

PLUG POWER INC
Form 10-Q
November 09, 2015
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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 SEPTEMBER 30, 2015

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: 1-34392

PLUG POWER INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

22-3672377
(I.R.S. Employer
Identification Number)

968 ALBANY SHAKER ROAD, LATHAM, NEW YORK 12110

(Address of Principal Executive Offices, including Zip Code)

(518) 782-7700

(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 No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 No

The number of shares of common stock, par value of \$.01 per share, outstanding as of November 9, 2015 was 179,984,933.

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Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1 Interim Financial Statements (Unaudited)****Plug Power Inc. and Subsidiaries
Consolidated Balance Sheets****(In thousands, except share and per share amounts)****(Unaudited)**

| | September 30, 2015 | December 31, 2014 |
|---|-------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | 85,009 | 146,205 |
| Restricted cash | 630 | |
| Accounts receivable | 18,548 | 16,095 |
| Inventory | 31,512 | 24,736 |
| Prepaid expenses and other current assets | 7,917 | 5,710 |
| Total current assets | 143,616 | 192,746 |
| Restricted cash | 29,556 | 500 |
| Property, plant, and equipment, net of accumulated depreciation of \$27,603 and \$26,539, respectively | 7,888 | 5,312 |
| Leased property under capital lease, net of accumulated depreciation of \$1,550 and \$1,162, respectively | 1,549 | 1,937 |
| Note receivable | 399 | 447 |
| Goodwill | 8,310 | |
| Intangible assets, net | 4,915 | 1,490 |
| Other assets | 8,385 | 1,719 |
| Total assets | \$ 204,618 | \$ 204,151 |
| Liabilities, Redeemable Preferred Stock, and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 18,176 | \$ 10,185 |
| Accrued expenses | 6,917 | 8,750 |
| Product warranty reserve | 725 | 1,311 |
| Deferred revenue | 3,805 | 3,319 |
| Obligations under capital lease | | 587 |
| Other current liabilities | 3,957 | 1,555 |
| Total current liabilities | 33,580 | 25,707 |
| Deferred revenue | 6,414 | 6,772 |
| Common stock warrant liability | 4,793 | 9,418 |
| Finance obligations | 9,650 | 2,426 |
| Other liabilities | 381 | 392 |
| Total liabilities | 54,818 | 44,715 |
| Redeemable preferred stock | 1,153 | 1,153 |

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Series C redeemable convertible preferred stock, \$0.01 par value per share (aggregate involuntary liquidation preference \$16,664) 10,431 shares authorized; Issued and outstanding: 5,231 at September 30, 2015 and December 31, 2014

Stockholders' equity:

Common stock, \$0.01 par value per share; 450,000,000 shares authorized; Issued (including shares in treasury): 180,338,980 at September 30, 2015 and 173,644,532 at December 31, 2014

| | | |
|---|------------|------------|
| | 1,803 | 1,736 |
| Additional paid-in capital | 1,116,910 | 1,096,392 |
| Accumulated other comprehensive income | 1,245 | 898 |
| Accumulated deficit | (968,649) | (938,081) |
| Less common stock in treasury: | | |
| 378,116 at September 30, 2015 and at December 31, 2014 | (2,662) | (2,662) |
| Total stockholders' equity | 148,647 | 158,283 |
| Total liabilities, redeemable preferred stock, and stockholders' equity | \$ 204,618 | \$ 204,151 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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Plug Power Inc. and Subsidiaries
Consolidated Statements of Operations

(In thousands, except share and per share amounts)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|--------------------|------------------------------------|--------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Product revenue | \$ 17,976 | \$ 12,595 | \$ 37,367 | \$ 28,336 |
| Service revenue | 13,446 | 6,915 | 27,177 | 13,396 |
| Research and development contract revenue | 10 | 371 | 313 | 1,045 |
| Total revenue | 31,432 | 19,881 | 64,857 | 42,777 |
| Cost of product revenue | 15,145 | 11,058 | 30,636 | 24,951 |
| Cost of service revenue | 16,201 | 9,217 | 34,322 | 19,143 |
| Cost of research and development contract revenue | 10 | 699 | 372 | 1,887 |
| Research and development expense | 4,131 | 1,644 | 10,457 | 4,295 |
| Legal reserve | | 2,400 | | 2,400 |
| Selling, general and administrative expenses | 8,201 | 5,559 | 23,952 | 14,817 |
| Operating loss | (12,256) | (10,696) | (34,882) | (24,716) |
| Interest and other income | 28 | 628 | 91 | 722 |
| (Loss) gain on acquisition activity, net | (116) | | (116) | 1,014 |
| Change in fair value of common stock warrant liability | 2,167 | 485 | 4,603 | (58,371) |
| Interest and other expense | (36) | (93) | (186) | (305) |
| Loss before income taxes | (10,213) | (9,676) | (30,490) | (81,656) |
| Income tax benefit | | 325 | | 325 |
| Net loss attributable to the Company | \$ (10,213) | \$ (9,351) | \$ (30,490) | \$ (81,331) |
| Preferred stock dividends declared | (25) | (26) | (78) | (130) |
| Net loss attributable to common shareholders | \$ (10,238) | \$ (9,377) | \$ (30,568) | \$ (81,461) |
| Net loss per share: | | | | |
| Basic and diluted | \$ (0.06) | \$ (0.06) | \$ (0.17) | \$ (0.53) |
| Weighted average number of common shares outstanding | 177,369,017 | 169,557,223 | 174,724,746 | 154,539,225 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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Plug Power Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss

(In thousands)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net loss attributable to the Company | \$ (10,213) | \$ (9,351) | \$ (30,490) | \$ (81,331) |
| Other comprehensive income - foreign currency translation adjustment | 347 | | 347 | |
| Comprehensive loss | \$ (9,866) | \$ (9,351) | \$ (30,143) | \$ (81,331) |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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Plug Power Inc. and Subsidiaries
Consolidated Statement of Stockholders Equity

(In thousands, except share amounts)
(Unaudited)

| | Common Stock | | Additional Paid-Comprehensive | | Treasury Stock | | Accumulated | Total |
|--------------------------------------|--------------|--------|-------------------------------|----------|----------------|---------|--------------|--------------|
| | Shares | Amount | in-Capital | Income | Shares | Amount | Deficit | Stockholders |
| | | | | | | | | Equity |
| December 31, 2014 | 173,644,532 | 1,736 | 1,096,392 | \$ 898 | 378,116 | (2,662) | \$ (938,081) | \$ 158,283 |
| Net loss attributable to the Company | | | | | | | (30,490) | (30,490) |
| Other comprehensive income | | | | 347 | | | | 347 |
| Stock based compensation | 65,421 | 1 | 5,834 | | | | | 5,835 |
| Stock option exercises | 173,334 | 2 | 164 | | | | (78) | 166 |
| Stock dividend | 34,272 | | 78 | | | | | |
| Exercise of warrants | 26,882 | | 47 | | | | | 47 |
| Shares issued for acquisition | 6,394,539 | 64 | 14,395 | | | | | 14,459 |
| September 30, 2015 | 180,338,980 | 1,803 | \$ 1,116,910 | \$ 1,245 | 378,116 | (2,662) | \$ (968,649) | \$ 148,647 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Table of Contents**Plug Power Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

| | Nine months ended September 30, | |
|--|--|-------------------|
| | 2015 | 2014 |
| Cash Flows From Operating Activities: | | |
| Net loss attributable to the Company | \$ (30,490) | \$ (81,331) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation of property, plant and equipment, and investment in leased property | 1,481 | 1,438 |
| Amortization of intangible assets | 835 | 1,783 |
| Stock-based compensation | 5,835 | 2,403 |
| Loss (gain) on acquisition activity, net | 116 | (1,014) |
| Gain on disposal of property, plant and equipment | | (32) |
| Change in fair value of common stock warrant liability | (4,603) | 58,371 |
| Changes in operating assets and liabilities that provide (use) cash, net of effects of acquisitions: | | |
| Accounts receivable | (1,536) | (8,288) |
| Inventory | (6,301) | (6,358) |
| Prepaid expenses and other assets | (8,127) | (5,730) |
| Note receivable | 48 | 47 |
| Accounts payable, accrued expenses, product warranty reserve and other liabilities | 5,325 | 6,031 |
| Deferred revenue | 121 | 1,655 |
| Net cash used in operating activities | (37,296) | (31,025) |
| Cash Flows From Investing Activities: | | |
| Purchases of property, plant and equipment | (2,902) | (1,200) |
| Cash acquired in purchase acquisitions | 1,811 | 414 |
| Proceeds from disposal of property, plant and equipment | | 32 |
| Net cash used in investing activities | (1,091) | (754) |
| Cash Flows From Financing Activities: | | |
| Change in restricted cash | (29,686) | |
| Proceeds from exercise of warrants | 25 | 18,340 |
| Purchase of treasury stock | | (514) |
| Proceeds from issuance of common stock and warrants | | 176,700 |
| Stock issuance costs | | (10,977) |
| Proceeds from exercise of stock options | 166 | 241 |
| Principal payments on obligations under capital lease | (587) | (576) |
| Proceeds from lease agreements recognized as finance obligations | 7,224 | |
| Net cash (used in) provided by financing activities | (22,858) | 183,214 |
| Effect of exchange rate changes on cash | 49 | |
| (Decrease) increase in cash and cash equivalents | (61,196) | 151,435 |
| Cash and cash equivalents, beginning of period | 146,205 | 5,027 |
| Cash and cash equivalents, end of period | \$ 85,009 | \$ 156,462 |
| Other Supplemental Cash Flow Information: | | |

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| | | | | |
|--|----|--------|----|-----|
| Cash paid for interest | \$ | 303 | \$ | 337 |
| Noncash investing activity - issuance of common stock for acquisition of HyPulsion | \$ | 11,474 | \$ | |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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Notes to Interim Consolidated Financial Statements (Unaudited)

1. Nature of Operations

Description of Business

Plug Power Inc., (the Company or Plug Power), is a leading provider of alternative energy technology focused on the design, development, commercialization and manufacture of hydrogen fuel cell systems used primarily for the material handling and stationary power market.

We are focused on proton exchange membrane, or PEM, fuel cell and fuel processing technologies, fuel cell/battery hybrid technologies, and associated hydrogen storage and dispensing infrastructure from which multiple products are available. A fuel cell is an electrochemical device that combines hydrogen and oxygen to produce electricity and heat without combustion. Hydrogen is derived from hydrocarbon fuels such as liquid petroleum gas, or LPG, natural gas, propane, methanol, ethanol, gasoline or biofuels. Hydrogen can also be obtained from the electrolysis of water, or produced on-site at consumer locations through a process known as reformation. Plug Power develops complete hydrogen delivery, storage and refueling solutions for customer locations.

We sell and continue to develop fuel cell product solutions to replace lead-acid batteries in material handling vehicles and industrial trucks for some of North America's largest distribution and manufacturing businesses. We are focusing our efforts on material handling applications (forklifts) at multi-shift high volume manufacturing and high throughput distribution sites where our products and services provide a unique combination of productivity, flexibility and environmental benefits. Our current product line includes: GenDrive, our hydrogen fueled PEM fuel cell system providing power to material handling vehicles; GenFuel, our hydrogen fueling delivery system; GenCare, our ongoing maintenance program for both the GenDrive fuel cells and GenFuel products; ReliOn, our stationary fuel cell solution providing scalable, modular PEM fuel cell power to support the backup and grid-support power requirements of the telecommunications, transportation, and utility sectors; and GenKey, our turn-key solution coupling together GenDrive or ReliOn, GenFuel and GenCare, offering complete simplicity to customers transitioning to fuel cell power.

We sell our products worldwide, with a primary focus on North America, through our direct product sales force, leveraging relationships with original equipment manufacturers, or OEMs, and their dealer networks. Through July 31, 2015, we were a party to a joint venture based in France with Axane, S.A. (Axane), a subsidiary of Air Liquide, under the name HyPulsion, to develop and sell hydrogen fuel cell systems for the European material handling market. On July 31, 2015 we purchased all of Axane's equity interest in HyPulsion and now hold 100% of such interests. See note 4 regarding our acquisition of the remaining ownership of HyPulsion. Also, we sell to businesses and government agencies.

We were organized in the State of Delaware on June 27, 1997.

Unless the context indicates otherwise, the terms Company, Plug Power, we, our or us as used herein refers to Plug Power Inc. and its subsidiaries.

Liquidity

Our cash requirements relate primarily to working capital needed to operate and grow our business, including funding operating expenses, growth in inventory to support both shipments of new units and servicing the installed base, funding the growth in our GenKey turn-key solution which also includes the installation of our customer's hydrogen infrastructure as well as delivery of the hydrogen molecule, and continued development and expansion of our products. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and quantity of product orders and shipments; attaining positive gross margins; the timing and amount of our operating expenses; the timing and costs of working capital needs; the timing and costs of building a sales base; the ability of our customers to obtain financing to support commercial transactions; our ability to obtain financing arrangements to support the sale or leasing of our products and services to customers and the terms of such agreements which may require us to pledge or escrow substantial amounts of our

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cash to support these financing arrangements; the timing and costs of developing marketing and distribution channels; the timing and costs of product service requirements; the timing and costs of hiring and training product staff; the extent to which our products gain market acceptance; the timing and costs of product development and introductions; the extent of our ongoing and new research and development programs; and changes in our strategy or our planned activities. If we are unable to fund our operations with positive cash flows and cannot obtain external financing, we may not be able to sustain future operations. As a result, we may be required to delay, reduce and/or cease our operations and/or seek bankruptcy protection.

We have experienced and continue to experience negative cash flows from operations and net losses. The Company incurred net losses attributable to common shareholders of \$10.2 million and \$30.6 million for the three and nine months ended September 30, 2015, respectively, and \$88.6 million, \$62.8 million and \$31.9 million for the years ended December 31, 2014, 2013 and 2012, respectively, and has an accumulated deficit of \$968.6 million at September 30, 2015.

Net cash used in operating activities for the nine months ended September 30, 2015 was \$37.3 million. Additionally, on September 30, 2015, we had cash and cash equivalents of \$85.0 million and net working capital of \$110.0 million. By comparison, at December 31, 2014, cash and cash equivalents was \$146.2 million and net working capital was \$167.0 million.

During 2015, restricted cash increased by \$29.7 million as a result of new sale/leaseback transactions, as described in note 9. During 2014, we received gross proceeds of \$176.7 million from three underwritten public offerings. Net proceeds after underwriting discounts and commissions and other estimated fees and expenses were \$165.7 million. In addition, during 2014 we received \$18.3 million from the exercise of previously issued common stock warrants.

To date, we have funded our operations primarily through public and private offerings of common and preferred stock, a sale/leaseback of our building, and our previous line of credit. The Company believes that its current cash and cash equivalents, cash anticipated to be generated from future sales and, to the extent exercised, cash generated from the exercise of outstanding warrants will provide sufficient liquidity to fund operations for at least the next twelve months. This projection is based on our current expectations regarding product sales, cost structure, cash burn rate and other operating assumptions.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Interim Financial Statements

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The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, all adjustments, which consist solely of normal recurring adjustments, necessary to present fairly, in accordance with U.S. generally accepted accounting principles (GAAP), the financial position, results of operations and cash flows for all periods presented, have been made. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, filed for the fiscal year ended December 31, 2014.

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The information presented in the accompanying consolidated balance sheet as of December 31, 2014 has been derived from the Company's December 31, 2014 audited consolidated financial statements. All other information has been derived from the unaudited interim consolidated financial statements of the Company.

Cash Equivalents

Cash equivalents consist of money market accounts with an initial term of less than three months. For purposes of the unaudited consolidated statements of cash flows, the Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company's cash and cash equivalents are deposited with financial institutions located in the U.S. and may at times exceed insured limits.

Revenue Recognition

The Company recognizes revenue under arrangements for products and services, which may include the sale of products and related services, including revenue from installation, service and maintenance, spare parts, hydrogen fueling services (which may include hydrogen supply as well as hydrogen fueling infrastructure) and leased units. The Company also recognizes revenue under research and development contracts, which are primarily cost reimbursement contracts associated with the development of PEM fuel cell technology.

Products and Services

The Company enters into revenue arrangements that may contain a combination of fuel cell systems and equipment, installation, service, maintenance, spare parts, hydrogen fueling and other support services. Revenue arrangements containing fuel cell systems and equipment may be sold, or leased to customers. For the above multiple deliverable arrangements, the Company accounts for each separate deliverable as a separate unit of accounting if the delivered item or items have value to the customer on a standalone basis. The Company considers a deliverable to have standalone value if the item is sold separately by us or another entity or if the item could be resold by the customer. The Company allocates revenue to each separate deliverable based on its relative selling price. For a majority of our deliverables, the Company determines relative selling prices using its best estimate of the selling price as vendor-specific objective evidence and third-party evidence is generally not available for the deliverables involved in its revenue arrangements due to a lack of a competitive environment in selling fuel cell technology. When determining estimated selling prices, the Company may consider the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar products and services, the Company's ongoing pricing strategy and policies, the value of any enhancements that have been built into the deliverable and the characteristics of the varying markets in which the deliverable is sold, as applicable. The Company determines estimated selling prices for deliverables in its arrangements based on the specific facts and circumstances of each arrangement and analyzes the estimated selling prices used for its allocation of consideration of each arrangement.

Once relative selling prices are determined, the Company proportionately allocates the sale consideration to each element of the arrangement. The allocated sales consideration related to fuel cell systems and equipment, spare parts, and hydrogen infrastructure is recognized as revenue at shipment if title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable, collection of the related receivable is reasonably assured, and customer acceptance criteria, if any, have been successfully demonstrated. The allocated sales consideration related to installation, service, maintenance, and hydrogen molecule delivery is generally

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recognized as revenue when completed or on a straight-line basis over the term of the contract, as appropriate.

The Company does not include a right of return on its products other than rights related to standard warranty provisions that permit repair or replacement of defective goods. The Company accrues for anticipated standard warranty costs at the same time that revenue is recognized for the related product.

The Company has also sold extended warranty contracts that generally provide for a five to ten year warranty from the date of product installation. These types of contracts are accounted for as a separate deliverable, and accordingly, revenue generated from these transactions is deferred and recognized in income over the warranty period, generally on a straight-line basis. Additionally, the Company may enter into annual service and maintenance

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contracts that are billed monthly. Revenue generated from these transactions is recognized in income on a straight-line basis over the term of the contract. Costs are recognized as incurred over the term of the contract.

Research and Development Contracts

Contract accounting is used for research and development contract revenue. The Company generally shares in the cost of these programs with cost sharing percentages ranging from 30% to 50% of total project costs. Revenue from time and material contracts is recognized on the basis of labor hours expended plus other reimbursable contract costs incurred during the period. All allowable work performed through the end of each calendar quarter is billed, subject to limitations in the respective contracts. We expect to continue research and development contract work that is directly related to our current product development efforts. At September 30, 2015 and December 31, 2014, the Company had unbilled amounts from research and development contract revenue in the amount of approximately \$0.5 million and \$1.0 million, respectively, which is included in other current assets in the accompanying unaudited consolidated balance sheets. Unbilled amounts are expected to be billed during the following quarter.

Common Stock Warrant Accounting

The Company accounts for common stock warrants in accordance with applicable accounting guidance provided in Accounting Standards Codification (ASC) Subtopic 815-40, *Derivatives and Hedging - Contracts in Entity's Own Equity*, as either derivative liabilities or as equity instruments depending on the specific terms of the warrant agreement. In compliance with applicable securities law, registered common stock warrants that require the issuance of registered shares upon exercise and do not sufficiently preclude an implied right to cash settlement are accounted for as derivative liabilities. We currently classify these derivative warrant liabilities on the accompanying unaudited consolidated balance sheets as a long-term liability, which is revalued at each balance sheet date subsequent to the initial issuance using the Black-Scholes pricing model. The Black-Scholes pricing model, which is based, in part, upon unobservable inputs for which there is little or no market data, requires the Company to develop its own assumptions. Changes in the fair value of the warrants are reflected in the accompanying unaudited consolidated statements of operations as change in fair value of common stock warrant liability.

Joint Venture

Through July 31, 2015, we were party to a joint venture with Axane, under the name HyPulsion. The principal purpose of HyPulsion is to develop and sell hydrogen fuel cell systems for the European material handling market. On July 31, 2015 we purchased all of Axane's equity interest in HyPulsion and now hold 100% of such interests. See note 4 regarding the acquisition of the remaining ownership interest of HyPulsion. Prior to the acquisition of HyPulsion, the Company had a zero basis in its investment.

Use of Estimates

The unaudited interim consolidated financial statements have been prepared in conformity with GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date

of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Reclassifications are made, whenever necessary, to prior period financial statements to conform to the current period presentation. These reclassifications did not impact the results of operations or net cash flows in the periods presented.

Recent Accounting Pronouncements

In July 2015, an accounting update was issued that changes inventory measurement from lower of cost or market to lower of cost and net realizable value. The new standard applies to inventory measured at first-in, first-out (FIFO) or average cost. This accounting update is effective for the reporting periods beginning after December 15,

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2016, and interim periods within those years. We do not expect the adoption of this update to have a significant effect on our consolidated financial statements.

In August 2014, an accounting update was issued relating to how management assesses conditions and events that could raise substantial doubt about an entity's ability to continue as a going concern. This accounting update is effective for reporting periods ending after December 15, 2016, and for annual and interim periods thereafter. We do not expect the adoption of this update to have a significant effect on our consolidated financial statements.

In June 2014, an accounting update was issued that replaces the existing revenue recognition framework regarding contracts with customers. In July 2015, the Financial Accounting Standards Board (FASB) announced a one year delay in the required adoption date from January 1, 2017 to January 1, 2018. We are evaluating the effect this update will have on our consolidated financial statements and have not yet selected a transition method.

3. Acquisition of ReliOn, Inc.

On April 2, 2014, the Company completed the acquisition of ReliOn, Inc. (ReliOn) for an aggregate purchase price of \$4.0 million. The Company acquired substantially all of the assets of ReliOn, including patents, technology and other intangible assets, equipment and other tangible assets. ReliOn is a developer of hydrogen fuel cell stack technology based in Spokane, Washington. As consideration, the Company issued 530,504 shares of common stock, and assumed certain specified liabilities of ReliOn. The total purchase price is based on the issuance of 530,504 shares of Plug Power common stock at the closing price of the Company's stock on April 1, 2014 of \$7.54. Results of operations of ReliOn have been consolidated since acquisition.

4. Acquisition of HyPulsion

On July 24, 2015, the Company entered into a Share Purchase Agreement with Axane, pursuant to which on July 31, 2015, the Company (through a wholly-owned subsidiary) acquired Axane's 80% equity interest in HyPulsion for \$11.5 million, payable in shares of its common stock. In connection with the aforementioned agreement, the Company initially issued 4,781,250 shares of its common stock at closing. On August 26, 2015, the Company subsequently issued an additional 1,613,289 shares of common stock pursuant to a post-closing true-up provision, which was liability classified contingent consideration. The fair value of these additional shares of \$3.0 million was recognized as expense and is included in the accompanying unaudited consolidated statements of operations for the three and nine months ended September 30, 2015, as (loss) gain on acquisition activity, net.

The following table summarizes the preliminary allocation of the purchase price to the estimated fair value of the net assets acquired, excluding goodwill:

| | | |
|---------------------------|----|-------|
| Cash and cash equivalents | \$ | 1,811 |
| Accounts receivable | | 917 |

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| | |
|--|---------|
| Inventory | 475 |
| Prepaid expenses and other assets | 746 |
| Property and equipment | 767 |
| Identifiable intangibles | 4,159 |
| Accounts payable, accrued expenses, deferred revenue and other liabilities | (2,645) |
| Total net assets acquired, excluding goodwill | 6,230 |

Intangible assets recognized as part of purchase accounting represent acquired technology and will be amortized on a straight line basis over ten years.

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Goodwill associated with the acquisition represents expanded access to the European markets related to the sale of fuel cell technology for material handling equipment and was calculated as follows:

| | | |
|-----------------------------------|----|---------|
| Consideration paid | \$ | 11,474 |
| Add: fair value of prior interest | | 2,869 |
| Less: net assets acquired | | (6,230) |
| Total goodwill recognized | \$ | (8,113) |

As part of accounting for the acquisition, the Company recorded a gain to recognize the fair value of its 20% interest immediately prior to applying purchase accounting. The gain of \$2.9 million is included in the accompanying unaudited consolidated statements of operations for the three and nine months ended September 30, 2015, as (loss) gain on acquisition activity, net.

Pro forma financial information with respect to the acquisition is not included as the impacts from the transaction are not material.

5. Earnings Per Share

The following table provides the components of the calculations of basic and diluted earnings per share (in thousands, except share amounts):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Numerator: | | | | |
| Net loss attributable to common shareholders | \$ (10,238) | \$ (9,377) | \$ (30,568) | \$ (81,461) |
| Denominator: | | | | |
| Weighted average number of common shares outstanding | 177,369,017 | 169,557,223 | 174,724,746 | 154,539,225 |

When the Company is in a net loss position, all common stock equivalents would be considered to be anti-dilutive and are, therefore, not included in the determination of diluted earnings per share.

The potential dilutive common shares are summarized as follows:

| | At September 30, | |
|------------------------------|------------------|-----------|
| | 2015 | 2014 |
| Stock options outstanding | 11,789,611 | 7,267,404 |
| Restricted stock outstanding | 395,558 | 433,336 |
| Common stock warrants (1) | 4,192,567 | 4,219,442 |

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| | | |
|--|------------|------------|
| Preferred stock (2) | 5,554,594 | 5,554,594 |
| Number of dilutive potential common shares | 21,932,330 | 17,474,776 |

(1) During the three months ended September 30, 2015 and 2014, the Company granted 3,270,000 and 2,454,000 stock options, respectively. During the nine months ended September 30, 2015 and 2014, the Company granted 3,920,000 and 3,140,000 stock options, respectively.

(2) In May 2011, the Company issued 7,128,563 warrants as part of an underwritten public offering. As a result of additional public offerings, and pursuant to the effect of the anti-dilution provisions of these warrants, the number of warrants increased to 22,995,365. Of these warrants, 192,467 and 219,349 were unexercised as of September 30, 2015 and 2014, respectively. In February 2013, the Company issued 23,637,500 warrants as part of an underwritten public offering. Of these warrants, 100 were unexercised as of September 30, 2015 and 2014. In January 2014, the Company issued 4,000,000 warrants as part of an underwritten public offering. Of these warrants, all are unexercised as of September 30, 2015 and 2014. As of September 30, 2015, the remaining warrants have a weighted average exercise price of \$3.86.

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(3) The preferred stock amount represents the dilutive potential common shares of the Series C redeemable convertible preferred stock issued on May 16, 2013 based on the conversion price of the preferred stock as of September 30, 2015. Of the 10,431 preferred shares issued in May 2013, 5,200 had been converted to common stock as of September 30, 2015.

6. Inventory

Inventory as of September 30, 2015 and December 31, 2014 consisted of the following (in thousands)

| | September 30, 2015 | | December 31, 2014 | |
|----------------------------|---------------------------|--------|--------------------------|--------|
| Raw materials and supplies | \$ | 20,211 | \$ | 18,502 |
| Work-in-process | | 6,495 | | 237 |
| Finished goods | | 4,806 | | 5,997 |
| | \$ | 31,512 | \$ | 24,736 |

7. Income Taxes

Under Internal Revenue Code (IRC) Section 382, the use of loss carryforwards may be limited if a change in ownership of a company occurs. If it is determined that, due to transactions involving the Company's shares owned by its 5 percent or greater shareholders, a change of ownership has occurred under the provisions of IRC Section 382, the Company's federal and state net operating loss carryforwards could be subject to significant IRC Section 382 limitations.

Based upon recent IRC Section 382 studies, Section 382 ownership changes occurred that resulted in all but \$59 million of the Company's federal and state net operating loss carryforwards generated through September 30, 2015 to be subject to IRC Section 382 limitations. Of the net operating loss carryforwards subject to IRC Section 382 limitations, \$13 million will not expire prior to utilization and are reflected in the Company's gross deferred tax asset at September 30, 2015.

The ownership changes also resulted in net unrealized built in losses per IRS Notice 2003-65 which should result in recognized built in losses during the five year recognition period. These recognized built in losses will translate into unfavorable book to tax add backs in the Company's 2015 to 2018 U.S. corporate income tax returns of approximately \$16.0 million that resulted in a gross deferred tax liability of \$6.1 million at September 30, 2015 with a corresponding reduction to the valuation allowance. This gross deferred tax liability will offset certain existing gross deferred tax assets (i.e. capitalized research expense). This has no impact on the Company's current financial position, results of operations, or cash flows because of the full valuation allowance.

The Company's remaining deferred tax assets have been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carryforwards and other tax assets may not be realized.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company had \$0.4 million of interest and penalties accrued at September 30, 2015 and December 31, 2014, respectively.

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The following table summarizes the financial instruments measured at fair value on a recurring basis in the consolidated balance sheets (in thousands):

| | Total | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|--------------------------------------|----------|---|---|---|
| <u>Balance at September 30, 2015</u> | | | | |
| Common stock warrant liability | \$ 4,793 | \$ | \$ | \$ 4,793 |
| <u>Balance at December 31, 2014</u> | | | | |
| Common stock warrant liability | \$ 9,418 | \$ | \$ | \$ 9,418 |

The common stock warrant liability is measured at fair value using Level 3 inputs. Level 3 inputs are unobservable inputs and should be used to determine fair value only when observable inputs are not available. Unobservable inputs should be developed based on the best information available in the circumstances, which might include internally generated data and assumptions being used to price the asset or liability. When possible, the Company looks to active and observable markets to price identical assets, however when identical assets are not traded in active markets, the Company looks to market observable data for similar assets. Nevertheless, certain assets are not actively traded in observable markets and the Company must use alternative valuation techniques to derive a fair value measurement.

For our common stock warrants, fair value is based on the Black-Scholes pricing model which is based, in part, upon unobservable inputs for which there is little or no market data, requiring the Company to develop its own assumptions. The Company used the following assumptions for its common stock warrants:

| | At September 30, 2015 | At December 31, 2014 |
|-------------------------|-----------------------|----------------------|
| Risk-free interest rate | 0.37%-1.01% | 0.21%-1.35% |
| Volatility | 55.93%-123.53% | 119.16%-136.62% |
| Expected average term | 0.67-3.30 | 1.42-4.04 |

There was no expected dividend yield for the warrants granted. If factors change and different assumptions are used, the warrant liability and the change in estimated fair value could be materially different. Generally, as the market price of our common stock increases, the fair value of the warrant increases, and conversely, as the market price of our common stock decreases, the fair value of the warrant decreases. Also, a significant increase in the volatility of the market price of the Company's common stock, in isolation, would result in a significantly higher fair value measurement; and a significant decrease in volatility would result in a significantly lower fair value measurement.

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The following table shows reconciliations of the beginning and ending balances for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (in thousands):

| Common stock warrant liability | Fair Value Measurement Using Significant Unobservable Inputs | | | |
|---|--|--------------------|--------------------|--------------------|
| | Three months ended | | Nine months ended | |
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Beginning of period | \$ 6,982 | \$ 16,129 | \$ 9,418 | \$ 28,830 |
| Change in fair value of common stock warrants | (2,167) | (485) | (4,603) | 58,371 |
| Issuance of common stock warrants | | | | 11,773 |
| Exercise of common stock warrants | (22) | (115) | (22) | (83,445) |
| End of period | \$ 4,793 | \$ 15,529 | \$ 4,793 | \$ 15,529 |

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9. Commitments and Contingencies

Litigation

Legal matters are defended and handled in the ordinary course of business. The Company has established accruals for matters for which management considers a loss to be probable and reasonably estimable. It is the opinion of management that facts known at the present time do not indicate that such litigation, after taking into account insurance coverage and the aforementioned accruals, will have a material adverse impact on our results of operations, financial position, or cash flows.

Concentrations of credit risk

Concentrations of credit risk with respect to receivables exist due to the limited number of select customers with whom the Company has initial commercial sales arrangements. To mitigate credit risk, the Company performs appropriate evaluation of a prospective customer's financial condition.

At September 30, 2015, three customers comprise approximately 46.6% of the total accounts receivable balance, with each customer individually representing 18.5%, 16.1% and 12.0% of total accounts receivable, respectively. At December 31, 2014, four customers comprise approximately 69.9% of the total accounts receivable balance, with each customer individually representing 30.2%, 16.0%, 13.4% and 10.3% of total accounts receivable, respectively.

For the nine months ended September 30, 2015, 56.7% of total consolidated revenues were associated primarily with one customer. For the nine months ended September 30, 2014, 36.6% of total consolidated revenues were associated primarily with two customers, with each representing 24.9% and 11.7% of total consolidated revenues, respectively.

Operating leases

As of September 30, 2015 and December 31, 2014, the Company has several non-cancelable operating leases that expire over the next six years. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) for the years ending December 31, 2015 and thereafter, as of September 30, 2015 are (in thousands):

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| | | |
|-------------------------------------|----|--------|
| Remainder of 2015 | \$ | 2,104 |
| 2016 | | 8,415 |
| 2017 | | 8,401 |
| 2018 | | 8,239 |
| 2019 | | 7,583 |
| Thereafter | | 10,133 |
| Total future minimum lease payments | \$ | 44,875 |

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Restricted Cash

The Company has entered into sales/leaseback agreements associated with its products and services. In connection with these agreements, cash of \$29.2 million is required to be held in escrow or as collateral in connection with a letter of credit, which will be released over the lease term.

The Company also has letters of credit in the aggregate amount of \$1.0 million associated with an agreement to provide hydrogen infrastructure and hydrogen to a customer at its distribution center and with a finance obligation from the sale/leaseback of its building. Cash collateralizing these letters of credit is considered restricted cash.

Finance Obligation

During the three and nine months ended September 30, 2015, the Company received cash for future services to be performed associated with certain sales/leaseback agreements. This cash is reported as restricted cash on the Company's unaudited consolidated balance sheet at September 30, 2015. The portion of cash received representing amounts related to future services amounted to \$8.9 million. The short term portion of this amount of \$1.5 million is included in other current liabilities, with the remaining balance included in finance obligations within the accompanying unaudited consolidated balance sheet at September 30, 2015. The amount is amortized using the effective interest method.

Extended Maintenance Contracts

One of the critical estimates that management makes is the projection of service costs related to GenDrive units under extended maintenance contracts. This estimate is important in management's determination of whether a loss contract exists, as well as the amount of any loss. A variety of assumptions are included in the estimates of future service costs, including the life of parts, failure rates of parts, and future costs of parts. As management gains more experience with GenDrive units, these assumptions are continually updated. Recently, management, through its field service technicians and engineering professionals, combined with input from our primary stack supplier, believes it has identified the main cause of periodic stack life degradation. Stacks are a significant component of a GenDrive unit. A resolution to this matter may significantly improve the longevity of stacks and provide more insight into the life of legacy stacks that are currently components of GenDrive units in the installed base. This insight will be factored into management's assumptions when projecting future service costs in determining whether loss contracts exist for certain of our extended maintenance contracts. At this time, management does not have sufficient information to estimate the costs related to this matter. Once the necessary information is available, management will estimate the impact of this matter, if any, on its extended maintenance contracts. This analysis could result in a charge to the Company's consolidated statement of operations in the future.

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Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our accompanying unaudited interim consolidated financial statements and notes thereto included within this report, and our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, filed for the fiscal year ended December 31, 2014. In addition to historical information, this Form 10-Q and the following discussion contain statements that are not historical facts and are considered forward-looking within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements contain projections of our future results of operations or of our financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as anticipate, believe, could, continue, estimate, expect, intend, may, should, will, would, plan, projected or the negative of such words or other similar words or phrases. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Investors are cautioned not to unduly rely on forward-looking statements because they involve risks and uncertainties, and actual results may differ materially from those discussed as a result of various factors, including, but not limited to: the risk that we continue to incur losses and might never achieve or maintain profitability; the risk that we will need to raise additional capital to fund our operations and such capital may not be available to us; the risk that our lack of extensive experience in manufacturing and marketing products may impact our ability to manufacture and market products on a profitable and large-scale commercial basis; the risk that unit orders will not ship, be installed and/or converted to revenue, in whole or in part; the risk that a loss of one or more of our major customers could result in a material adverse effect on our financial condition; the risk that a sale of a significant number of shares of stock could depress the market price of our common stock; the risk that negative publicity related to our business or stock could result in a negative impact on our stock value and profitability; the risk of potential losses related to any product liability claims or contract disputes; the risk of loss related to an inability to maintain an effective system of internal controls or key personnel; the risks related to the use of flammable fuels in our products; the risk that pending orders may not convert to purchase orders, in whole or in part; the cost and timing of developing, marketing and selling our products and our ability to raise the necessary capital to fund such costs; our ability to obtain financing arrangements to support the sale or leasing of our products and services to customers; the ability to achieve the forecasted gross margin on the sale of our products; the cost and availability of fuel and fueling infrastructures for our products; market acceptance of our products and services, including GenDrive systems; our ability to establish and maintain relationships with third parties with respect to product development, manufacturing, distribution and servicing and the supply of key product components; the cost and availability of components and parts for our products; our ability to develop commercially viable products; our ability to reduce product and manufacturing costs; our ability to successfully expand internationally; our ability to improve system reliability for our products; competitive factors, such as price competition and competition from other traditional and alternative energy companies; our ability to protect our intellectual property; the cost of complying with current and future federal, state and international governmental regulations; the risks associated with potential future acquisitions; the volatility of our stock price; and other risks and uncertainties discussed under Item IA Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as filed March 17, 2015. Readers should not place undue reliance on our forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made and are not guarantees of future performance. Except as may be required by applicable law, we do not undertake or intend to update any forward-looking statements after the date of this Form 10-Q.

Overview

Plug Power Inc., or the Company, is a leading provider of alternative energy technology focused on the design, development, commercialization and manufacture of hydrogen fuel cell systems used primarily for the material handling and stationary power market.

We are focused on proton exchange membrane, or PEM, fuel cell and fuel processing technologies, fuel cell/battery hybrid technologies, and associated hydrogen storage and dispensing infrastructure from which multiple products are available. A fuel cell is an electrochemical device that combines hydrogen and oxygen to produce electricity and heat without combustion. Hydrogen is derived from hydrocarbon fuels such as liquid petroleum gas, or LPG, natural gas, propane, methanol, ethanol, gasoline or biofuels. Hydrogen can also be obtained from the electrolysis of water, or produced on-site at consumer locations through a process known as reformation. Plug Power develops complete hydrogen delivery, storage and refueling solutions for customer locations.

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We concentrate our efforts on developing, manufacturing and selling our hydrogen products and services on commercial terms for material handling applications, with a focus on multi-shift high volume manufacturing and high throughput distribution sites.

Recent Developments

On July 24, 2015, the Company entered into a Share Purchase Agreement with Axane, pursuant to which on July 31, 2015, the Company (through a wholly-owned subsidiary) acquired Axane's 80% equity interest in HyPulsion for \$11.5 million, payable in shares of its common stock. In connection with the aforementioned agreement, the Company initially issued 4,781,250 shares of its common stock at closing. On August 26, 2015, the Company subsequently issued an additional 1,613,289 shares of common stock pursuant to a post-closing true-up provision, which was liability classified contingent consideration. As a result of this acquisition, the Company now holds 100% of the equity interests in HyPulsion.

Results of Operations

Product revenue: Product revenue generally includes revenue from the sale of our GenDrive units, as well as revenue from ReliOn's stationary backup power units.

Product revenue for the three months ended September 30, 2015 increased \$5.4 million or 42.7%, to \$18.0 million from \$12.6 million for the three months ended September 30, 2014. The increase is due to 1,221 fuel cell systems in total that were recognized as revenue for the three months ended September 30, 2015, compared to 835 for the three months ended September 30, 2014, as well as product mix. The revenue recognized included the effect of closing sales/leaseback transactions that involved 990 fuel cell systems for the three months ended September 30, 2015, as compared to 552 for the three months ended September 30, 2014.

Product revenue for the nine months ended September 30, 2015 increased \$9.1 million or 31.9%, to \$37.4 million from \$28.3 million for the nine months ended September 30, 2014. The increase is due to 2,378 fuel cell systems in total that were recognized as revenue for the nine months ended September 30, 2015, compared to 1,687 for the nine months ended September 30, 2014, as well as product mix. The revenue recognized included the effect of closing sales/leaseback transactions that involved 1,726 fuel cell systems for the nine months ended September 30, 2015, as compared to 851 for the nine months ended September 30, 2014.

Service revenue: Service revenue generally includes revenue from installation of hydrogen infrastructure, our service and maintenance contracts, hydrogen delivery contracts, spare parts, and leased units.

Service revenue for the three months ended September 30, 2015 increased \$6.5 million or 94.4%, to \$13.4 million from \$6.9 million for the three months ended September 30, 2014. The increase is primarily related to an increase in the number of units covered by GenCare service contracts over the last year, when the Company introduced GenKey, a turn-key solution. GenKey has led to an increase in the installed base of GenDrive units, as well as incremental GenFuel contracts, as our customer base grows and requires additional hydrogen deliveries and uptime

maintenance. Also, the Company recognized revenue for hydrogen installations associated with seven sites during the three months ended September 30, 2015, as compared to three sites during the three months ended September 30, 2014.

Service revenue for the nine months ended September 30, 2015 increased \$13.8 million or 102.9%, to \$27.2 million from \$13.4 million for the nine months ended September 30, 2014. The increase is generally due to the same reasons as for the three month period commented on above. Also, the Company recognized revenue for hydrogen installations associated with eleven sites during the nine months ended September 30, 2015, as compared to four sites during the nine months ended September 30, 2014.

Research and development contract revenue: Research and development contract revenue relates to both cost reimbursement and fixed price research and development contracts associated with the development of PEM fuel cell technology. Revenue from time and material contracts is recognized on the basis of labor hours expended plus

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other reimbursable contract costs incurred during the period. Revenue from fixed fee contracts is recognized on the basis of percentage of completion. We expect to continue certain research and development contract work that is related to our current product development efforts.

Research and development contract revenue for the three months ended September 30, 2015 decreased \$361 thousand, or 97.3%, to \$10 thousand from \$371 thousand for the three months ended September 30, 2014. The decrease is primarily related to a reduced effort on legacy funded projects that are complete or near completion.

Research and development contract revenue for the nine months ended September 30, 2015 decreased \$732 thousand, or 70.0%, to \$313 thousand from \$1.0 million for the nine months ended September 30, 2014. The decrease is primarily related to a reduced effort on legacy funded projects that are complete or near completion.

Cost of product revenue: Cost of product revenue includes direct material and labor costs, warranty cost, and an allocation of overhead costs that relate to the manufacture of GenDrive products and ReliOn's stationary backup power units.

Cost of product revenue for the three months ended September 30, 2015 increased 37.0%, or \$4.1 million, compared to the three months ended September 30, 2014. The increase in cost is a result of the increase in the number of units shipped and recognized as revenue, however gross margin improved from 12.2% for the three months ended September 30, 2014 to 15.7% for the three months ended September 30, 2015. This can be attributed to better leverage on the fixed cost base, supply chain and product design cost down programs, and manufacturing process improvements, offset by product and customer mix.

Cost of product revenue for the nine months ended September 30, 2015 increased 22.8%, or \$5.7 million, compared to the nine months ended September 30, 2014. The increase in cost is a result of the increase in the number of units shipped and recognized as revenue, however gross margin improved from 11.9% for the nine months ended September 30, 2014 to 18.0% for the nine months ended September 30, 2015. This can be attributed to the same initiatives as for the three month period above.

Cost of service revenue. Cost of service revenue includes the labor and material costs incurred for our hydrogen installations, our product service and hydrogen site maintenance contracts, our hydrogen delivery contracts, replacement parts, rental units (short term) and leased units. In addition, cost of service revenue also includes allocation of overhead costs that relate to the servicing of our products.

Cost of service revenue for the three months ended September 30, 2015 increased 75.8%, or \$7.0 million, compared to the three months ended September 30, 2014. The increase in the cost of service revenue was primarily related to the increase in the number of hydrogen sites installed and serviced and a higher number of GenFuel and GenCare service contracts, as noted in the service revenue section above. Gross margin improved from (33.3)% for the three months ended September 30, 2014 compared to (20.5)% for the three months ended September 30, 2015. The improvement in the margin can be attributed to better leverage on the fixed cost base, most significantly as it relates to the hydrogen sites, and improvement in unit performance, as evidenced by lower parts costs.

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Cost of service revenue for the nine months ended September 30, 2015 increased 79.3%, or \$15.2 million, compared to the nine months ended September 30, 2014. Gross margin improved from (42.9)% for the nine months ended September 30, 2014 compared to (26.3)% for the nine months ended September 30, 2015. The increase in the cost of service revenue and improvement in the margin was primarily due to the same drivers as for the three month period above.

Cost of research and development contract revenue. Cost of research and development contract revenue includes costs associated with research and development contracts including: cash and non-cash compensation and benefits for engineering and related support staff, fees paid to outside suppliers for subcontracted components and services, fees paid to consultants for services provided, materials and supplies used and other directly allocable general overhead costs allocated to specific research and development contracts.

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Cost of research and development contract revenue for the three months ended September 30, 2015 decreased \$689 thousand, or 98.6% compared to the three months ended September 30, 2014, and for the nine months ended September 30, 2015 decreased \$1.5 million, or 80.3% compared to the nine months ended September 30, 2014. As noted above related to revenue, the decrease is primarily related to a reduced effort on legacy funded projects that are complete or near completion.

Research and development expense. Research and development expense includes: materials to build development and prototype units, cash and non-cash compensation and benefits for the engineering and related staff, expenses for contract engineers, fees paid to consultants for services provided, materials and supplies consumed, facility related costs such as computer and network services, and other general overhead costs associated with our research and development activities.

Research and development expense for the three months ended September 30, 2015 increased \$2.5 million, or 151.3% to \$4.1 million, from \$1.6 million for the three months ended September 30, 2014. This increase was primarily related to increased investments to support continued growth, product design and performance enhancement programs.

Research and development expense for the nine months ended September 30, 2015 increased \$6.2 million, or 143.5% to \$10.5 million, from \$4.3 million for the nine months ended September 30, 2014. This increase was primarily related to increased investments noted in the three month period above, as well as costs associated with ReliOn which is only included in six of the nine months from the prior period.

Legal reserve. Legal reserve represents the estimated reserve required for current litigation.

During the third quarter of 2014 the Company accrued a \$2.4 million liability relating to litigation dating back to 2008 with Sorooof Trading Development Company Ltd.

Selling, general and administrative expenses. Selling, general and administrative expenses includes cash and non-cash compensation, benefits, amortization of intangible assets and related costs in support of our general corporate functions, including general management, finance and accounting, human resources, selling and marketing, information technology and legal services.

Selling, general and administrative expenses for the three months ended September 30, 2015 increased \$2.6 million, or 47.5%, to \$8.2 million from \$5.6 million for the three months ended September 30, 2014. This increase was primarily related to an increase in personnel related expenses to support the growth in the business, including an expanded salesforce and additional staffing in the executive and finance functions. During the three months ended September 30, 2015 the Company completed the acquisition of HyPulsion. Related acquisition and other European startup costs were \$0.9 million. Amortization expense related to intangible assets was \$0.1 million and \$0.6 million for the three months ended September 30, 2015 and 2014, respectively.

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Selling, general and administrative expenses for the nine months ended September 30, 2015 increased \$9.1 million, or 61.7%, to \$24.0 million from \$14.8 million for the nine months ended September 30, 2014. This increase was primarily related to the same drivers as for the three month period above. During the nine months ended September 30, 2015 the Company completed the acquisition of HyPulsion. Related acquisition and other European startup costs were \$0.9 million. Amortization expense related to intangible assets was \$0.8 million and \$1.8 million for the nine months ended September 30, 2015 and 2014, respectively. Also, the prior period only includes costs associated with ReliOn for six of the nine months.

Interest and other income. Interest and other income consists primarily of interest earned on our cash, note receivable, and other income.

Compared to prior year periods, interest and other income decreased \$600 thousand to \$28 thousand for the three months ended September 30, 2015, and \$631 thousand to \$91 thousand for the nine months ended September 30, 2015. These decreases are not significant.

(Loss) gains on acquisition activity, net. During the three and nine months ended September 30, 2015, the Company recognized a gain of \$2.9 million associated with the acquisition of HyPulsion and related step acquisition

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accounting. Also included in (loss) gains on acquisition activity, net is expense of \$3.0 million associated with shares issued pursuant to a post-closing true up provision associated with the HyPulsion acquisition. During the nine months ended September 30, 2014, the Company recognized a gain on bargain purchase of \$1.0 million associated with the acquisition of ReliOn.

Change in fair value of common stock warrant liability. We account for common stock warrants as common stock warrant liability with changes in the fair value reflected in the consolidated statement of operations as change in the fair value of common stock warrant liability.

The change in fair value of common stock warrant liability for the three months ended September 30, 2015 resulted in a decrease in the associated warrant liability of \$2.2 million as compared to a decrease of \$0.5 million for the three months ended September 30, 2014. These variances are primarily due to changes in the Company's common stock share price during the respective quarters, changes in volatility of our common stock, changes the number of warrants outstanding, and reducing remaining terms, which are significant inputs to the Black-Scholes valuation model.

The change in fair value of common stock warrant liability for the nine months ended September 30, 2015 resulted in a decrease in the associated warrant liability of \$4.6 million as compared to an increase of \$58.4 million for the nine months ended September 30, 2014. These variances are primarily due to changes in the Company's common stock share price during the respective nine month periods, changes in volatility of our common stock, changes in the number of warrants outstanding, and reducing remaining terms, which are significant inputs to the Black-Scholes valuation model.

Interest and other expense. Interest and other expense consists of interest and other expenses related to interest on obligations under capital lease and our finance obligation, as well as foreign currency exchange gain (loss).

Compared to prior year periods, interest and other expense decreased \$57 thousand to \$36 thousand for the three months ended September 30, 2015, and \$119 thousand to \$186 thousand for the nine months ended September 30, 2015. These decreases are not significant.

Income taxes. We did not report a benefit for federal and state income taxes in the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2015 and 2014 as the deferred tax asset generated from our net operating loss has been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carry forward will not be realized. As needed, the Company also recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Liquidity and Capital Resources

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Our cash requirements relate primarily to working capital needed to operate and grow our business, including funding operating expenses, growth in inventory to support both shipments of new units and servicing the installed base, funding the growth in our GenKey turn-key solution which also includes the installation of our customer's hydrogen infrastructure as well as delivery of the hydrogen molecule, and continued development and expansion of our products. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and quantity of product orders and shipments; attaining positive gross margins; the timing and amount of our operating expenses; the timing and costs of working capital needs; the timing and costs of building a sales base; the ability of our customers to obtain financing to support commercial transactions; our ability to obtain financing arrangements to support the sale or leasing of our products and services to customers and the terms of such agreements which may require us to pledge or escrow substantial amounts of our cash to support these financing arrangements; the timing and costs of developing marketing and distribution channels; the timing and costs of product service requirements; the timing and costs of hiring and training product staff; the extent to which our products gain market acceptance; the timing and costs of product development and introductions; the extent of our ongoing and new research and development programs; and changes in our strategy or our planned activities. If we are unable to fund our operations with positive cash flows and cannot obtain external

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financing, we may not be able to sustain future operations. As a result, we may be required to delay, reduce and/or cease our operations and/or seek bankruptcy protection.

We have experienced and continue to experience negative cash flows from operations and net losses. The Company incurred net losses attributable to common shareholders of \$10.2 million and \$30.6 million for the three and nine months ended September 30, 2015, and \$88.6 million, \$62.8 million and \$31.9 million for the years ended December 31, 2014, 2013 and 2012, respectively, and has an accumulated deficit of \$968.6 million at September 30, 2015.

During the nine months ended September 30, 2015, cash used for operating activities was \$37.3 million, consisting primarily of a net loss attributable to the Company of \$30.5 million, coupled with working capital net outflows of \$10.5 million. The investment in working capital primarily was related to inventory build to meet our backlog, as well as units shipped but not recognized as revenue in the quarter. On September 30, 2015, we had cash and cash equivalents of \$85.0 million and net working capital of \$110.0 million. By comparison, at December 31, 2014, cash and cash equivalents was \$146.2 million and net working capital was \$167.0 million.

Cash used by investing and financing activities for the nine months ended September 30, 2015 included purchases of equipment, exercises of stock options and payments on capital lease and finance obligations. In addition, during 2015, the Company signed sales/leaseback agreements, which required cash held in escrow of \$29.7 million, which is presented as restricted cash on the consolidated balance sheet.

During 2014, we received gross proceeds of \$176.7 million from three underwritten public offerings. Net proceeds after underwriting discounts and commissions and other estimated fees and expenses were \$165.7 million. In addition, during 2014 we received \$18.3 million from the exercise of previously issued common stock warrants.

To date, we have funded our operations primarily through public and private offerings of common and preferred stock, a sale-leaseback of our building and our previous line of credit. The Company believes that its current cash, cash equivalents, cash anticipated to be generated from future operations and, to the extent exercised, cash generated from the exercise of outstanding warrants will provide sufficient liquidity to fund operations for at least the next twelve months. This projection is based on our current expectations regarding product sales and service, cost structure, cash burn rate and other operating assumptions.

Several key indicators of liquidity are summarized in the following table (in thousands):

| | Nine months ended or at September 30, 2015 | Year ended or at December 31, 2014 |
|---|---|---|
| Cash and cash equivalents at end of period | \$ 85,009 | \$ 146,205 |
| Working capital at end of period | 110,036 | 167,039 |
| Net loss attributable to common shareholders | 30,568 | 88,644 |
| Net cash used in operating activities | 37,296 | 40,780 |
| Purchase of property, plant and equipment | 2,902 | 1,413 |
| Net cash (used in) provided by financing activities | (22,858) | 182,923 |

Operating Leases

As of September 30, 2015 and December 31, 2014, the Company has several non-cancelable operating leases that expire over the next six years. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease.

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Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) for the years ending December 31, 2015 and thereafter, as of September 30, 2015 are (in thousands):

| | | |
|-------------------------------------|----|--------|
| Remainder of 2015 | \$ | 2,104 |
| 2016 | | 8,415 |
| 2017 | | 8,401 |
| 2018 | | 8,239 |
| 2019 | | 7,583 |
| Thereafter | | 10,133 |
| Total future minimum lease payments | \$ | 44,875 |

Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these unaudited interim consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of and during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to bad debts, inventories, intangible assets, product warranty reserves, unbilled revenue, common stock warrants, income taxes, contingencies, and purchase accounting. We base our estimates and judgments on historical experience and on various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

One of the critical estimates that management makes is the projection of service costs related to GenDrive units under extended maintenance contracts. This estimate is important in management's determination of whether a loss contract exists, as well as the amount of any loss. A variety of assumptions are included in the estimates of future service costs, including the life of parts, failure rates of parts, and future costs of parts. As management gains more experience with GenDrive units, these assumptions are continually updated. Recently, management, through its field service technicians and engineering professionals, combined with input from our primary stack supplier, believes it has identified the main cause of periodic stack life degradation. Stacks are a significant component of a GenDrive unit. A resolution to this matter may significantly improve the longevity of stacks and provide more insight into the life of legacy stacks that are currently components of GenDrive units in the installed base. This insight will be factored into management's assumptions when projecting future service costs in determining whether loss contracts exist for certain of our extended maintenance contracts. At this time, management does not have sufficient information to estimate the costs related to this matter. Once the necessary information is available, management will estimate the impact of this matter, if any, on its extended maintenance contracts. This analysis could result in a charge to the Company's consolidated statement of operations in the future.

We refer to the policies and estimates set forth in the section Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates, as well as a discussion of significant accounting policies included in Note 2, Summary of Significant Accounting Policies, of the consolidated financial statements, both of which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Recent Accounting Pronouncements

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In July 2015, an accounting update was issued that changes inventory measurement from lower of cost or market to lower of cost and net realizable value. The new standard applies to inventory measured at first-in, first-out (FIFO) or average cost. This accounting update is effective for the reporting periods beginning after December 15,

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2016, and interim periods within those years. We do not expect the adoption of this update to have a significant effect on our consolidated financial statements.

In August 2014, an accounting update was issued relating to how management assesses conditions and events that could raise substantial doubt about an entity's ability to continue as a going concern. This accounting update is effective for reporting periods ending after December 31, 2016 and for interim and annual periods thereafter. We do not expect the adoption of this update to have a significant effect on our consolidated financial statements.

In June 2014, an accounting update was issued that replaces the existing revenue recognition framework regarding contracts with customers. In July 2015, the Financial Accounting Standards Board (FASB) announced a one year delay in the required adoption date from January 1, 2017 to January 1, 2018. We are evaluating the effect this update will have on our consolidated financial statements and have not yet selected a transition method.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

From time to time, we may invest our cash in government, government backed and interest-bearing investment-grade securities that we generally hold for the duration of the term of the respective instrument. We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions in any material fashion. We are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments.

Our exposure to changes in foreign currency rates is primarily related to sourcing inventory from foreign locations and operations of HyPulsion. This practice can give rise to foreign exchange risk resulting from the varying cost of inventory to the receiving location. The Company reviews the level of foreign content as part of its ongoing evaluation of overall sourcing strategies and considers the exposure to be not significant. Our HyPulsion exposure presently is mitigated by low levels of operations presently and its sourcing is primarily intercompany in nature and denominated in U.S. dollar.

Item 4 Controls and Procedures

a) Disclosure controls and procedures.

The chief executive officer and chief financial officer, based on their evaluation of disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that the Company's disclosure controls and procedures are effective for ensuring that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in filed or submitted reports is accumulated and communicated to the Company's management, including its

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principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1 Legal Proceedings

An action has been brought in New York State Supreme Court by General Electric Co. (GE) and an affiliate against the Company seeking \$1 million that GE claims is due under an indemnification agreement between GE and the Company. GE seeks indemnification for funds it paid to settle a claim with Sorooof Trading Development Co., an entity that had paid funds to GE to become a distributor of the Company's products. The Company is vigorously defending the action.

Item 1A - Risk Factors

The following Risk Factor is in addition to the Risk Factors described in Part I, Item 1A, Risk Factors of our most recently filed Annual Report on Form 10-K, filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2014, sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Those risk factors continue to be relevant to an understanding of our business, financial condition and operating results and, accordingly, you should review and consider such risk factors in addition to the risk factor included below in making any investment decision with respect to our securities.

Our ability to obtain financing arrangements to support the sale or leasing of our products and services to customers may affect our sales, profitability and liquidity.

Customers representing most of our revenue lease, rather than purchase, our products. These lease arrangements require us to finance the purchase of such products, either ourselves or through third-party financing sources. For example, approximately \$29.2 million of our cash is currently pledged or escrowed as collateral to support such leasing arrangements, which prevents us from using such cash for other purposes. To date, we have been successful in obtaining or providing the necessary financing arrangements. There is no certainty, however, that we will be able to continue to obtain or provide adequate financing for these arrangements on acceptable terms, or at all, in the future. Failure to obtain or provide such financing may result in the loss of material customers and product sales, which could have a material adverse effect on our business, financial condition and results of operations. Further, if we are required to continue to pledge or escrow a substantial amounts of our cash to support these financing arrangements, such cash will not be available to us for other purposes, which may have a material adverse effect on our liquidity and financial position.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) Not applicable.

(c) None.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

None.

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Item 5 Other Information

(a) None.

(b) None.

Item 6 Exhibits

| | |
|---------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of Plug Power. (1) |
| 3.2 | Certificate of Amendment to Amended and Restated Certificate of Incorporation of Plug Power Inc. (1) |
| 3.3 | Second Certificate of Amendment of Amended and Restated Certificate of Incorporation f Plug Power Inc. (2) |
| 3.4 | Third Certificate of Amendment to Amended and Restated Certificate of Incorporation of Plug Power. (3) |
| 3.5 | Third Amended and Restated By-laws of Plug Power Inc. (4) |
| 3.6 | Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Plug Power Inc. classifying and designating the Series A Junior Participating Cumulative Preferred Stock. (5). |
| 3.7 | Certificate of Designations of Series C Redeemable Preferred Stock of Plug Power Inc. classifying and designating the Series C Redeemable Convertible Preferred Stock (6) |
| 31.1 and 31.2 | Certifications pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (7) |
| 32.1 and 32.2 | Certifications pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (7) |
| 101.INS* | XBRL Instance Document (7) |
| 101.SCH* | XBRL Taxonomy Extension Schema Document (7) |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document (7) |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document (7) |
| 101.LAB* | XBRL Taxonomy Extension Labels Linkbase Document (7) |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document (7) |

(1) Incorporated by reference to the Company's Form 10-K for the period ended December 31, 2008.

(2) Incorporated by reference to the Company's current Report on Form 8-K dated May 19, 2011.

(3) Incorporated by reference to the Company's current Report on Form 8-K dated July 23, 2014.

- (4) Incorporated by reference to the Company's current Report on Form 8-K dated October 28, 2009.

- (5) Incorporated by reference to the Company's current Report on Form 8-A dated June 24, 2009.

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(6) Incorporated by reference to the Company's current Report on Form 8-K dated May 20, 2013.

(7) Filed herewith.

* Submitted electronically herewith. Attached as Exhibit 101 are the following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in eXtensible Business Reporting Language (XBRL) and tagged as blocks of text: (i) Interim Consolidated Balance Sheets at September 30, 2015 and December 31, 2014; (ii) Interim Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014; (iii) Interim Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2015 and 2014; (iv) Interim Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2015; (v) Interim Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014; and (vi) related notes, tagged as blocks of text.

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Signatures

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

PLUG POWER INC.

Date: November 9, 2015

By:

/s/ Andrew Marsh
Andrew Marsh
President, Chief Executive
Officer and Director (Principal
Executive Officer)

Date: November 9, 2015

By:

/s/ Paul B. Middleton
Paul B. Middleton
Chief Financial Officer (Principal
Financial Officer)