



# **2011 Robert W. Baird & Co., Inc. Clean Technology Conference**

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November 30, 2011



# 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:

- future financial performance and attaining profitability;
- the ability to continue to reduce costs and improve inventory turns and contribution margins;
- the ability to reduce cash usage;
- higher average selling prices;
- continued growth in current markets;
- the continued availability of a line of credit;
- our ability to raise funds through warrant exercises;
- the success of the C200 and C1000 products;
- new products and technologies;
- compliance with certain government regulations and increased government awareness and funding of our products;
- growing market share and market adoption of our products;
- new applications for our products;
- growth in the energy efficiency, renewable energy, oil and gas, critical power supply and mobile product markets;
- increased opportunities in Japan;
- revenue growth and increased sales volume;
- our success in key market segments;
- our ability to enter into new relationships with channel partners and distributors and other third parties;
- the energy efficiency, reliability and low cost of ownership of our products; and
- the expansion of production capacity, manufacturing efficiency and improved relationships with suppliers.

These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, including the following:

- our expectations about expansion into key markets may not be realized;
- certain strategic business initiatives and relationships may not be sustained and may not lead to increased sales;
- we may not be able to continue to reduce our manufacturing costs;
- the growth in our backlog has significantly exceeded our internal forecast. In order to meet this increased demand, we may need to raise additional funds to meet our anticipated cash needs for working capital and capital expenditures;
- the current economy could make it difficult or impossible for us to raise necessary funds and for our customers to buy our products;
- we may not be able to utilize our line of credit – for example, as a result of a failure to meet a financial covenant;
- we may not be able to expand production capacity to meet demand for our products;
- we may not be able to obtain sufficient materials on a timely basis or at reasonable prices;
- if we fail to meet all applicable Nasdaq Global Market requirements and Nasdaq determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, impair the value of your investment and adversely affect our ability to raise needed funds;
- we have substantial accounts receivable, and increased bad debt expense or delays in collecting accounts receivable could have a material adverse effect on our cash flows and results of operations;
- our release of new products may be delayed or new products may not perform as we expect;
- we may be unable to increase our sales and sustain or increase our profitability in the future;
- we may not be able to obtain or maintain customer, distributor and other relationships that are expected to result in an increase in volume and revenue;
- we may not be able to comply with all applicable government regulations;
- we may not be able to retain or develop distributors in our targeted markets, in which case our sales would not increase as expected;
- we may not be able to successfully integrate the acquired Calnetix assets and achieve productive relationships with its distributors; and
- if we do not effectively implement our sales, marketing, service and product enhancement plans, our sales will not grow and therefore we may not generate the net revenue we anticipate.

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.

# Fulfilling Customer Needs

*“we want to save on energy costs”*

*“we need reliable power”*

**Capstone  
Power  
Solutions**

*“we want to be clean and green”*

*“we want energy independence”*

# Company Overview



- Air Bearing Technology
- One moving part
- No coolants, oils or grease
- 122 U.S. technology patents
- Industry Leading Reliability
- Lightweight & small footprint
- Multi-fuel capability
- Ultra-low emissions
- 5 & 9 Year Factory Protection Plans
- New CARB, UL and CE Certifications
- Green Marketing and Branding Plan
- Over 95 Distribution Partners
- New Product Applications
  - Hybrid Vehicles
  - Propane
  - Bio Diesel
  - Hybrid UPS
  - Marine Generators
  - Electric Boat
  - Agricultural SynGas
  - Solar Thermal



C30



C65



TA100



C200



C1000

# Capstone Business Strategy

- Larger Product Building Blocks
- New Emissions Certifications
- Leverage Product Reliability
- Lower Material Costs
- Increase Electrical Efficiency
- Expand Applications
- Improve Balance Sheet
- Improve Brand Awareness
- Higher Government Incentives
- Strengthen Distribution
- Leverage 9 Year FPP Advantage



# Key Performance Indicators

## Product production rates

- Record product revenue
- Increased C200 engine build to 76 units from 65 in Q1 FY2012

## Average selling prices

- Continued to improve in Q2 FY2012
- Improved 7% from Q1 FY2012

## Direct material costs

- Remained at 68%

## New orders

- Healthy quarterly orders of approximately \$21 million
- \$43 million in orders last two quarters

## Cash

- Cash used of \$1.8 million including a \$2.9 million swing in working capital as a result of slower than anticipated collections of \$3.0 million
- Management estimates less than a \$3 million burn in Q3

**KPI's Stable or Continued Positive Trend**



# Five Major Market Segments



## Energy Efficiency



## Renewable Energy



## Oil, Gas & Other Natural Resources



## Critical Power Supply

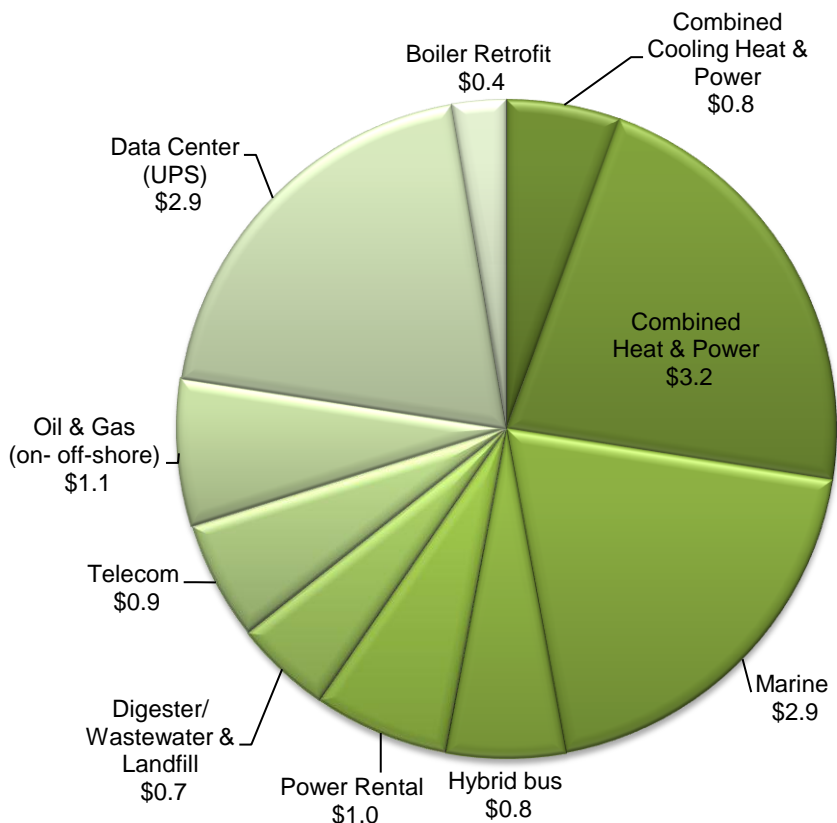


## Mobile Products

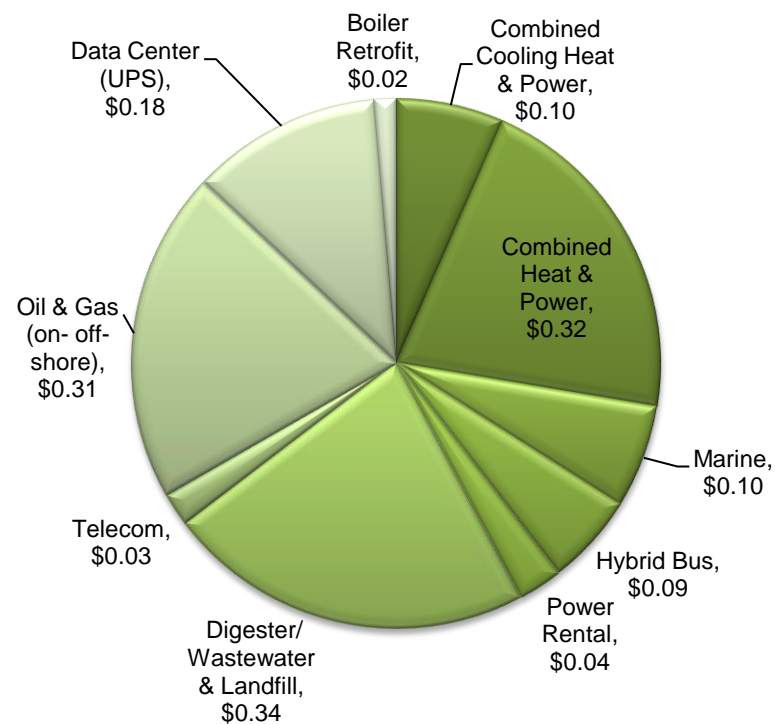


# Potential Market (Billions)

## Total Market Opportunity



## Management's Estimate of Potential Capture



**\$14.6B Market Opportunity / \$1.5B Potential Capture**



# Primary Competition

- Reciprocating Gas Engines

- GE Jenbacher/Waukesha
- Caterpillar/MWM
- Deutz
- Cummins
- Tecogen



- Fuel Cells

- Fuel Cell Energy
- Bloom Energy
- UTC Power



- Microturbines

- Flex Energy
- Turbec



- Gas Turbines

- Solar Turbine
- Kawasaki



# MicroTurbine Competition



Turbec  
(100kW)

Flex Energy  
(250kW)



**ACQUIRED**  
*February 2010*

Calnetix Power  
Systems (100kW)

**MicroTurbine Industry Leader With Majority Market Share**

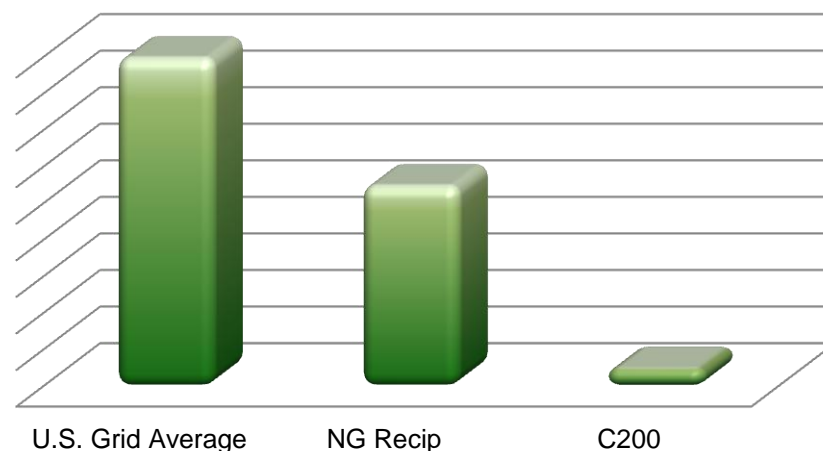
# Value Proposition



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 - extremely stringent emissions standard that exceeds the requirements of federal standards*
- *CARB 2010 – C30 HEV certified on diesel and natural gas*
- *Only Microturbines, Fuel Cells, Solar and Wind meet standard*

## Nox Emissions



Source: EPA and ASME

*Capstone Emissions Less Than 1/10<sup>th</sup> of Internal Combustion Engines*

# Value Proposition



- 6 hrs planned maintenance per year
- Scheduled/unscheduled maintenance \$0.015 / kW-hr
- Average uptime 99%

Op. Hours	Item	Action
8,000	Air/Fuel Filters, Igniter	Inspect, Replace
20,000	Injectors, Batteries	Replace
40,000	Engine/Generator, Injectors, Batteries	Overhaul

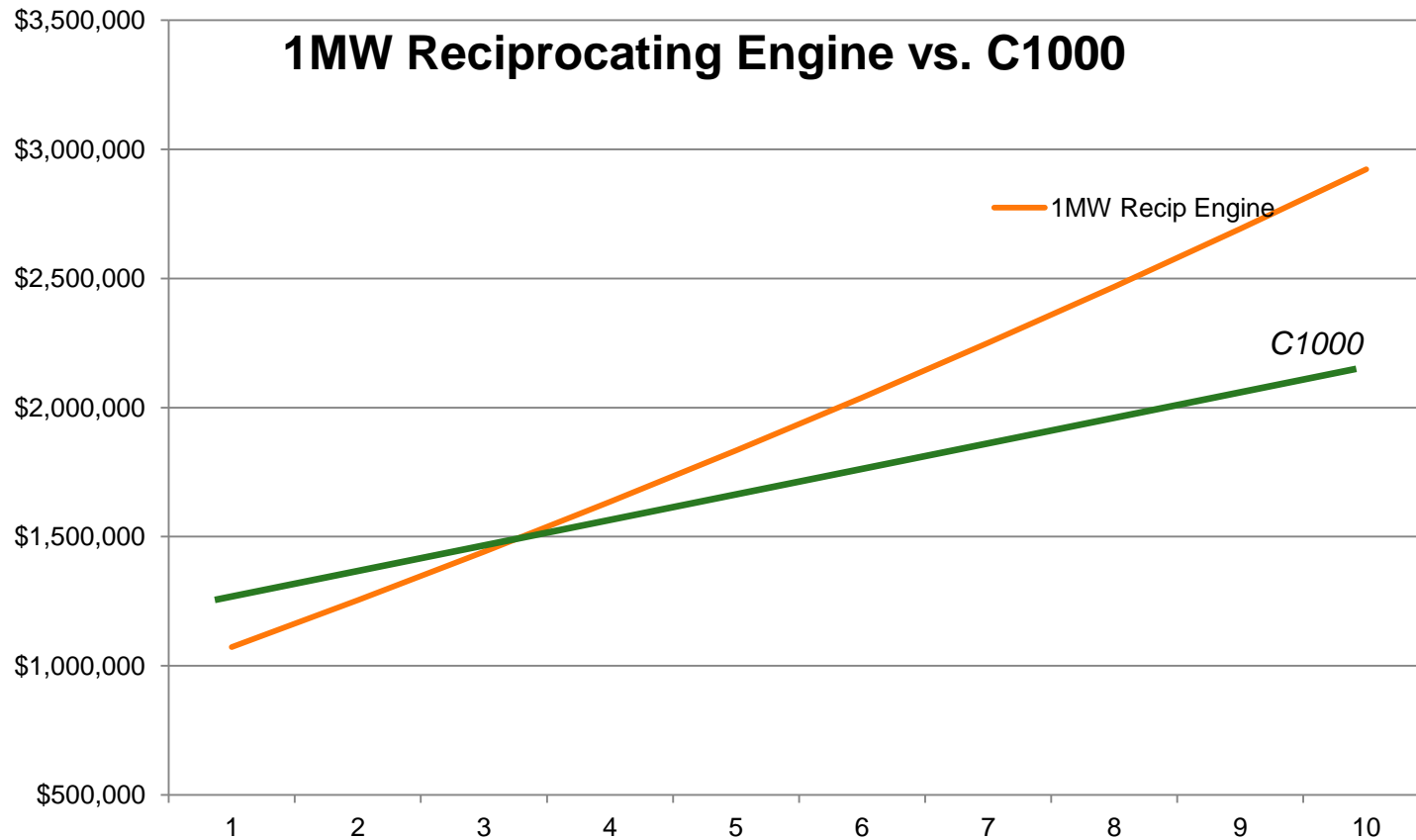


- 120 hrs planned maintenance per year
- Scheduled/unscheduled maintenance \$0.018 to 0.022 / kW-hr
- Average uptime 82%

Op. Hours	Item	Action
1,000 – 2,000	Air & Oil Filters, Oil, Spark Plugs	Inspect or Replace
1,500	Top End	Inspect
20,000	Top End	Overhaul
40,000	Bottom End	Overhaul

*Maintenance Costs 25% Lower on Average = Lower TCO*

# Total Cost of Ownership





# Competitive Conclusions

- *Major Competition is Gas Engines*

- *Strengths*

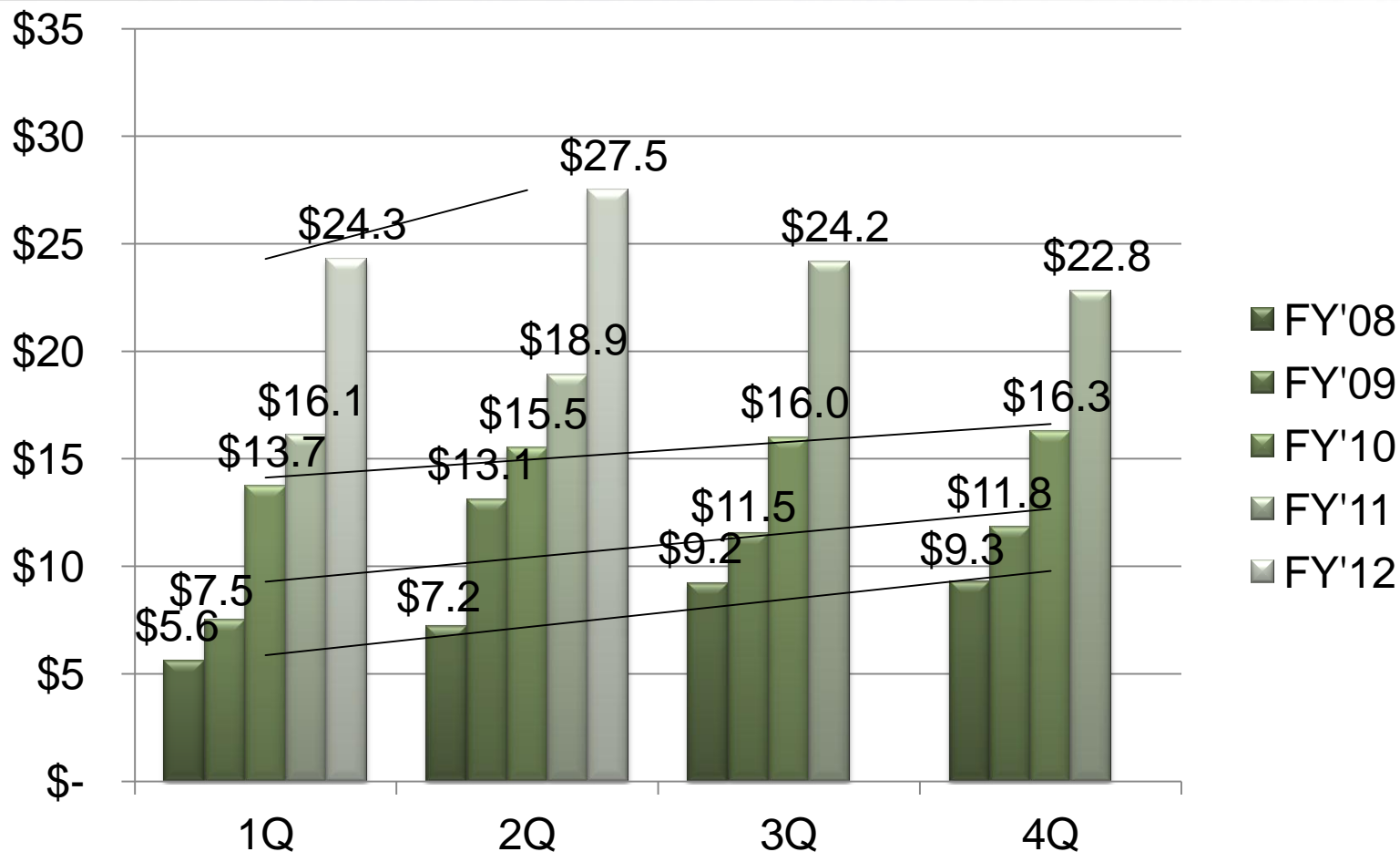
- *Lower Product First Cost*
    - *Major Corporations with Global Brand Awareness*
    - *Large Balance Sheets*
    - *Mature Channels to Market*
    - *Higher Simple Cycle Efficiency*
    - *Proven 100 Year Old Technology*
    - *Larger Engine Building Blocks*
    - *Wide Breadth of Vertical Markets*

- *Weaknesses*

- *Lower Reliability*
    - *Higher Operating Costs*
    - *Shorter Maintenance Intervals*
    - *Higher Emissions*
    - *Higher Installation Costs*
    - *Complicated Grid Interconnect*
    - *Noise Emissions*

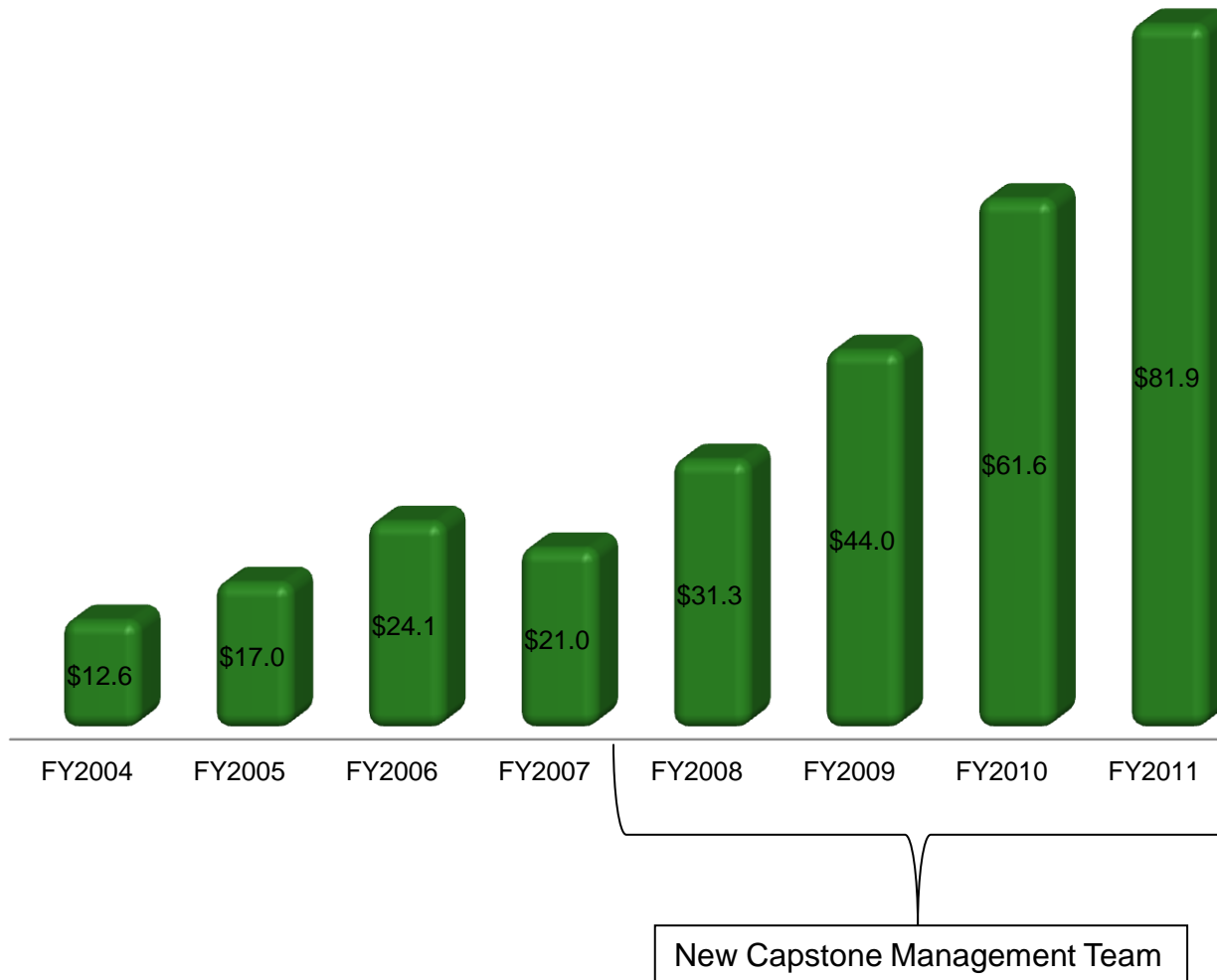


# Q/Q Revenue Growth



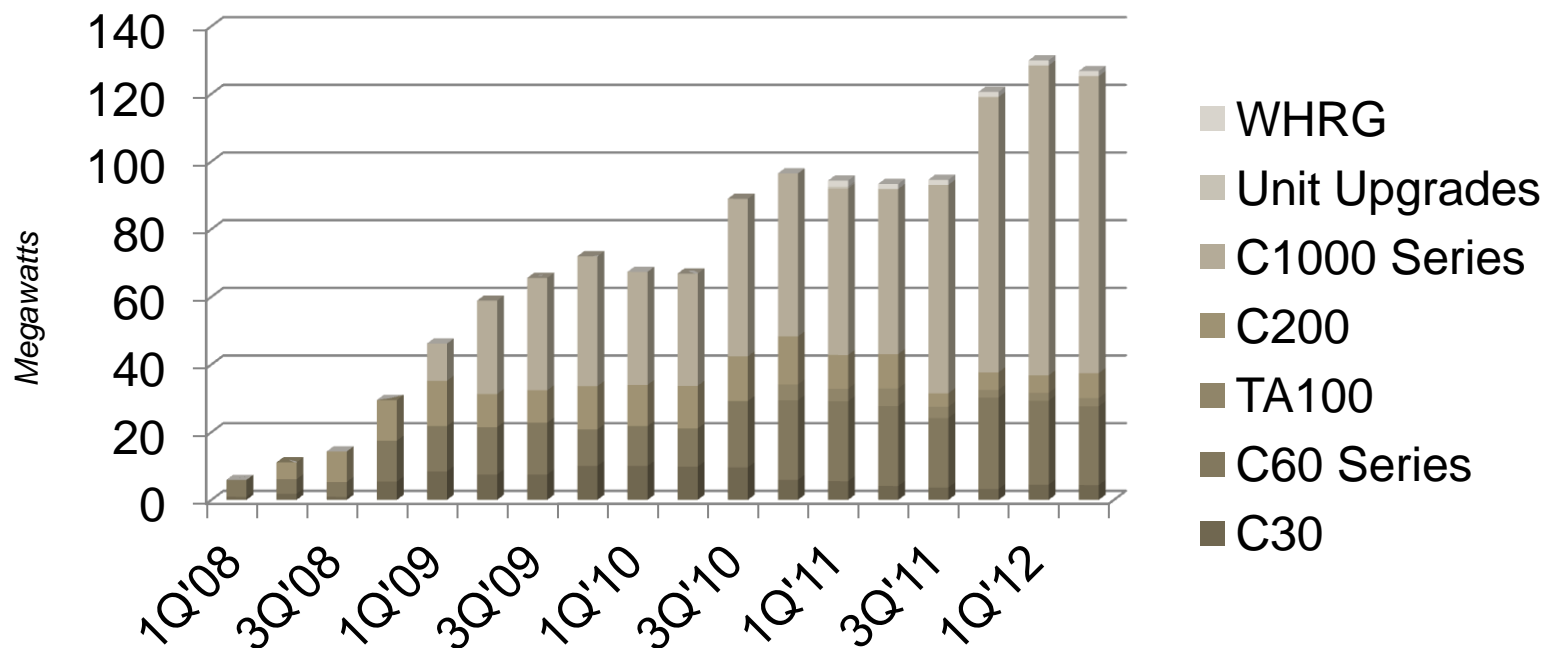
Exceeded Q/Q Revenue Last 18 Quarters

# Annual Revenue Growth



Management Team Delivering Results

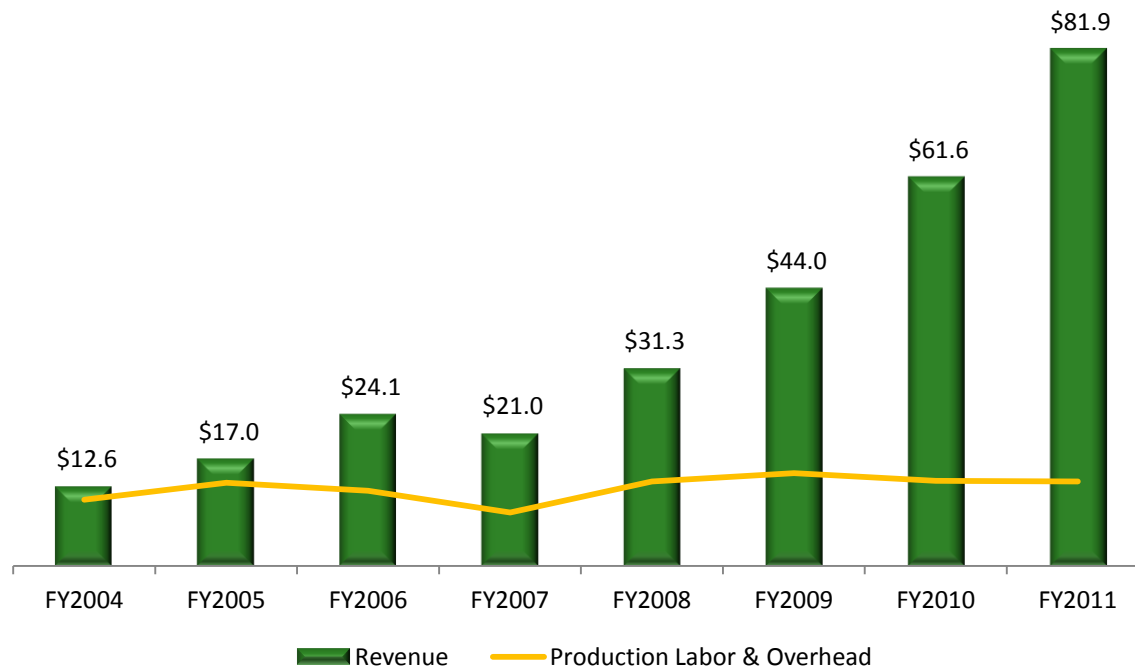
# Product Backlog



*Unit upgrades consist of a C200 engine, electronics and installation hardware for populating a vacant compartment in a C600 or C800 system*

*\$43M in New Orders In the Last Two Quarters*

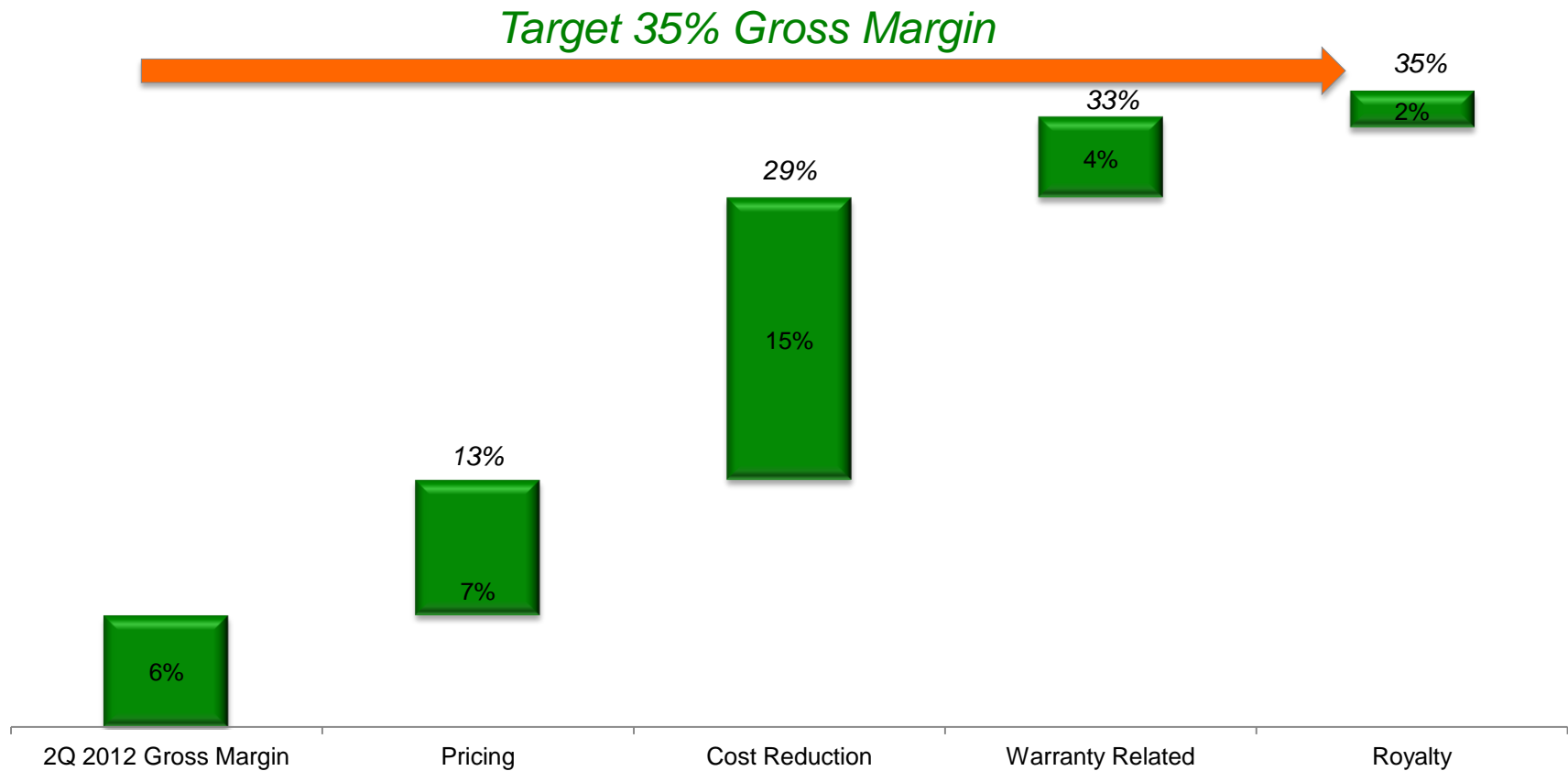
# Production Labor & Overhead



*Production Labor & Overhead Flat on Improving Revenue*



# Capstone Profitability Model



# Balance Sheet and Cash Flow



	Q2'12	Q1'12
(\$ in millions)		
(Unaudited)		
<b>Assets &amp; Liabilities</b>		
Cash and cash equivalents	\$ 20	\$ 22
Accounts Receivable, net	\$ 23	\$ 20
Inventories	\$ 25	\$ 24
Revolving credit facility	\$ 12	\$ 6
<b>Cash Flow</b>		
Net cash used in operating activities	\$ (7)	\$ (12)

*Warrant Conversion for Approximately \$8M in Q3 2012 Bolstered Balance*

# Profit & Loss



## Key Quarterly Income Statement Data

(\$ in millions except gross margin and net income per share data)

(Unaudited)

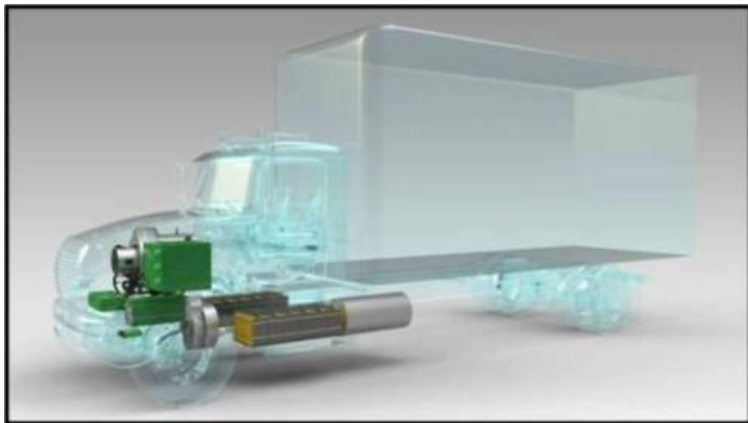
	Q2'12	Q1'12	Y/Y	Q/Q
Revenue	\$772.5	\$772.4.3	45%	13%
Gross margin%	6.1%	2.1%	5.4%	4.0%
Research and development	77.2.2	77.2.2	10%	4%
Selling, general and administrative	77.6.6	77.6.6	0%	-1%
Loss from operations	77.7.2)	77.8.3)	-16%	-14%
Change in fair value of warrant liability	77.8.6	77.5.6	24%	53%
Income tax expense	77.7.7	77.7.7	-100%	0%
Net income (loss)	\$77.1.3	\$77.2.9)	-166%	-144%
Share count Diluted	77.59.4	77.59.4	6%	0%
Net income (loss) per share Diluted	\$77.0.00	\$77.0.01)	-162%	-144%

# Key Quarterly Financial Data

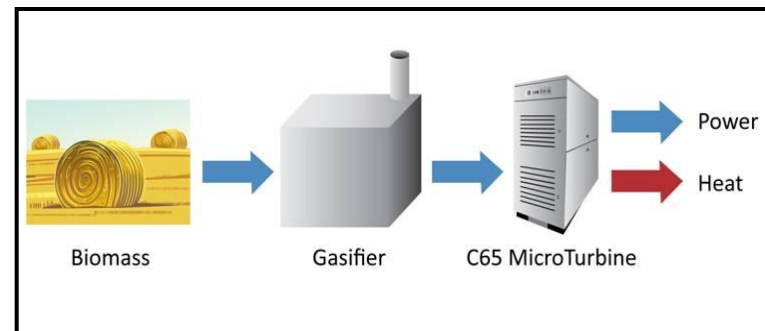


	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q2'12 Y/Y	Q2'12 Q/Q
(\$ in millions except gross margin, net income per share data, megawatts, units shipped and average sales price) (Unaudited)							
Revenue	\$ 18.9	\$ 24.2	\$ 22.8	\$ 24.3	\$ 27.5	45%	13%
Gross margin (loss) %	0.6%	3.8%	-4.7%	2.1%	6.1%	5.4%	4.0%
Research and development	2.0	1.4	2.0	2.2	2.2	10%	4%
Selling, general and administrative	6.6	6.0	7.2	6.6	6.6	0%	-1%
Loss from operations	(8.5)	(6.5)	(10.3)	(8.3)	(7.2)	-16%	-14%
Change in fair value of warrant liability	6.9	(1.2)	(18.7)	5.6	8.6	24%	53%
Income tax expense	0.1	0.2	(0.2)	-	-	-100%	0%
Net income (loss)	(1.9)	(8.1)	(28.8)	(2.9)	1.3	-166%	-144%
Share count - Diluted	245.5	245.8	250.2	259.4	259.4	6%	0%
Net income (loss) per share - Diluted	\$ (0.01)	\$ (0.03)	\$ (0.12)	\$ (0.01)	\$ 0.00	-162%	-144%
Stock-based compensation expense	\$ 0.7	\$ 0.6	\$ 0.5	\$ 0.4	\$ 0.4	-34%	5%
Capital expenditures	0.3	0.3	0.1	0.3	0.4	42%	21%
Cash and cash equivalents	20.3	27.5	33.5	22.1	20.3	0%	-8%
<i>See also Notes to our Condensed Consolidated Financial Statements</i>							
<b>Supplemental Data (Unaudited)</b>							
Net cash (used in) provided by operating activities	(7.7)	4.3	(5.0)	(12.3)	(7.4)	-4%	-40%
-Acquisition of and deposits on equipment and leasehold improveme	(0.3)	(0.3)	(0.1)	(0.3)	(0.4)	42%	21%
= Free cash flow	(8.0)	4.0	(5.1)	(12.7)	(7.8)	-2%	-38%
New Orders	\$ 14.4	\$ 20.2	\$ 40.8	\$ 29.7	\$ 20.8	44%	-30%
New Orders in megawatts	14.8	21.2	44.5	33.2	20.5	39%	-38%
Microturbine products shipped	174	171	168	170	172	-1%	1%
Megawatts shipped	15.8	20.0	20.5	21.9	23.6	49%	8%
Total Backlog	\$ 83.5	\$ 84.8	\$106.4	\$115.3	\$113.7	36%	-1%
Microturbine average sales price	\$ 89	\$ 110	\$ 114	\$ 122	\$ 130	45%	6%

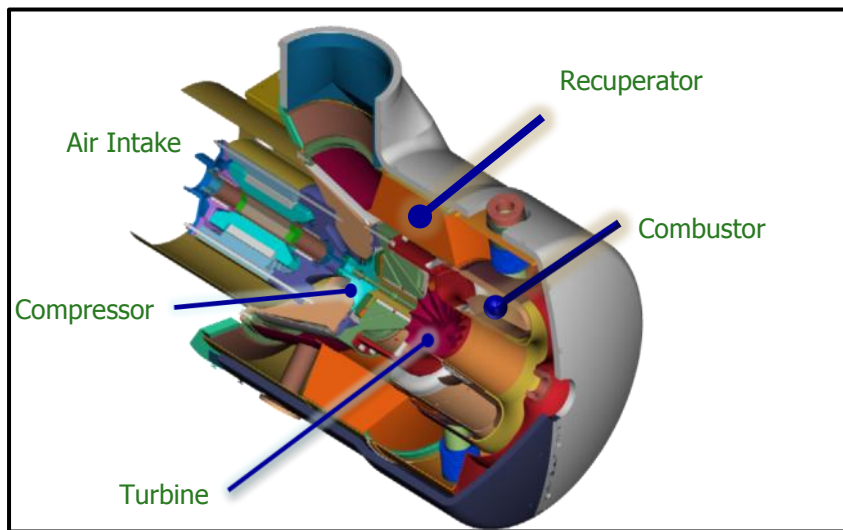
# New Product Development



*HEV Truck & Marine Drive Solutions*



*Agriculture Product*



*C250 Product*



*C375 Product*





The world needs a dependable  
and ultra-clean power source  
more than ever before.



Oil&Gas

Landfill/Biogas

CHP

HEV

Super low emissions – better than  
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