

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) June 3, 2004

CAPSTONE TURBINE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	001-15957	95-4180883
(State or other jurisdiction of incorporation)	(Commission file number)	(I.R.S. Employer Identification No.)

21211 Nordhoff Street, Chatsworth, California 91311  
(Address of principal executive offices)

(818) 734-5300

(Registrant's telephone number, including area code)

Item 12. Results of Operations and Financial Condition

On June 3, 2004, Capstone Turbine Corporation (the "Company") announced via a press release the Company's financial results for the fiscal year ended March 31, 2004. The press release is being furnished to the Securities and Exchange Commission under Item 12 of Form 8-K.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CAPSTONE TURBINE CORPORATION  
(Registrant)

Date: June 3, 2004

By: /s/ Karen Clark

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Karen Clark  
Chief Financial Officer

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*Exhibit Index*  
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*Exhibit Number*  
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*Description of Document*  
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Press Release of Capstone Turbine Corporation,  
dated June 3, 2004, reporting its results for the  
fiscal year ended March 31, 2004.

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## Capstone Turbine Announces Fiscal-Year 2004 Results

CHATSWORTH, Calif.--(BUSINESS WIRE)--June 3, 2004--Capstone Turbine Corporation (Nasdaq:CPST) ([www.microturbine.com](http://www.microturbine.com)) reported results for its 2004 fiscal year ended March 31 and its transition period January through March 2003. Beginning April 2003, Capstone's results are reported on a fiscal year period.

Revenue for the year was \$12.6 million compared with \$19.5 million in calendar year 2002. "The lower sales in fiscal 2004 resulted largely from our efforts to improve the quality of our sales. As we focus the business, we are not pursuing individual sales that can be distracting to our efforts of building repeat, profitable business," said Capstone's CEO, John Tucker. "This improvement in the quality of sales can be seen in the margins."

The reported 2004 gross loss was \$16.8 million versus \$22.0 million in calendar year 2002. The 2002 results included a \$5 million impairment loss; whereas no similar charge was reported in 2004. Tucker noted, "While current year sales were lower, they provided a similar contribution margin," said Tucker.

For the full year, Capstone's reported net loss was \$47.7 million, or \$0.58 per share, compared with \$74.4 million, or \$0.95 per share in calendar year 2002. The prior period results included the \$5.0 million impairment loss recorded in cost of goods sold, as well as a \$16.0 million impairment loss included in operating costs and expenses.

"Fiscal year 2004 was a year of transition for Capstone," said Tucker. "We have made major changes in the staffing in the company. Not only has a new leadership team been put in place, but throughout the Company, as compared with a year ago, more than 25% of our people are either new to Capstone or in new roles. We also brought customers to the forefront of our attention and have come to more clearly understand what is required to serve them better. Key to meeting the needs of our customers has been to improve the robustness of our products. We have had a tiger team at work on this priority for several months now and are pleased to report that we are making excellent progress. Finally, the culminating event of 2004 was the completion of a three-year strategic plan. This plan sets the path forward for our business. This was a key milestone for Capstone. It represented the engagement of the entire business, building an integrated plan for our future."

Explaining the plan, Tucker continued, "The strategic plan addresses all aspects of our business - from identification of key target markets to sales and service strategies, new product development initiatives, operating enhancement targets and, ultimately, achieving our cash flow goal. Our planning objective was to build a plan, supported by definitive actions, that resulted in a cash flow positive business in three years - and our plan reflects that. This contrasts with the \$30 million in cash that Capstone has used to fund its business in each of the last two years.

"The drivers for this change are expected to come from three key areas," said Tucker, in outlining the plan. "The first is sales. We are focusing our efforts on a few key markets where we intend to drive repeat business. We have targeted markets that we believe have the best near-term profit potential. As part of penetrating these markets, we will need to enhance our distribution channels. We will be pursuing an approach that includes selected direct selling in concert with our proven distributors. Likewise, to better serve customers, we will complement our existing Authorized Service Providers by providing direct service in chosen areas. The second key area for driving change is in our product enhancement. Through continuous improvement activities we intend to meet, and then exceed, an average of 8000 hours mean-time-between-failures for our microturbines. Further, our market success will depend on enhancing our product offerings. While we obviously aren't going to be announcing those prematurely, we have clear targets set for ourselves. The final key area is developing operational excellence. Exciting market and product opportunities rely on operational excellence to deliver the intended results. Excellence reflects not only quality products and processes, but achieving the intended results at a competitive cost. This will mean aggressively challenging our cost structure, which in turn leads to assessing our core competencies and driving cost reductions. In particular,

purchased materials cost reductions are important to achieving our objectives.

"We expect our cash use will not improve in the short-term and may even increase somewhat in fiscal 2005 as we lay the new foundation in place," said Tucker. "However, it is important for us to make the expenditures necessary to facilitate our strategic direction. While we continue to face challenges in bringing microturbines into mainstream markets, we believe we now have a clear plan in place to drive our actions and measure our progress."

Tucker concluded, "We are excited about the opportunity before us and, with a unified approach, we are embarking on building the New Capstone."

#### *Fiscal Year 2004 Financial Highlights*

Sales of \$12.6 million in fiscal 2004 included \$2.9 million generated in the fourth quarter, as compared with \$3.6 million generated in the fourth quarter of 2002.

The gross loss in 2004 included a \$6.0 million charge recorded in the fourth quarter, reflecting a program Capstone initiated, intended to enhance the reliability of certain units previously sold that generally are no longer under warranty.

Operating expenses in 2004 were \$32.1 million, approximately 40% lower than the \$54.8 million reported in 2002. The prior year results included a \$16.0 million impairment loss; whereas no similar charge was taken in the current year. Research and development ("R&D") expenses were \$4.3 million higher in 2004 than in 2002, primarily as a result of lower reimbursements under development contracts. Lower selling, general and administrative ("SG&A") expenses more than offset the higher R&D. About \$3 million of the \$11.0 million reduction in SG&A expenses came from lower amortization as a result of the asset impairment charge taken in 2002, and the remainder was largely the result of cost control measures.

For the year, the Company used \$30.2 million in cash, compared with \$30.6 million in 2002.

At March 31, 2004, Capstone had \$102.4 million in cash and cash equivalents and no long-term debt.

#### *Conference Call*

The Company will host a conference call today, Thursday, June 3, at 2:00 p.m. Pacific Time. Access to the live broadcast and a replay of the webcast will be available until September 2, 2004 through the Company's website: [www.microturbine.com](http://www.microturbine.com).

#### *About Capstone Turbine*

Capstone Turbine Corporation ([www.microturbine.com](http://www.microturbine.com); Nasdaq: CPST) is the world's leading producer of low-emission microturbine systems. In 1998, Capstone was the first to offer commercial energy products utilizing microturbine technology, the result of more than ten years of focused research. Capstone Turbine has sold and shipped more than 2800 Capstone MicroTurbine systems to customers worldwide. These award-winning systems have logged more than 6 million hours of documented operation.

This press release contains "forward-looking statements," as that term is used in the federal securities laws, about Capstone's business, with regard to, among other items, its expected results of the strategic plan, including expected improvements in cash flow, and its ability to implement the plan. Forward-looking statements may be identified by words such as "expects," "objective," "intend," "targeted," "plan," "driving to" and similar phrases. These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause Capstone's actual results to be materially different from any future results expressed or implied in such statements. Many of these risks and uncertainties are described in our periodic filing with the Securities and Exchange Commission. Capstone cautions readers not to place undue reliance on these forward-looking statements, which speak only as of the date of this release. 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

release or to reflect the occurrence of unanticipated events.

"Capstone Turbine Corp" is a registered trademark of Capstone Turbine Corporation.

CAPSTONE TURBINE CORPORATION  
CONSOLIDATED BALANCE SHEETS

	March 31, 2004	December 31, 2002
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<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$102,380,000	\$140,310,000
Accounts receivable, net of allowance for doubtful accounts and sales returns of \$479,000 in 2004 and \$194,000 in 2002	4,170,000	4,893,000
Inventory	7,893,000	9,124,000
Prepaid expenses and other current assets	1,099,000	2,331,000
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Total current assets	115,542,000	156,658,000
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<b>Equipment and Leasehold Improvements:</b>		
Machinery, equipment, and furniture	20,877,000	22,996,000
Leasehold improvements	8,499,000	8,480,000
Molds and tooling	4,363,000	4,350,000
	-----	-----
	33,739,000	35,826,000
Less accumulated depreciation and amortization	18,718,000	15,346,000
	-----	-----
Total equipment and leasehold improvements	15,021,000	20,480,000
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Non-current Portion of Inventory	3,936,000	6,784,000
Intangible Asset, Net	1,694,000	2,029,000
Other Assets	352,000	1,240,000
	-----	-----
Total	\$136,545,000	\$187,191,000
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$2,790,000	\$4,321,000
Accrued salaries and wages	1,664,000	2,088,000
Other accrued liabilities	2,043,000	1,132,000
Accrued warranty reserve	11,695,000	6,746,000
Deferred revenue	1,166,000	901,000
Current portion of capital lease obligations	582,000	1,522,000
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Total current liabilities	19,940,000	16,710,000
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Long-Term Portion of Capital Lease Obligations	13,000	974,000
Other Long-Term Liabilities	1,149,000	1,325,000
Commitments and Contingencies	--	--
<b>Stockholders' Equity:</b>		
Common stock, \$.001 par value; 415,000,000 shares authorized; 85,025,817 shares issued and 84,474,609 shares outstanding at March 31, 2004; 81,635,035 shares issued and 81,437,822		

shares outstanding at December 31, 2002	85,000	82,000
Additional paid-in capital	530,394,000	526,952,000
Accumulated deficit	(414,020,000)	(358,646,000)
Less Deferred stock compensation	(503,000)	--
Less Treasury stock, at cost; 551,208 in 2004 and 197,213 shares in 2002	(513,000)	(206,000)
Total stockholders' equity	115,443,000	168,182,000
Total	\$136,545,000	\$187,191,000

CAPSTONE TURBINE CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months			
	Year Ended March 31,	Ended March 31,	Years Ended December 31,	
	2004	2003	2002	2001
Net Revenues	\$12,607,000	\$2,782,000	\$19,529,000	\$35,956,000
Cost of Goods Sold (including impairment loss of \$5,016,000 in 2002)	29,385,000	4,956,000	41,530,000	39,602,000
Gross Loss	(16,778,000)	(2,174,000)	(22,001,000)	(3,646,000)
Operating Expenses:				
Research and development	11,221,000	1,006,000	6,966,000	10,658,000
Selling, general, and administrative	20,840,000	4,821,000	31,846,000	40,780,000
Impairment loss on Marketing Rights	--	--	15,999,000	--
Total operating costs and expenses	32,061,000	5,827,000	54,811,000	51,438,000
Loss from Operations	(48,839,000)	(8,001,000)	(76,812,000)	(55,084,000)
Interest Income	1,284,000	439,000	2,840,000	8,690,000
Interest Expense	(183,000)	(73,000)	(407,000)	(585,000)
Other Income, net	1,000	2,000	26,000	121,000
Loss Before Income Taxes	(47,737,000)	(7,633,000)	(74,353,000)	(46,858,000)
Provision for Income Taxes	2,000	2,000	2,000	1,000
Net Loss	\$ (47,739,000)	\$ (7,635,000)	\$ (74,355,000)	\$ (46,859,000)
Net Loss Per Share of Common Stock -- Basic and Diluted	\$ (0.58)	\$ (0.09)	\$ (0.95)	\$ (0.61)
Weighted Average Common Shares Outstanding	82,348,711	81,410,614	78,130,795	76,694,670

CAPSTONE TURBINE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months

	Year Ended March 31,	Ended March 31,	Years Ended December 31,	
	2004	2003	2002	2001

**Cash Flows from Operating Activities:**

Net loss	\$ (47,739,000)	\$ (7,635,000)	\$ (74,355,000)	\$ (46,859,000)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	6,180,000	1,573,000	9,891,000	10,560,000
Non-cash reversal of administrative expenses	--	(1,099,000)		
Impairment loss on fixed assets and manufacturing license	--	--	5,016,000	--
Impairment loss on marketing rights	--	--	15,999,000	--
Provision for doubtful accounts and returns	280,000	220,000	215,000	160,000
Inventory write-down	931,000	243,000	4,793,000	2,900,000
Provision for warranty expenses	9,749,000	385,000	6,175,000	2,391,000
Loss on disposal of fixed assets	315,000	--	102,000	90,000
Non-employee stock compensation	92,000	4,000	--	396,000
Employee and director stock compensation	528,000	210,000	1,024,000	2,139,000
Changes in operating assets and liabilities:				
Accounts receivable	(509,000)	732,000	2,907,000	(4,461,000)
Inventory	3,871,000	(967,000)	1,272,000	(10,750,000)
Prepaid expenses and other assets	258,000	990,000	(1,202,000)	236,000
Accounts payable	440,000	(873,000)	830,000	(1,238,000)
Accrued salaries and wages	170,000	(625,000)	639,000	531,000
Other accrued liabilities	720,000	45,000	44,000	578,000
Accrued warranty reserve	(4,551,000)	(641,000)	(3,406,000)	(3,835,000)
Deferred revenue	(247,000)	519,000	(737,000)	(2,592,000)
Net cash used in operating activities	(29,512,000)	(6,919,000)	(30,793,000)	(49,754,000)

**Cash Flows from Investing Activities:**

Acquisition of and deposits on equipment and leasehold improvements	(1,299,000)	(271,000)	(2,515,000)	(16,818,000)
Proceeds from sale of equipment	28,000	--	--	1,000
Acquisition of Intangible assets	--	--	--	(557,000)
Net cash used in investing				

activities	(1,271,000)	(271,000)	(2,515,000)	(17,374,000)
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**Cash Flows from Financing Activities:**

Repayment of capital lease obligations	(1,415,000)	(343,000)	(1,309,000)	(1,347,000)
Exercise of stock options, restricted stock award and employee stock purchases	2,086,000	22,000	280,000	2,506,000
Stock issuance costs	--	--	--	(110,000)
Purchase of treasury stock	(92,000)	(215,000)	(206,000)	--
Net proceeds from issuance of common stock	--	--	3,985,000	--
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Net cash provided by (used in) financing activities	579,000	(536,000)	2,750,000	1,049,000

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Net Decrease in Cash and Cash Equivalents	(30,204,000)	(7,726,000)	(30,558,000)	(66,079,000)
Cash and Cash Equivalents, Beginning of Year	132,584,000	140,310,000	170,868,000	236,947,000

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Cash and Cash Equivalents, End of Year	\$102,380,000	\$132,584,000	\$140,310,000	\$170,868,000
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**Supplemental Disclosures of Cash Flow Information**

**Cash paid during the year for:**

Interest	\$183,000	\$73,000	\$407,000	\$584,000
Income taxes	\$2,000	\$2,000	\$2,000	\$1,000

**CONTACT: Capstone Turbine Corporation**  
**General Media Inquiries:**  
**Keith Field, 818-734-5465**  
**Investor and Investment Media Inquiries:**  
**Alice Barsoomian, 818-734-5428**