02)	$ (0.04)	$ (0.05)
Weighted average shares used to calculate net loss per common share	304,990	300,254	304,856	299,846

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CAPSTONE TURBINE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended September 30, 2013	2012
Cash Flows from Operating Activities:		
Net loss	$ (10,686)	$ (13,956)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,261	1,474
Amortization of deferred financing costs	112	37
Provision for allowance for doubtful accounts	119	566
Inventory provision	572	634
Provision for warranty expenses	2,394	3,298
Loss on disposal of equipment		2
Stock-based compensation	1,184	696
Change in fair value of warrant liability	(10)	(451)
Changes in operating assets and liabilities:		
Accounts receivable	(580)	2,864
Inventories	(2,617)	(3,314)
Prepaid expenses and other current assets	67	236
Accounts payable and accrued expenses	2,624	883
Accrued salaries and wages and long term liabilities	152	(103)
Accrued warranty reserve	(2,311)	(2,462)
Deferred revenue	(180)	17
Net cash used in operating activities	(7,899)	(9,579)
Cash Flows from Investing Activities:		
Expenditures for property and equipment	(582)	(653)
Net cash used in investing activities	(582)	(653)
Cash Flows from Financing Activities:		
Net (repayments of) proceeds from revolving credit facility	(1,680)	1,509
Repayment of notes payable and capital lease obligations	(278)	(242)
Net cash used in employee stock-based transactions	(111)	(30)
Proceeds from exercise of common stock warrants		4,260
Net cash (used in) provided by financing activities	(2,069)	5,497
Net decrease in Cash and Cash Equivalents	(10,550)	(4,735)
Cash and Cash Equivalents, Beginning of Period	38,817	49,952
Cash and Cash Equivalents, End of Period	$ 28,267	$ 45,217
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 262	$ 292
Income taxes	$ 80	$ 396
Supplemental Disclosures of Non-Cash Information:		
Included in accounts payable at September 30, 2013 and 2012, is $58 thousand and $32 thousand of accrued purchases of property and equipment, respectively.		

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

CAPSTONE TURBINE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business and Organization

Capstone Turbine Corporation (Capstone or the Company) develops, manufactures, markets and services microturbine technology solutions for use in stationary distributed power generation applications, including cogeneration (combined heat and power (CHP), integrated combined heat and power (ICHP), and combined cooling, heat and power (CCHP)), renewable energy, natural resources and critical power supply. In addition, the Company s microturbines can be used as battery charging generators for hybrid electric vehicle applications. The Company was organized in 1988 and has been producing its microturbine generators commercially 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 its operating costs. To date, the Company has funded its activities primarily through private and public equity offerings.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP) for interim financial information and 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 GAAP for complete financial statements. The condensed consolidated balance sheet at March 31, 2013 was derived from audited financial statements included in the Company s Annual Report on Form 10-K for the year ended March 31, 2013. 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, 2013. This Quarterly Report on Form 10-Q (this Form 10-Q) refers to the Company s fiscal years ending March 31 as its Fiscal years.

The condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company s loss from operations for the second quarter of Fiscal 2014 and 2013 was $3.7 million and $6.2 million, respectively. Management believes the Company s net loss from operations will continue to decrease as the Company makes overall progress on its path to profitability. The Company s cash and cash equivalents as of September 30, 2013 and March 31, 2013 were $28.3 million and $38.8 million, respectively.

Management believes that existing cash and cash equivalents are sufficient to meet the Company s anticipated cash needs for working capital and capital expenditures for at least the next twelve months; however, if our anticipated cash needs change, it is possible that the Company may need to raise additional capital. The Company may seek to raise funds by selling additional securities to the public or to selected investors or by obtaining additional debt financing. There is no assurance that the Company will be able to obtain additional funds on commercially favorable terms or at all. If the Company raises additional funds by issuing additional equity or convertible debt securities, the fully diluted ownership percentages of existing stockholders will be reduced. In addition, any equity or debt securities that the Company would issue may have rights, preferences or privileges senior to those of the holders of its common stock. The Company s Credit and Security Agreements (the Agreements) with Wells Fargo Bank, National Association (Wells Fargo) will terminate in accordance with their terms on September 30, 2014. The Company expects to renew the Agreements with Wells Fargo, but there is no assurance that the Agreements will be renewed. Please see Note 11 Revolving Credit Facility for further discussion of the Agreements with Wells Fargo.

The condensed consolidated financial statements include the accounts of the Company, Capstone Turbine Singapore, Pte. Ltd., its wholly owned subsidiary that was formed in February 2011, and Capstone Turbine International, Inc., its wholly owned subsidiary that was formed in June 2004, after elimination of inter-company transactions.

3. Recently Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 defines the criteria as to when an unrecognized tax benefit should be presented as a liability and when it should be netted against a deferred tax asset on the face of the balance sheet. ASU 2013-11 is effective for fiscal years beginning after December 15, 2013. The Company does not believe that the adoption of the provisions of ASU 2013-11 will have a material impact on its consolidated financial position or results of operations.

Table of Contents

In February 2013, FASB issued ASU 2013-02, Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, effective for annual and interim reporting periods beginning after December 15, 2012. The new accounting rules require all U.S. public companies to report the effect of items reclassified out of accumulated other comprehensive income on the respective line items of net income, net of tax, either on the face of the financial statements where net income is presented or in a tabular format in the notes to the financial statements. The Company adopted this updated guidance with no impact on its consolidated financial position or results of operations.

4. Customer Concentrations and Accounts Receivable

Sales to BPC Engineering (BPC), one of the Company s Russian distributors, and E-Finity Distributed Generation, LLC (E-Finity), one of the Company s domestic distributors, accounted for 29% and 24%, respectively, of revenue for the three months ended September 30, 2013. Sales to Horizon Power Systems (Horizon), one of the Company s domestic distributors, accounted for 32% of revenue for the three months ended September 30, 2012. E-Finity, BPC and Horizon accounted for 22%, 18% and 12% of revenue, respectively, for the six months ended September 30, 2013. For the six months ended September 30, 2012, Horizon and BPC accounted for 33% and 14% of revenue, respectively.

Additionally, BPC and E-Finity accounted for 32% and 21%, respectively, of net accounts receivable as of September 30, 2013. BPC and Regatta accounted for 35% and 11%, respectively, of net accounts receivable as of March 31, 2013.

5. Inventories

Inventories are valued at a first in first out (FIFO) basis and lower of cost or market and consisted of the following as of September 30, 2013 and March 31, 2013 (in thousands):

	September 30, 2013	March 31, 2013
Raw materials	$ 22,241	$ 20,198
Finished goods	1,569	1,567
Total	23,810	21,765
Less non-current portion	(2,980)	(3,252)
Current portion	$ 20,830	$ 18,513

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. The non-current inventories are primarily comprised of repair parts for older generation products that are still in operation, but are not technologically compatible with current product configurations. The weighted average age of the non-current portion of inventories on hand as of September 30, 2013 is 1.7 years. The Company expects to use the non-current portion of the inventories on hand as of September 30, 2013, over the periods presented in the following table (in thousands):

Expected Period of Use

	Non-current Inventory Balance	
13 to 24 months	$	2,217
25 to 36 months		507
37 to 48 months		256
Total	$	