PLUG POWER INC
Form 10-Q
November 08, 2016

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, 2016

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	22-3672377
(State or Other Jurisdiction of Incorporation or Organization)	(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 7, 2016 was 180,454,207.

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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, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents (Notes 1 and 8)	$ 42,486	$ 63,961
Restricted cash	5,075	4,012
Accounts receivable	12,006	22,650
Inventory	35,794	32,752
Prepaid expenses and other current assets	11,511	7,855
Total current assets	106,872	131,230
Restricted cash	40,852	43,823
Property, plant, and equipment, net of accumulated depreciation of $29,204 and $27,970, respectively	8,485	7,255
Leased property, net of accumulated depreciation of $3,280 and $1,700, respectively	42,622	1,667
Goodwill	8,838	8,478
Intangible assets, net of accumulated amortization of $921 and $469, respectively	4,308	4,644
Other assets	12,008	12,359
Total assets	$ 223,985	$ 209,456
Liabilities, Redeemable Preferred Stock, and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 28,612	$ 20,455
Accrued expenses	8,791	9,852
Accrual for loss contracts related to service	2,600	4,100
Deferred revenue	4,227	4,468
Finance obligations	10,472	2,671
Other current liabilities	1,734	1,160
Total current liabilities	56,436	42,706
Accrual for loss contracts related to service	634	5,950

Deferred revenue	12,203	13,997
Common stock warrant liability	885	5,735
Finance obligations	35,258	14,809
Long-term debt	23,541	—
Other liabilities	257	370
Total liabilities	129,214	83,567
Redeemable preferred stock		
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, 2016 and December 31, 2015	1,153	1,153
Stockholders' equity:		
Common stock, $0.01 par value per share; 450,000,000 shares authorized; Issued (including shares in treasury): 181,009,135 at September 30, 2016 and 180,567,444 at December 31, 2015	1,810	1,806
Additional paid-in capital	1,126,007	1,118,917
Accumulated other comprehensive income	1,115	798
Accumulated deficit	(1,032,230)	(993,876)
Less common stock in treasury: 577,376 at September 30, 2016 and 479,953 December 31, 2015	(3,084)	(2,909)
Total stockholders' equity	93,618	124,736
Total liabilities, redeemable preferred stock, and stockholders' equity	$ 223,985	$ 209,456

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,	
	2016	2015	2016	2015
Revenue:				
Sales of fuel cell systems and related infrastructure	$ 5,653	$ 24,777	$ 19,992	$ 48,530
Services performed on fuel cell systems and related infrastructure	4,763	3,555	15,396	9,083
Power Purchase Agreements	3,858	1,546	9,626	3,600
Fuel delivered to customers	2,909	1,544	7,557	3,331
Other	376	10	779	313
Total revenue	17,559	31,432	53,350	64,857
Cost of revenue:				
Sales of fuel cell systems and related infrastructure	4,241	22,271	16,182	42,103
Services performed on fuel cell systems and related infrastructure	4,481	5,510	16,190	15,648
Provision for loss contracts related to service	—	—	(1,071)	—
Power Purchase Agreements	4,464	1,417	10,961	3,101
Fuel delivered to customers	3,679	2,148	9,298	4,107
Other	313	10	855	371
Total cost of revenue	17,178	31,356	52,415	65,330
Gross profit (loss)	381	76	935	(473)
Operating expenses:				
Research and development	5,001	4,131	15,032	10,457
Selling, general and administrative	8,636	8,201	25,485	23,952
Total operating expenses	13,637	12,332	40,517	34,409
Operating loss	(13,256)	(12,256)	(39,582)	(34,882)
Interest and other expense, net	(2,113)	(8)	(3,795)	(95)
Loss on acquisition activity, net	—	(116)	—	(116)
	1,975	2,167	4,709	4,603

Change in fair value of common stock warrant liability				
Loss before income taxes	$ (13,394)	$ (10,213)	$ (38,668)	$ (30,490)
Income tax benefit	—	—	392	—
Net loss attributable to the Company	$ (13,394)	$ (10,213)	$ (38,276)	$ (30,490)
Preferred stock dividends declared	(26)	(25)	(78)	(78)
Net loss attributable to common shareholders	$ (13,420)	$ (10,238)	$ (38,354)	$ (30,568)
Net loss per share:				
Basic and diluted	$ (0.07)	$ (0.06)	$ (0.21)	$ (0.17)
Weighted average number of common shares outstanding	180,375,680	177,369,017	180,261,449	174,724,746

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,	
	2016	2015	2016	2015
Net loss attributable to the Company	$ (13,394)	$ (10,213)	$ (38,276)	$ (30,490)
Other comprehensive income - foreign currency translation adjustment	23	347	317	347
Comprehensive loss	$ (13,371)	$ (9,866)	$ (37,959)	$ (30,143)

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 Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock Shares	Amount	Accumulated Deficit	Total Stockholde Equity
ecember 31, 015	180,567,444	$ 1,806	$ 1,118,917	$ 798	479,953	$ (2,909)	$ (993,876)	$ 124,736
et loss ttributable to e Company	—	—	—	—	—	—	(38,276)	(38,276)
ther omprehensive come	—	—	—	317	—	—	—	317
tock-based ompensation	46,974	—	6,745	—	—	—	—	6,745
tock dividend	47,061	1	77	—	—	—	(78)	—
tock option xercises	227,777	2	17	—	97,423	(175)	—	(156)
xercise of arrants	119,879	1	251	—	—	—	—	252
eptember 30, 016	181,009,135	$ 1,810	$ 1,126,007	$ 1,115	577,376	$ (3,084)	$ (1,032,230)	$ 93,618

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 Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30, 2016	2015
Cash Flows From Operating Activities:		
Net loss attributable to the Company	$ (38,276)	$ (30,490)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment, and leased property	2,912	1,481
Amortization of intangible assets	443	835
Stock-based compensation	6,745	5,835
Loss on acquisition activity, net	—	116
Amortization of debt issuance costs	469	—
Loss on disposal of leased property	41	—
Provision for loss contracts related to service	(1,071)	—
Change in fair value of common stock warrant liability	(4,709)	(4,603)
Changes in operating assets and liabilities that provide (use) cash:		
Accounts receivable	10,644	(1,536)
Inventory	(3,042)	(6,301)
Prepaid expenses and other assets	(3,549)	(8,079)
Accounts payable, accrued expenses, and other liabilities	7,504	5,325
Accrual for loss contracts related to service	(5,745)	—
Deferred revenue	(2,035)	121
Net cash used in operating activities	(29,669)	(37,296)
Cash Flows From Investing Activities:		
Purchases of property, plant and equipment	(2,464)	(2,902)
Purchases for construction of leased property	(42,674)	—
Net cash acquired in purchase acquisitions	—	1,811
Net cash used in investing activities	(45,138)	(1,091)
Cash Flows From Financing Activities:		
Change in restricted cash	1,908	(29,686)
Proceeds from exercise of warrants	111	25
Proceeds from exercise of stock options	19	166
Proceeds from short-term borrowing, net of transaction costs	23,673	—
Principal payments on short-term borrowing	(25,000)	—
Proceeds from borrowing of long-term debt, net of transaction costs	23,407	—

Increase in finance obligations	29,242	6,637
Net cash provided by (used in) financing activities	53,360	(22,858)
Effect of exchange rate changes on cash	(28)	49
Decrease in cash and cash equivalents	(21,475)	(61,196)
Cash and cash equivalents, beginning of period	63,961	146,205
Cash and cash equivalents, end of period	$ 42,486	$ 85,009
Other Supplemental Cash Flow Information:		
Cash paid for interest	$ 1,563	$ 303

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., 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. Plug Power develops complete hydrogen delivery, storage and refueling solutions for customer locations. Hydrogen can also be obtained from the electrolysis of water, or produced on-site at consumer locations through a process known as reformation. Currently the Company obtains hydrogen by purchasing it from fuel suppliers for resale to customers.

We provide and continue to develop fuel cell product solutions to replace lead-acid batteries in material handling vehicles and industrial trucks for some of the world'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; GenSure (formerly 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; GenKey, our turn-key solution combining either GenDrive or GenSure with GenFuel and GenCare, offering complete simplicity to customers transitioning to fuel cell power; and GenFund, a collaboration with leasing organizations to provide cost efficient and seamless financing solutions to customers.

We provide our products worldwide through our direct product sales force, and by leveraging relationships with original equipment manufacturers, or OEMs, and their dealer networks.

We were organized as a corporation 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, growth in equipment leased to customers under long-term arrangements, funding the growth in our GenKey “turn-key” solution, which includes the installation of our customers’ hydrogen infrastructure as well as delivery of the hydrogen fuel, continued development and expansion of our products, payment of lease obligations under sale/leaseback financings, and the repayment or refinancing of our long-term debt. 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, including financing arrangements to repay or refinance our long-term debt, and the terms of

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such agreements that may require us to pledge or restrict 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 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 $38.4 million for the nine months ended September 30, 2016 and $55.8 million, $88.6 million and $62.8 million for the years ended December 31, 2015, 2014, and 2013, respectively.

During the nine months ended September 30, 2016, cash used in operating activities was $29.7 million, consisting primarily of a net loss attributable to the Company of $38.3 million, offset by the impact of noncash charges/gains of $4.8 million and net inflows from fluctuations in working capital and other assets and liabilities of $3.8 million. The changes in working capital primarily were related to collections of accounts receivable and managing of accounts payable offset by an investment in inventory procured to meet our backlog requirements, as well as increases in prepaid expenses and consumption against the accrual for loss contracts related to service. As of September 30, 2016, we had cash and cash equivalents of $42.5 million and net working capital of $50.4 million. By comparison, at December 31, 2015, we had cash and cash equivalents of $64.0 million and net working capital of $88.5 million. Additionally, a portion of the cash and cash equivalents on hand at September 30, 2016, is required to be maintained at all times under a covenant requirement associated with the Company's secured term loan facility that requires a minimum unencumbered cash and cash equivalents balance equal to or greater than 75% of the outstanding principal balance plus accounts payable aged more than 150 days.

Net cash used in investing activities for the nine months ended September 30, 2016 included purchases of property, plant and equipment and outflows associated with materials, labor, and overhead necessary to construct new leased property of $45.1 million. Cash outflows related to equipment that we sell and equipment we lease directly to customers are included in net cash used in operating activities and net cash used in investing activities, respectively. Net cash provided by financing activities for the nine months ended September 30, 2016 primarily resulted from increases in finance obligations and borrowings against a long-term secured term loan facility, as described in Note 8.

During 2014 and 2015, the Company signed sale/leaseback agreements with Manufacturers and Traders Trust Company (M&T Bank or the Bank) to facilitate the Company's commercial transactions with key customers. The Company then sold certain fuel cell systems and hydrogen infrastructure to the Bank, and leased the equipment back from the Bank to support certain customer locations and to fulfill its varied Power Purchase Agreements (PPAs). In connection with these operating leases, the Bank requires the Company to maintain cash balances in restricted accounts securing its lease obligations to the Bank. Cash added to these restricted accounts was $14.2 million during

2015. (No additional cash was added during the three and nine months ended September 30, 2016, other than interest earned on restricted cash balances.) Cash received from customers under the PPAs is used to make lease payments to the Bank. As the Company performs under these agreements, the required restricted cash balances are released, according to a set schedule. At September 30, 2016, the Company had seven PPA deployments related to these sale/leaseback agreements. At September 30, 2016, the total remaining lease payments to the Bank under these agreements were $22.3 million which has been fully secured with restricted cash and pledged service escrows.

The master lease agreement with the Bank required the Company to maintain a minimum of $40.0 million of unrestricted cash. The Company's remaining contractual lease payments to the Bank are fully secured through a combination of restricted cash, unrestricted cash and pledges on funds escrowed for future service by the Company. The covenant is maintained in association with the residual exposure of the Bank, which stems from tax benefits taken by the Bank that could be recaptured should the underlying assets not be deployed for five years. This residual exposure at September 30, 2016 amounted to approximately $12.0 million, and the exposure decreases with the passage of time. In the event that the Company's unrestricted cash balance fell below the minimum threshold, the Bank is entitled to cure the failure by transferring additional restricted cash to secure the outstanding residual tax exposure of the Bank at that time.

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Subsequent to September 30, 2016, the Company elected to pledge additional cash collateral of approximately $12.0 million to eliminate the minimum cash requirement.

In addition to the financing activities described above, we have historically funded our operations primarily through public and private offerings of common and preferred stock, as well as short-term borrowings, long-term debt and project financing, as described in Notes 7 and 8. The Company believes that its current working capital and cash anticipated to be generated from future operations, as well as borrowings from lending and project financing sources that are currently being evaluated, will provide sufficient liquidity to fund operations for at least the next twelve months. There is no guarantee that such funding will be available if and when required or at terms acceptable to the Company. This projection is based on our current expectations regarding new project financing and product sales and service, 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

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, 2015.

The information presented in the accompanying consolidated balance sheet as of December 31, 2015 has been derived from the Company's December 31, 2015 audited consolidated financial statements. All other information has been derived from the unaudited interim consolidated financial statements of the Company.

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.

The Company enters into revenue arrangements that may contain a combination of fuel cell systems and infrastructure, installation, service, maintenance, spare parts, and other support services. Revenue arrangements containing fuel cell systems and related infrastructure may be sold, or provided to customers under a PPA.

Sales of and Services Performed on Fuel Cell Systems and Related Infrastructure

When sold to customers, the Company accounts for each separate deliverable of these multiple deliverable arrangements as a separate unit of accounting, if the delivered item or items have value to the customer on a standalone

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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 since 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 considers the cost to produce the deliverable, a reasonable gross 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 infrastructure, 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 service and maintenance is generally recognized as revenue on a straight-line basis over the term of the contract, as appropriate.

For those customers who do not purchase an extended maintenance contract, 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. Only a limited number of fuel cell units are under standard warranty.

In a vast majority of its commercial transactions, the Company sells extended maintenance 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 extended maintenance 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. When costs are projected to exceed revenues on the life of the contract, an accrual for loss contracts is recorded. Costs are estimated based upon historical experience, contractual agreements and the estimated impact of the Company's cost reduction initiatives. The actual results may differ from these estimates.

Power Purchase Agreements

When fuel cell systems and related infrastructure are provided to customers through a PPA, revenues associated with these agreements are treated as rental income and recognized on a straight-line basis over the life of the agreements. In conjunction with entering into a PPA with a customer, the Company may enter into sale/leaseback transactions with third-party financial institutions, whereby the fuel cells, related infrastructure, and service are sold to the third-party financial institution and leased back to the Company through either an operating or capital lease.

During 2016, the Company's sale/leaseback transactions with third-party financial institutions were required to be accounted for as capital leases under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 840-40, Leases – Sale/Leaseback Transactions (ASC Subtopic 840-40). As a result, no upfront revenue was recognized at the closing of these transactions and a finance obligation for each lease was established. The fuel cell systems and related infrastructure that are provided to customers through these PPAs are considered leased property on the accompanying unaudited interim consolidated balance sheet. Costs to service the leased property are considered cost of PPA revenue on the accompanying unaudited interim consolidated statement of operations.

All PPAs entered into through December 31, 2015 had a corresponding sale-leaseback transaction with a third-party financial institution which was required to be accounted for as an operating lease. The Company accounts for sale/leaseback transactions as operating leases in accordance with ASC Subtopic 840-40. The Company has rental expense

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associated with sale/leaseback agreements with financial institutions that were entered into commensurate with the PPAs. Rental expense is recognized on a straight-line basis over the life of the agreements and is characterized as cost of PPA revenue on the accompanying unaudited interim consolidated statement of operations.

Fuel Delivered to Customers

The Company purchases hydrogen fuel from suppliers and sells to its customers upon delivery. Revenue and cost of revenue related to this fuel is recorded as dispensed, and included in the respective “Fuel delivered to customers” lines on the unaudited interim consolidated statements of operations.

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 hours expended plus other reimbursable contract costs incurred during the period and is included within the “other” revenue line on the unaudited interim consolidated statement of operations. 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.

Cash Equivalents

For purposes of the unaudited interim 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. At September 30, 2016 and December 31, 2015, cash equivalents consist of money market accounts. The Company’s cash and cash equivalents are deposited with financial institutions primarily located in the U.S. and may at times exceed insured limits.

Common Stock Warrant Accounting

The Company accounts for common stock warrants in accordance with applicable accounting guidance provided in 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 interim 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 interim consolidated statements of operations as change in fair value of common stock warrant liability.

Use of Estimates

The unaudited interim consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles, 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 unaudited interim consolidated 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 have a net impact the results of operations or net cash flows in the periods presented.

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Recent Accounting Pronouncements

In October 2016, an accounting update was issued to simplify how an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of this update are intellectual property and property, plant, and equipment. This accounting update is effective for the annual periods beginning after December 15, 2017 and interim periods within those years. The Company is evaluating the impact this update will have on the consolidated financial statements.

In March 2016, an accounting update was issued to simplify various aspects related to how share-based payments are accounted for and presented. This accounting update is effective for annual periods beginning after December 15, 2016 and interim periods within those years. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is evaluating the impact this update will have on the consolidated financial statements.

In February 2016, an accounting update was issued which requires balance sheet recognition for operating leases, among other changes to previous lease guidance. This accounting update is effective for fiscal years beginning after December 15, 2018. The Company is evaluating the impact this update will have on the consolidated financial statements.

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). This accounting update is effective for the annual reporting periods beginning after December 15, 2016, and interim periods within those years. The Company does not expect the adoption of this update to have a significant effect on the 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. The Company is evaluating the impact this update will have on the 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. The Company is evaluating the effect this update will have on the consolidated financial statements and has not yet selected a transition method.

3. 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 Company acquired all of the net assets of HyPulsion, with the excess of the purchase price over net assets attributed to goodwill. Goodwill associated with the acquisition represents expanded access to the European markets related to the sale of fuel cell technology for material handling equipment. Changes in goodwill between the acquisition date and September 30, 2016 are attributed to foreign currency translation, and to a lesser extent, changes to estimated fair values of acquired assets and liabilities upon completion of purchase accounting.

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4. Earnings Per Share

For purposes of determining diluted earnings per share, when the Company is in a net loss position, all common stock equivalents would be considered to be anti-dilutive.

The potential dilutive common shares are summarized as follows:

	At September 30,	
	2016	2015
Stock options outstanding (1)	14,982,570	11,789,611
Restricted stock outstanding	26,667	395,558
Common stock warrants (2)	4,000,100	4,192,567
Preferred stock (3)	5,554,594	5,554,594
Number of dilutive potential common shares	24,563,931	21,932,330

(1) During the three months ended September 30, 2016 and 2015, the Company granted 3,312,500 and 3,270,000 stock options, respectively. During the nine months ended September 30, 2016 and 2015, the Company granted 3,592,500 and 3,920,000 stock options, respectively.

(2) In May 2011, the Company issued 7,128,563 warrants as part of an underwritten public offering with an exercise price of $0.93 per warrant. 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 issued in May 2011, zero and 192,467 were unexercised as of September 30, 2016 and 2015, respectively. In February 2013, the Company issued 23,637,500 warrants as part of an underwritten public offering with an exercise price of $0.15 per warrant. Of these warrants issued in February 2013, 100 were unexercised as of September 30, 2016 and 2015. In January 2014, the Company issued 4,000,000 warrants as part of an underwritten public offering with an exercise price of $4.00 per warrant. Of these warrants issued in January 2014, none have been exercised as of September 30, 2016 and 2015. All warrants have anti-dilution provisions.

(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, 2016. Of the 10,431 preferred shares issued in May 2013, 5,200 had been converted to common stock as of September 30, 2016.

5. Inventory

Inventory as of September 30, 2016 and December 31, 2015 consists of the following (in thousands):

	September 30, 2016	December 31, 2015
Raw materials and supplies	$ 24,934	$ 23,705
Work-in-process	8,033	5,567
Finished goods	2,827	3,480
	$ 35,794	$ 32,752

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6. Leased Property

Leased property at September 30, 2016 and December 31, 2015 consists of the following (in thousands):

	September 30, 2016	December 31, 2015
Leased property under capital lease	$ 45,902	$ 3,367
Less: accumulated depreciation	(3,280)	(1,700)
Leased property under capital lease, net	$ 42,622	$ 1,667

7. Short-Term Borrowing

On March 2, 2016, the Company entered into a Loan Agreement with Generate Lending, LLC. The Loan Agreement, among other things, provided for a $30 million secured term loan facility (the Short-Term Loan Facility). Advances under the Short-Term Loan Facility bore interest at the rate of 12.0% per annum. The term of the Loan Agreement was one year, ending March 2, 2017. Pursuant to the Loan Agreement, $25.0 million of the Short-Term Loan Facility was drawn upon at closing. On June 27, 2016, the Short-Term Loan Facility was converted to long-term project financing from the same lender. That financing was accounted for as a series of capital leases, the obligation of which is now presented as part of finance obligations on the accompanying unaudited interim consolidated balance sheet, as discussed in Note 12.

8. Long-Term Debt

During the nine months ended September 30, 2016, Plug Power Inc. and its subsidiaries Emerging Power Inc. and Emergent Power Inc. entered into a Loan and Security Agreement with Hercules Capital, Inc. (Hercules) pursuant to which Hercules agreed to make available to the Company a secured term loan facility in the amount of up to $40.0 million (the Term Loan Facility), subject to certain terms and conditions. The Company borrowed $25.0 million under the Loan and Security Agreement on the date of closing, and incurred transaction costs of $1.1 million. The Company may borrow an additional $5.0 million under the Loan and Security Agreement between October 12, 2016 and December 12, 2016 subject to the Company satisfying certain conditions. The Company may also borrow an additional $10.0 million under the Loan and Security Agreement after June 27, 2016 and until June 27, 2017 subject to satisfying certain other conditions.

Advances under the Term Loan Facility bear interest at the rate of 10.45% per annum, subject to compliance with financial covenants and other conditions. The Loan and Security Agreement includes covenants, limitations, and events of default customary for similar facilities. The term of the Loan and Security Agreement is three years, ending June 27, 2019 (the Maturity Date).

Interest is payable on a monthly basis and the entire then outstanding principal balance of the Term Loan Facility, together with all accrued and unpaid interest, is due and payable on the Maturity Date. On the earliest to occur of the Maturity Date, the date on which the obligations under the Loan and Security Agreement are paid and the date on which such obligations become due and payable, the Company is also required to pay the Lender an end of term charge of 8.25%, based on the total amount of the Term Loan Facility.

Until such time as certain net income milestones are met, the Loan and Security Agreement has financial covenants that require the Company to maintain at all times minimum unencumbered cash and cash equivalents equal to or greater than 75% of the then outstanding principal balance of the Term Loan Facility plus accounts payable aged more than 150 days. After such net income milestones are met, the Loan and Security Agreement's financial covenants are reduced to require minimum unencumbered cash and cash equivalents equal to or greater than 50% of the then outstanding principal balance of the Term Loan Facility plus accounts payable aged more than 150 days.

All obligations under the Loan and Security Agreement are unconditionally guaranteed by the Company's subsidiaries, Emerging Power Inc. and Emergent Power Inc. The Term Loan Facility is secured by substantially all of Plug Power Inc. and the guarantors' assets, including all intellectual property, all securities in domestic subsidiaries and 65% of the securities in foreign subsidiaries, subject to certain exceptions and exclusions.

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The Loan and Security Agreement contains customary covenants for arrangements of this type and other covenants agreed to by the parties, including, among others, (i) the provision of annual and quarterly financial statements, management rights and insurance policies and (ii) restrictions on incurring debt, granting liens, making acquisitions, making loans, paying dividends, dissolving, and entering into leases and asset sales. The Loan and Security Agreement also provides for customary events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control, judgment and material adverse effect defaults.

The fair value of the Term Loan Facility approximates the carrying value of $23.5 million as of September 30, 2016.

9. Accrual for Loss Contracts Related to Service

In 2015, the Company determined that its projected estimated service costs related to certain extended maintenance contracts exceeded future revenues and recorded a provision for loss contracts related to service. During the nine months ended September 30, 2016, the Company renegotiated one of its service contracts. As a result, the projected costs over the remaining life of the amended contract were estimated to be reduced and the Company recognized a gain within cost of revenue where the original charge was recorded.

The following table summarizes activity related to the accrual for loss contracts related to service during the nine months ended September 30, 2016 (in thousands):

Beginning balance - January 1, 2016	$ 10,050
Change in estimate	(1,071)
Reductions for losses realized	(5,745)
Ending balance - September 30, 2016	$ 3,234

10. Income Taxes

The deferred tax asset generated from the Company’s 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. The

Company also recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

During the nine months ended September 30, 2016, the Company released its liability for unrecognized tax benefits of $392 thousand, as the related statute of limitations has expired.

11. Fair Value Measurements

The Company's common stock warrant liability represents the only financial instrument measured at fair value on a recurring basis in the consolidated balance sheets. The fair value measurement is determined by using Level 3 inputs due to the lack of active and observable markets that can be used to price identical assets. 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.

Fair value of the common stock warrant liability 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:

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	September 30, 2016	September 30, 2015
Risk-free interest rate	0.68 % - 0.77 %	0.37 % - 1.010 %
Volatility	59.60 % - 60.60 %	55.93 % - 123.53 %
Expected average term	1.39 - 2.29	0.67 - 3.30

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.

The following table shows reconciliations of the beginning and ending balances for the common stock warrant liability (in thousands):

	Nine months ended	
Common stock warrant liability	September 30, 2016	September 30, 2015
Beginning of period	$ 5,735	$ 9,418
Change in fair value of common stock warrants	(4,709)	(4,603)
Exercise of common stock warrants	(141)	(22)
End of period	$ 885	$ 4,793

12. Commitments and Contingencies

Operating Leases

As of September 30, 2016 and December 31, 2015, the Company has several non-cancelable operating leases (as lessor and as lessee), primarily associated with sale/leaseback transactions that are partially secured by restricted cash (see also Note 1) as summarized below. These leases 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. Leases where the Company is the lessor contain termination clauses with associated penalties, the amount of which cause the likelihood of cancelation to be remote.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2016 are (in thousands):

	As Lessor	As Lessee
Remainder of 2016	$ 4,186	$ 3,077
2017	16,743	12,350
2018	16,743	12,125
2019	16,743	10,936
2020	15,587	9,802
Thereafter	14,153	6,105
Total future minimum lease payments	$ 84,155	$ 54,395

Rental expense for all operating leases was $3.7 million and $1.6 million for the three months ended September 30, 2016 and 2015, respectively. Rental expense for all operating leases was $10.1 million and $3.8 million for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016 and December 31, 2015, prepaid rent and security deposits associated with sale/leaseback transactions were $11.9 million and $12.1 million, respectively, and are included in other current and noncurrent assets on the consolidated balance sheets.

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Finance Obligations

During the nine months ended September 30, 2016, the Company entered into sale/leaseback transactions, which were accounted for as capital leases and reported as part of finance obligations on the Company's consolidated balance sheet. These transactions represented project financing as referenced in Note 7. The outstanding balance of these finance obligations at September 30, 2016 was $30.0 million. The fair value of the finance obligation approximates the carrying value as of September 30, 2016.

Future minimum lease payments under non-cancelable capital leases (with initial or remaining lease terms in excess of one year) as of September 30, 2016 are (in thousands):

	Total Payments	Imputed Interest	Net Present Value
Remainder of 2016	$ 1,765	$ 1,198	$ 567
2017	16,313	4,201	12,112
2018	10,665	2,060	8,605
2019	3,436	1,431	2,005
2020	3,436	1,080	2,356
Thereafter	5,125	819	4,306
Total future minimum lease payments	$ 40,740	$ 10,789	$ 29,951

During the year ended December 31, 2015, the Company received cash for future services to be performed associated with certain sale/leaseback transactions and recorded the balance as a finance obligation. The outstanding balance of this obligation at September 30, 2016 and December 31, 2015 is $13.4 million and $15.1 million, respectively. The amount is amortized using the effective interest method. The fair value of this finance obligation approximates the carrying value as of September 30, 2016.

The Company has a capital lease associated with its property in Latham, New York. Liabilities relating to this agreement of $2.4 million and $2.5 million have been recorded as a finance obligation, in the accompanying unaudited interim consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively. The fair value of this finance obligation approximates the carrying value as of September 30, 2016.

Restricted Cash

The Company has entered into sale/leaseback agreements associated with its products and services. To secure the Company's obligations under these agreements, at September 30, 2016, cash of $44.9 million was restricted and pledged as security and will be released over the lease term. Included in the $44.9 million are security deposits backing letters of credit, which in turn support certain sale/leaseback agreements, as disclosed in the Operating Leases section above. Subsequent to September 30, 2016, the Company elected to pledge additional cash collateral of approximately $12.0 million to eliminate the minimum cash requirement.

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 also considered restricted cash.

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.

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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, 2016, two customers comprise approximately 50.6% of the total accounts receivable balance, with each customer individually representing 29.0% and 21.6% of total accounts receivable, respectively. At December 31, 2015, two customers comprise approximately 50.9% of the total accounts receivable balance, with each customer individually representing 38.5% and 12.4% of total accounts receivable, respectively.

For the nine months ended September 30, 2016, 41.7% of total consolidated revenues were associated primarily with Walmart. For the nine months ended September 30, 2015, 56.7% of total consolidated revenues were associated primarily with Walmart.

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, 2015. 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," "ma "should," "will," "would," "plan," "projected" or the negative of such words or other similar words or phrases. We believe that 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; our ability to attract and maintain 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; the risk of elimination of government subsidies and economic incentives for alternative energy products; market acceptance of our products and services, including GenDrive units; 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 market, distribute and service our products and services 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

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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, 2015, as filed March 14, 2016. 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. Plug Power develops complete hydrogen delivery, storage and refueling solutions for customer locations. Hydrogen can also be obtained from the electrolysis of water, or produced on-site at consumer locations through a process known as reformation. Currently, the Company obtains hydrogen for resale to customers by purchasing it from fuel suppliers.

We provide and continue to develop fuel cell product solutions to replace lead-acid batteries in material handling vehicles and industrial trucks for some of the world'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 GenDrive fuel cells and GenFuel products; GenSure (formerly 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 solutions combining either GenDrive or GenSure, GenCare and GenFuel, offering complete simplicity to customers transitioning to fuel cell power; and GenFund, a collaboration with leasing organizations to provide cost efficient and seamless financing solutions to customers.

We provide our products worldwide, with a primary focus on North America, through our direct product sales force, and by leveraging relationships with original equipment manufacturers, or OEMs, and their dealer networks.

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Results of Operations

Revenue, cost of revenue, gross profit/(loss) and gross margin for the three and nine months ended September 30, 2016 and 2015, was as follows (in thousands):

	Three Months Ended September 30,					Nine Months Ended September 30,				
	Revenue	Cost of Revenue	Gross Profit/(Loss)	Gross Margin		Revenue	Cost of Revenue	Gross Profit/(Loss)	Gross Margin	
For the three and nine months ended September 30, 2016:										
Sales of fuel cell systems and related infrastructure	$ 5,653	$ 4,241	$ 1,412	25.0	%	$ 19,992	$ 16,182	$ 3,810	19.1	%
Services performed on fuel cell systems and related infrastructure	4,763	4,481	282	5.9	%	15,396	16,190	(794)	(5.2)	%
Power Purchase Agreements	3,858	4,464	(606)	(15.7)	%	9,626	10,961	(1,335)	(13.9)	%
Fuel delivered to customers	2,909	3,679	(770)	(26.5)	%	7,557	9,298	(1,741)	(23.0)	%
Other	376	313	63	16.8	%	779	855	(76)	(9.8)	%
Provision for loss contracts related to service	—	—	—	—		—	(1,071)	1,071	—	
Total	$ 17,559	$ 17,178	$ 381	2.2	%	$ 53,350	$ 52,415	$ 935	1.8	%
For the three and nine months ended September 30, 2015:										
Sales of fuel cell systems and related	$ 24,777	$ 22,271	$ 2,506	10.1	%	$ 48,530	$ 42,103	$ 6,427	13.2	%

infrastructure										
Services performed on fuel cell systems and related infrastructure	3,555	5,510	(1,955)	(55.0)	%	9,083	15,648	(6,565)	(72.3)	%
Power Purchase Agreements	1,546	1,417	129	8.3	%	3,600	3,101	499	13.9	%
Fuel delivered to customers	1,544	2,148	(604)	(39.1)	%	3,331	4,107	(776)	(23.3)	%
Other	10	10	—	—	%	313	371	(58)	(18.5)	%
Total	$ 31,432	$ 31,356	$ 76	0.2	%	$ 64,857	$ 65,330	$ (473)	(0.7)	%

Our primary sources of revenue are from sales of fuel cell systems and related infrastructure, services performed on fuel cell systems and related infrastructure, Power Purchase Agreements (PPAs), and fuel delivered to customers. Revenue from sales of fuel cell systems and related infrastructure represents sales of our GenDrive units, GenSure (formerly ReliOn) stationary backup power units, as well as hydrogen fueling infrastructures. Revenue from services performed on fuel cell systems and related infrastructure represents revenue earned on our service and maintenance contracts and sales of spare parts. Revenue from PPAs primarily represents payments received from customers who make monthly payments to access the Company's GenKey solution. Revenue associated with fuel delivered to customers represents the sale of hydrogen to customers that has been purchased by the Company from a third party.

Prior to December 31, 2015, equipment used in PPAs was sold in accompanying sale/leaseback transactions in which the Company sold fuel cell systems, related infrastructure and service to a third-party financial institution, then leased the fuel cell system and related infrastructure back and provided them to customers who were parties to the PPAs. These sale/leaseback transactions met the criteria of and were accounted for as operating leases (and the revenue from the sale of equipment was recognized upon transfer of title on the equipment to the third-party financial institution). Beginning in 2016, sale/leaseback transactions associated with PPAs met the criteria of and were accounted for as capital leases, and the equipment is accordingly classified by the Company as "Leased Property" in the Consolidated Balance Sheet.

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Revenue – sales of fuel cell systems and related infrastructure. Revenue from sales of fuel cell systems and related infrastructure represents revenue from the sale of our fuel cells, such as GenDrive units and GenSure (formerly ReliOn) stationary backup power units, as well as hydrogen fueling infrastructure referred to at the site level as hydrogen installations.

Revenue from sales of fuel cell systems and related infrastructure for the three months ended September 30, 2016 decreased $19.1 million or 77.2%, to $5.7 million from $24.8 million for the three months ended September 30, 2015. There were 189 GenDrive units on which revenue was recognized for the three months ended September 30, 2016, compared to 1,221 for the three months ended September 30, 2015. The change in revenue is generally consistent with the change in units recognized as revenue; and in part due to pricing and class mix variations. An additional 769 units were shipped during the three months ended September 30, 2016 and held as leased property because they were associated with sale/leaseback transactions accounted for as capital leases. As such, the Company will recognize revenue on these shipments over the life of the related PPA under “Power Purchase Agreements” in the Consolidated Statement of Operations. Revenue associated with one hydrogen installation was recognized during the three months ended September 30, 2016, down from seven sites recognized as revenue during the three months ended September 30, 2015. In addition, three additional sites were constructed and held as leased property during the three months ended September 30, 2016, also because they were associated with sale/leaseback transactions accounted for as capital leases. Sales of GenSure units decreased $1.0 million to $1.4 million in the three months ended September 30, 2016, compared to $2.4 million in the three months ended September 30, 2015, driven from variations of order fulfillment timing of a large long term multi-site order.

Revenue from sales of fuel cell systems and related infrastructure for the nine months ended September 30, 2016 decreased $28.5 million or 58.8%, to $20.0 million from $48.5 million for the nine months ended September 30, 2015. There were 603 GenDrive units on which revenue was recognized for the nine months ended September 30, 2016, compared to 2,378 for the nine months ended September 30, 2015. The change in revenue is generally consistent with the change in units recognized as revenue. An additional 2,115 units were shipped during the nine months ended September 30, 2016 and held as leased property because they were associated with sale/leaseback transactions accounted for as capital leases. Revenue associated with four hydrogen installations was recognized during the nine months ended September 30, 2016, down from 11 sites recognized as revenue during the nine months ended September 30, 2015. In addition, nine additional sites were constructed and held as leased property during the nine months ended September 30, 2016, also because they were associated with sale/leaseback transactions accounted for as capital leases. Sales of GenSure units increased $1.3 million to $5.4 million in the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, driven from variations of order fulfillment timing of a large long term multi-site order.

Revenue – services performed on fuel cell systems and related infrastructure. Revenue from services performed on fuel cell systems and related infrastructure represents revenue earned on our service and maintenance contracts and sales of spare parts. At September 30, 2016, there were 9,138 fuel cell units and 27 hydrogen installations under extended maintenance contracts, an increase of 21.2% and 68.8% from 7,541 and 16 at September 30, 2015, respectively.

Revenue from services performed on fuel cell systems and related infrastructure for the three months ended September 30, 2016 increased $1.2 million or 34.0%, to $4.8 million from $3.6 million for the three months ended September 30, 2015. The increase in this revenue category is primarily related to the increase in sales of fuel cell systems and hydrogen installations in 2015 and 2016 to date, which has had a corresponding impact on the installed base. Revenue growth is directionally consistent with installed base growth, however the extent of the increases can be impacted by concentration of units per site, pricing, unit class mix, and timing of when units were installed within the reporting periods.

Revenue from services performed on fuel cell systems and related infrastructure for the nine months ended September 30, 2016 increased $6.3 million or 69.5%, to $15.4 million from $9.1 million for the nine months ended September 30, 2015. The increase in this revenue category is primarily related to the increase in sales of fuel cell systems and hydrogen installations in 2015 and 2016 to date, which has had a corresponding impact on the installed base, as described above.

Revenue – Power Purchase Agreements. Revenue from PPAs represents payments received from customers for power generated through the provision of equipment and service. The equipment and service can be associated with

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sale/leaseback transactions in which the Company sells fuel cell systems and related infrastructure to a third-party, leases them back and operates them at customers' locations who are parties to PPAs with the Company. Alternatively, the Company can retain the equipment as leased property and provide it to customers under PPAs. At September 30, 2016, there were 23 GenKey sites associated with PPAs, as compared to 11 at September 30, 2015.

Revenue from PPAs for the three months ended September 30, 2016 increased $2.3 million or 149.5%, to $3.9 million from $1.5 million for the three months ended September 30, 2015. The increase is due to the increased numbers of GenKey sites where the Company has deployed these types of arrangements.

Revenue from PPAs for the nine months ended September 30, 2016 increased $6.0 million or 167.4%, to $9.6 million from $3.6 million for the nine months ended September 30, 2015. The increase is due to the increased numbers of GenKey sites where the Company has deployed these types of arrangements.

Revenue – fuel delivered to customers. Revenue associated with fuel delivered to customers represents the sale of hydrogen to customers that has been purchased by the Company from a third party. As part of the GenKey solution, the Company contracts with fuel suppliers to purchase liquid hydrogen, which is then sold to its customers. At September 30, 2016, there were 35 sites associated with fuel contracts, as compared to 15 at September 30, 2015. The sites generally are the same as those which had purchased hydrogen installations within the GenKey solution.

Revenue associated with fuel delivered to customers for the three months ended September 30, 2016 increased $1.4 million or 88.4%, to $2.9 million from $1.5 million for the three months ended September 30, 2015. The increase in revenue is due to the increase in sites taking fuel deliveries at September 30, 2016, compared to September 30, 2015.

Revenue associated with fuel delivered to customers for the nine months ended September 30, 2016 increased $4.2 million or 126.9%, to $7.6 million from $3.3 million for the nine months ended September 30, 2015. The increase in revenue is due to the increase in sites taking fuel deliveries at September 30, 2016, compared to September 30, 2015.

Revenue – other. Other revenue primarily represents cost reimbursement research and development contracts associated with the development of PEM fuel cell technology. We generally share in the cost of these programs with our cost-sharing percentages ranging from 30% to 50% of total project costs. Revenue from time and material contracts is recognized on the basis of hours expended plus other reimbursable contract costs incurred during the period. We expect to continue certain research and development contract work that is related to our current product development efforts. Other miscellaneous revenue is recognized from time to time.

Other revenue for the three months ended September 30, 2016 increased $366 thousand to $376 thousand from $10 thousand for the three months ended September 30, 2015. During the three months ended September 30, 2016, the Company recorded $125 thousand associated with a customer stack development program. This program did not exist in the third quarter of 2015. The remainder of the increase is associated with activities in current research and development contracts.

Other revenue for the nine months ended September 30, 2016 increased $466 thousand, or 148.9%, to $779 thousand from $313 thousand for the nine months ended September 30, 2015. During the nine months ended September 30, 2016, the Company recorded revenue of $375 thousand associated with a customer stack development program. This program did not exist in the first nine months of 2015. The remainder of the increase is associated with activities in current research and development contracts.

Cost of revenue – sales of fuel cell systems and related infrastructure. Cost of revenue from sales of fuel cell systems and related infrastructure includes direct material, labor costs, and allocated overhead costs related to the manufacture of our fuel cells such as GenDrive units and GenSure (formerly ReliOn) stationary backup power units, as well as hydrogen fueling infrastructure referred to at the site level as hydrogen installations.

Cost of revenue from sales of fuel cell systems and related infrastructure for the three months ended September 30, 2016 decreased 81.0%, or $18.0 million, compared to the three months ended September 30, 2015, generally consistent with the change in revenue. Gross margin generated from sales of fuel cell systems and related infrastructure was 25.0%

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for the three months ended September 30, 2016, up from 10.1% for the three months ended September 30, 2015, due to pricing mix and product design cost down programs.

Cost of revenue from sales of fuel cell systems and related infrastructure for the nine months ended September 30, 2016 decreased 61.6%, or $25.9 million, compared to the nine months ended September 30, 2015, generally consistent with the change in revenue. Gross margin generated from sales of fuel cell systems and related infrastructure was 19.1% for the nine months ended September 30, 2016, up from 13.2% for the nine months ended September 30, 2015, due to product design cost down programs and manufacturing process improvements.

Cost of revenue – services performed on fuel cell systems and related infrastructure. Cost of revenue from services performed on fuel cell systems and related infrastructure includes the labor, material costs and allocated overhead costs incurred for our product service and hydrogen site maintenance contracts and spare parts. At September 30, 2016, there were 9,138 fuel cell units and 27 hydrogen installations under extended maintenance contracts, an increase of 21.2% and 68.8% from 7,541 and 16 at September 30, 2015, respectively.

Cost of revenue from services performed on fuel cell systems and related infrastructure for the three months ended September 30, 2016 decreased 18.7%, or $1.0 million, compared to the three months ended September 30, 2015. This decrease is due to favorable recoveries with certain suppliers for parts that failed to meet specifications, offset by increases in spare part costs, labor and overhead, as a direct result of a growing installed base of GenDrive units, and the number of customers that have GenCare and GenFuel service contracts. Gross margin improved to 5.9% for the three months ended September 30, 2016 from (55.0%) for the three months ended September 30, 2015 due to improved model design driving down parts costs, better leverage of fixed costs and absorption of $2.2 million in net losses on loss contracts against the accrual for loss contracts related to service. During the fourth quarter of 2015, the Company recognized a $10.1 million provision for loss contracts related to service. This provision represented expected losses on extended maintenance contracts that had projected costs over the remaining life of the contracts which exceeded contractual revenues.

Cost of revenue from services performed on fuel cell systems and related infrastructure for the nine months ended September 30, 2016 increased 3.5%, or $0.5 million, compared to the nine months ended September 30, 2015. These increases are a direct result of a growing installed base of GenDrive units, and the number of customers that have GenCare and GenFuel service contracts, offset by recoveries with suppliers, as described above. Gross margin improved to (5.2)% for the nine months ended September 30, 2016 from (72.3%) for the nine months ended September 30, 2015 due to improved model design driving down parts costs, better leverage of fixed costs and absorption of $5.7 million in net losses on loss contracts against the accrual for loss contracts related to service.

Cost of revenue—provision for loss contracts related to service. In the fourth quarter of 2015, the Company recognized a $10.1 million provision for loss contracts related to service. This provision represents extended maintenance contracts that have projected costs over the remaining life of the contracts that exceed contractual revenues. During the nine months ended September 30, 2016, the Company renegotiated one of its service contracts and replaced 96 of the older fuel cell systems in service at that particular customer. As a result, the projected costs over the remaining life of the amended contract were estimated to be reduced as compared to the previous estimate, resulting in a lower necessary accrual. The change in estimate was recorded as gain within cost of revenue where the original charge was recorded.

Cost of revenue – Power Purchase Agreements. Cost of revenue from PPAs includes payments made to financial institutions for leased equipment and service used to fulfill the PPAs. Leased units are primarily associated with sale/leaseback transactions in which the Company sells fuel cell systems and related infrastructure to a third-party, leases them back, and operates them at customers' locations who are parties to PPAs with the Company. Alternatively, the Company can hold the equipment for investment and recognize the depreciation and service cost of the assets as cost of revenue from PPAs. At September 30, 2016, there were 23 GenKey sites associated with PPAs, as compared to 11 at September 30, 2015.

Cost of revenue from PPAs for the three months ended September 30, 2016 increased $3.0 million, or 215.0%, to $4.5 million from $1.4 million for the three months ended September 30, 2015. The increase was a result of the increase in the number of customer sites party to these agreements. Gross margin declined to (15.7%) for the three months ended September 30, 2016 from 8.3% for the three months ended September 30, 2015, due primarily to changes in financing

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pricing, depreciation of capitalized leased asset costs related to sites constructed in 2016 associated with capital leases, as well as costs to maintain them.

Cost of revenue from PPAs for the nine months ended September 30, 2016 increased $7.9 million, or 253.5%, to $11.0 million from $3.1 million for the nine months ended September 30, 2015. The increase was a result of the increase in the number of customer sites party to these agreements. Gross margin declined to (13.9%) for the nine months ended September 30, 2016 from 13.9% for the nine months ended September 30, 2015, due primarily to changes in financing pricing, depreciation of capitalized leased asset costs related to sites constructed in 2016 associated with capital leases, as well as costs to maintain them.

Cost of revenue – fuel delivered to customers. Cost of revenue from fuel delivered to customers represents the purchase of hydrogen from suppliers that ultimately is sold to customers. As part of the GenKey solution, the Company contracts with fuel suppliers to purchase liquid hydrogen and separately sells to its customers upon delivery. At September 30, 2016, there were 35 sites associated with fuel contracts, as compared to 15 at September 30, 2015. The sites generally are the same as those which had purchased hydrogen installations within the GenKey solution.

Cost of revenue from fuel delivered to customers for the three months ended September 30, 2016 increased $1.5 million, or 71.3%, to $3.7 million from $2.1 million for the three months ended September 30, 2015. The increase is due primarily to higher volume of liquid hydrogen delivered to customer sites as a result of an increase in the number of hydrogen installations completed under GenKey agreements. Gross margin improved to (26.5)% during the three months ended September 30, 2016 from (39.1)% during the three months ended September 30, 2015, due primarily to a settlement of a claim with a gas supplier, and improved efficiencies in fuel usage.

Cost of revenue from fuel delivered to customers for the nine months ended September 30, 2016 increased $5.2 million, or 126.4%, to $9.3 million from $4.1 million for the nine months ended September 30, 2015. The increase is due primarily to higher volume of liquid hydrogen delivered to customer sites, as a result of an increase in the number of hydrogen installations completed under GenKey agreements. Gross margin was consistent at (23.0)% during the nine months ended September 30, 2016 compared to (23.3)% during the nine months ended September 30, 2015, due to improved efficiencies in fuel usage.

Cost of revenue – other. Other cost of revenue primarily represents 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.

Cost of other revenue for the three months ended September 30, 2016 increased $303 thousand to $313 thousand from $10 thousand for the three months ended September 30, 2015. The increase is associated with activities in current research and development contracts. Gross margin was 16.8% during the three months ended September 30, 2016, due to revenues of $125 thousand related to a customer stack development program that was at a high margin.

Cost of other revenue for the nine months ended September 30, 2016 increased $484 thousand, or 130.5%, to $855 thousand from $371 thousand for the nine months ended September 30, 2015. The increase is associated with activities in current research and development contracts. Gross margin was (9.8)% during the nine months ended

September 30, 2016, due to the nature of the cost sharing arrangements of research and development contracts, offset by revenues of $375 thousand related to a customer stack development program that was at a high margin.

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, 2016 increased $0.9 million, or 21.1% to $5.0 million, from $4.1 million for the three months ended September 30, 2015. This increase was primarily

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related to an increase in personnel related expenses, focused on refinement of hydrogen infrastructure design, multiple product cost-down programs and prototyping for stack performance enhancement.

Research and development expense for the nine months ended September 30, 2016 increased $4.6 million, or 43.8% to $15.0 million, from $10.5 million for the three months ended September 30, 2015. This increase was primarily related to an increase in personnel related expenses, focused on refinement of hydrogen infrastructure design, multiple product cost-down programs and prototyping for stack performance enhancement.

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, 2016 increased $0.4 million, or 5.3%, to $8.6 million from $8.2 million for the three months ended September 30, 2015. The increase was primarily due to an increase in employee head count, partially offset by reductions in amortization of intangible assets due to certain assets becoming fully amortized in the prior year.

Selling, general and administrative expenses for the nine months ended September 30, 2016 increased $1.5 million, or 6.4%, to $25.5 million from $24.0 million for the nine months ended September 30, 2015. The increase was primarily due to an increase in stock-based compensation resulting from increases in compensation and employee head count, partially offset by reductions in amortization of intangible assets.

Interest and other expense, net. Interest and other expense, net consists of interest and other expenses related to interest on our short-term borrowing, long-term debt, obligations under capital lease and our finance obligations, as well as foreign currency exchange gain (loss), offset by interest and other income consisting primarily of interest earned on our cash and cash equivalents, note receivable, and other income. The short-term borrowing originated in March 2016, which was converted to project financing in June 2016. The long-term debt originated during the three months ended June 30, 2016 and the increase in finance obligations occurred during the latter half of 2015 and throughout 2016

Net interest and other expense for the three months ended September 30, 2016, increased $2.1 million as compared to the three months ended September 30, 2015. The increase is attributed to interest on the various financing structures described above, offset by interest and other income which remained relatively insignificant for the three months ended September 30, 2016 and September 30, 2015.

Interest and other expense for the nine months ended September 30, 2016, increased $3.7 million as compared to the nine months ended September 30, 2015. The increase is attributed to interest on the various financing structures described above, offset by interest and other income which remained relatively insignificant for the nine months ended September 30, 2016 and September 30, 2015.

Change in fair value of common stock warrant liability. The Company accounts 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, 2016 resulted in a decrease in the associated warrant liability of $2.0 million as compared to a decrease of $2.2 million for the three months ended September 30, 2015. These variances are primarily due to changes in the Company's common stock share price, and changes in volatility of our common stock, 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, 2016 resulted in a decrease in the associated warrant liability of $4.7 million as compared to a decrease of $4.6 million for the nine months ended September 30, 2015. These variances are primarily due to changes in the Company's common stock share price, and changes in volatility of our common stock, which are significant inputs to the Black-Scholes valuation model.

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Income taxes. 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. The Company also recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

During the nine months ended September 30, 2016, the Company released its liability for unrecognized tax benefits of $392 thousand, as the related statute of limitations has expired. No other tax expense or benefit was recognized in the three months ended September 30, 2016 or 2015, or the nine months ended September 30, 2015.

Liquidity and Capital Resources

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, growth in equipment leased to customers under long-term arrangements, funding the growth in our GenKey "turn-key" solution, which includes the installation of our customers' hydrogen infrastructure as well as delivery of the hydrogen fuel, continued development and expansion of our products, payments of lease obligations under sale/leaseback financings, and the repayment or refinancing of our long-term debt. 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, including financing arrangements to repay or refinance our long-term debt, and the terms of such agreements that may require us to pledge or restrict 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 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 $38.4 million for the nine months ended September 30, 2016 and $55.8 million, $88.6 million and $62.8 million for the years ended December 31, 2015, 2014, and 2013, respectively.

During the nine months ended September 30, 2016, cash used in operating activities was $29.7 million, consisting primarily of a net loss attributable to the Company of $38.3 million, offset by the impact of noncash charges/gains of $4.8 million and net inflows from fluctuations in working capital and other assets and liabilities of $3.8 million. The changes in working capital primarily were related to collections of accounts receivable and managing of accounts payable offset by an investment in inventory procured to meet our backlog requirements, as well as increases in prepaid expenses and consumption against the accrual for loss contracts related to service. As of September 30, 2016, we had cash and cash equivalents of $42.5 million and net working capital of $50.4 million. By comparison, at December 31, 2015, we had cash and cash equivalents of $64.0 million and net working capital of $88.5 million. Additionally, a portion of the cash and cash equivalents on hand at September 30, 2016, is required to be maintained at all times under a covenant requirement associated with the Company's secured term loan facility that requires a minimum unencumbered cash and cash equivalents balance equal to or greater than 75% of the outstanding principal balance plus accounts payable aged more than 150 days.

Net cash used in investing activities for the nine months ended September 30, 2016 included purchases of property, plant and equipment and outflows associated with materials, labor, and overhead necessary to construct new leased property of $45.1 million. Cash outflows related to equipment that we sell and equipment we lease directly to customers are included in net cash used in operating activities and net cash used in investing activities, respectively. Net cash provided by financing activities for the nine months ended September 30, 2016 primarily resulted from increases in finance obligations and borrowings against a long-term secured term loan facility, as described below.

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During 2014 and 2015, the Company signed sale/leaseback agreements with Manufacturers and Traders Trust Company (M&T Bank or the Bank) to facilitate the Company's commercial transactions with key customers. The Company then sold certain fuel cell systems and hydrogen infrastructure to the Bank, and leased the equipment back from the Bank to support certain customer locations and to fulfill its varied Power Purchase Agreements (PPAs). In connection with these operating leases, the Bank requires the Company to maintain cash balances in restricted accounts securing its lease obligations to the Bank. Cash added to these restricted accounts was $14.2 million during 2015. (No additional cash was added during the three and nine months ended September 30, 2016, other than interest earned on restricted cash balances.) Cash received from customers under the PPAs is used to make lease payments to the Bank. As the Company performs under these agreements, the required restricted cash balances are released, according to a set schedule. At September 30, 2016, the Company had seven PPA deployments related to these sale/leaseback agreements. At September 30, 2016, the total remaining lease payments to the Bank under these agreements were $22.3 million which has been fully secured with restricted cash and pledged service escrows.

The master lease agreement with the Bank required the Company to maintain a minimum of $40.0 million of unrestricted cash. The Company's remaining contractual lease payments to the Bank are fully secured through a combination of restricted cash, unrestricted cash and pledges on funds escrowed for future service by the Company. The covenant is maintained in association with the residual exposure of the Bank, which stems from tax benefits taken by the Bank that could be recaptured should the underlying assets not be deployed for five years. This residual exposure at September 30, 2016 amounted to approximately $12.0 million, and the exposure decreases with the passage of time. In the event that the Company's unrestricted cash balance fell below the minimum threshold, the Bank is entitled to cure the failure by transferring additional restricted cash to secure the outstanding residual tax exposure of the Bank at that time. Subsequent to September 30, 2016, the Company elected to pledge additional cash collateral of approximately $12.0 million to eliminate the minimum cash requirement.

In addition to the financing activities described above, we have historically funded our operations primarily through public and private offerings of common and preferred stock, as well as short-term borrowings, long-term debt and project financing, as described below. The Company believes that its current working capital and cash anticipated to be generated from future operations, as well as borrowings from lending and project financing sources that are currently being evaluated, will provide sufficient liquidity to fund operations for at least the next twelve months. There is no guarantee that such funding will be available if and when required or at terms acceptable to the Company. This projection is based on our current expectations regarding new project financing and product sales and service, cost structure, cash burn rate and other operating assumptions.

On March 2, 2016, the Company entered into a Loan Agreement with Generate Lending, LLC. The Loan Agreement, among other things, provided for a $30 million secured term loan facility (the Short-Term Loan Facility). Advances under the Short-Term Loan Facility bore interest at the rate of 12.0% per annum. The term of the Loan Agreement was one year, ending March 2, 2017. Pursuant to the Loan Agreement, $25.0 million of the Short-Term Loan Facility was drawn upon closing.

On June 27, 2016, the Short-Term Loan Facility was converted to long-term project financing from the same lender. That financing was associated with as a series of capital leases, the obligation of which is now presented as part of finance obligations on the accompanying unaudited interim consolidated balance sheet.

In June 2016, Plug Power Inc. and its subsidiaries Emerging Power Inc. and Emergent Power Inc. entered into a Loan and Security Agreement with Hercules Capital, Inc. (Hercules) pursuant to which Hercules made available to the Company a secured term loan facility in the amount of up to $40.0 million (the Term Loan Facility), subject to certain terms and conditions. The Company borrowed $25.0 million under the Loan and Security Agreement on the date of closing, and incurred transaction costs of $1.1 million. The Company may borrow an additional $5.0 million under the Loan and Security Agreement between October 12, 2016 and December 12, 2016 subject to the Company satisfying certain conditions which have not yet been met. The Company may also borrow an additional $10.0 million under the Loan and Security Agreement after June 27, 2016 and until June 27, 2017 subject to satisfying certain other conditions which have not yet been met.

Advances under the Term Loan Facility bear interest at the rate of 10.45% per annum, subject to compliance with

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financial covenants and other conditions. The Loan and Security Agreement includes covenants, limitations, and events of default customary for similar facilities. The term of the Loan and Security Agreement is three years, ending June 27, 2019 (the Maturity Date).

Interest is payable on a monthly basis and the entire then outstanding principal balance of the Term Loan Facility, together with all accrued and unpaid interest, is due and payable on the Maturity Date. On the earliest to occur of the Maturity Date, the date on which the obligations under the Loan and Security Agreement are paid and the date on which such obligations become due and payable, the Company is also required to pay the Lender an end of term charge of 8.25%, based on the total amount of the Term Loan Facility.

Until such time as certain net income milestones are met, the Loan and Security Agreement has financial covenants that require the Company to maintain at all times minimum unencumbered cash and cash equivalents equal to or greater than 75% of the then outstanding principal balance of the Term Loan Facility plus accounts payable aged more than 150 days. After such net income milestones are met, the Loan and Security Agreement's financial covenants are reduced to require minimum unencumbered cash and cash equivalents equal to or greater than 50% of the then outstanding principal balance of the Term Loan Facility plus accounts payable aged more than 150 days.

All obligations under the Loan and Security Agreement are unconditionally guaranteed by the Company's subsidiaries, Emerging Power Inc. and Emergent Power Inc. The Term Loan Facility is secured by substantially all of Plug Power Inc. and the guarantors' assets, including all intellectual property, all securities in domestic subsidiaries and 65% of the securities in foreign subsidiaries, subject to certain exceptions and exclusions.

The Loan and Security Agreement contains customary covenants for arrangements of this type and other covenants agreed to by the parties, including, among others, (i) the provision of annual and quarterly financial statements, management rights and insurance policies and (ii) restrictions on incurring debt, granting liens, making acquisitions, making loans, paying dividends, dissolving, and entering into leases and asset sales. The Company was in compliance with all such covenants at September 30, 2016. The Loan and Security Agreement also provides for customary events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control, judgment and material adverse effect defaults.

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

	Nine months ended or at	Year ended or at

	September 30, 2016	December 31, 2015
Cash and cash equivalents at end of period	$ 42,486	$ 63,961
Restricted cash at end of period	45,927	47,835
Working capital at end of period	50,436	88,524
Net loss attributable to common shareholders	38,354	55,795
Net cash used in operating activities	29,669	47,274
Purchases of property, plant and equipment and leased property	45,138	3,520
Net cash provided by (used in) financing activities	53,360	(32,923)

Operating Leases

As of September 30, 2016, the Company has several non-cancelable operating leases (as lessor and as lessee), primarily associated with sale/leaseback transactions that are partially secured by restricted cash as summarized below. These leases 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. Leases where the Company is the lessor contain termination clauses with associated penalties, the amount of which cause the likelihood of cancelation to be remote.

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Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2016 are (in thousands):

	As Lessor	As Lessee
Remainder of 2016	$ 4,186	$ 3,077
2017	16,743	12,350
2018	16,743	12,125
2019	16,743	10,936
2020	15,587	9,802
Thereafter	14,153	6,105
Total future minimum lease payments	$ 84,155	$ 54,395

Finance Obligations

During the nine months ended September 30, 2016, the Company entered into sale/leaseback transactions, which were accounted for as capital leases and reported as part of finance obligations on the Company's consolidated balance sheet. The outstanding balance of these finance obligations at September 30, 2016 was $30.0 million. The fair value of the finance obligation approximates the carrying value as of September 30, 2016.

Future minimum lease payments under non-cancelable capital leases (with initial or remaining lease terms in excess of one year) as of September 30, 2016 are (in thousands):

	Total Payments	Imputed Interest	Net Present Value
Remainder of 2016	$ 1,765	$ 1,198	$ 567
2017	16,313	4,201	12,112
2018	10,665	2,060	8,605
2019	3,436	1,431	2,005
2020	3,436	1,080	2,356
Thereafter	5,125	819	4,306
Total future minimum lease payments	$ 40,740	$ 10,789	$ 29,951

During the year ended December 31, 2015, the Company received cash for future services to be performed associated with certain sale/leaseback transactions and recorded the balance as a finance obligation. The outstanding balance of this obligation at September 30, 2016 and December 31, 2015 is $13.4 million and $15.1 million, respectively. The amount is amortized using the effective interest method. The fair value of this finance obligation approximates the carrying value as of September 30, 2016.

The Company has a capital lease associated with its property in Latham, New York. Liabilities relating to this agreement of $2.4 million and $2.5 million have been recorded as a finance obligation, in the accompanying unaudited interim consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively. The fair value of this finance obligation approximates the carrying value as of September 30, 2016.

Restricted Cash

The Company has entered into sale/leaseback agreements associated with its products and services. To secure the Company's obligations under these agreements, at September 30, 2016, cash of $44.9 million was restricted and pledged as security and will be released over the lease term. Included in the $44.9 million are security deposits backing letters of credit, which in turn support certain sale/leaseback agreements, as disclosed in the Operating Leases section above. Subsequent to September 30, 2016, the Company elected to pledge additional cash collateral of approximately $12.0 million to eliminate the minimum cash requirement.

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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 also considered restricted cash.

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 revenue recognition for multiple element arrangements, bad debts, inventories, intangible assets, valuation of long-lived assets, accrual for loss contracts on service, product warranty reserves, unbilled revenue, common stock warrants, income taxes, stock-based compensation, 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 (1) the carrying values of assets and liabilities and (2) the amount of revenue and expenses realized that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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, 2015.

Recent Accounting Pronouncements

In October 2016, an accounting update was issued to simplify how an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of this update are intellectual property and property, plant, and equipment. This accounting update is effective for the annual periods beginning after December 15, 2017 and interim periods within those years. The Company is evaluating the impact this update will have on the consolidated financial statements.

In March 2016, an accounting update was issued to simplify various aspects related to how share-based payments are accounted for and presented. This accounting update is effective for annual periods beginning after December 15, 2016 and interim periods within those years. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is evaluating the impact this update will have on the consolidated financial statements.

In February 2016, an accounting update was issued which requires balance sheet recognition for operating leases, among other changes to previous lease guidance. This accounting update is effective for fiscal years beginning after December 15, 2018. The Company is evaluating the impact this update will have on the consolidated financial statements.

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). This accounting update is effective for the annual reporting periods beginning after December 15, 2016, and interim periods within those years. The Company does not expect the adoption of this update to have a significant effect on the 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. The Company is evaluating the impact this update will have on the 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. The Company is evaluating the effect this update will have on the consolidated financial statements and has 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 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 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.

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 Soroof 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.

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Item 1A - Risk Factors

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, 2015, sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Except to the extent that information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters described in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”), there have been no material changes to our risk factors disclosed in our most recently filed Annual Report on Form 10-K. However, 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 making any investment decision with respect to our securities.

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.

Item 5 — Other Information

(a) None.

(b) None.

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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 of 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 filed May 19, 2011.

(3) Incorporated by reference to the Company’s current Report on Form 8-K filed July 25, 2014.

(4) Incorporated by reference to the Company’s current Report on Form 8-K filed November 2, 2009.

(5) Incorporated by reference to the Company’s current Report on Form 8-K filed June 24, 2009.

(6) Incorporated by reference to the Company's current Report on Form 8-K filed 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, 2016, formatted in eXtensible Business Reporting Language (XBRL) and tagged as blocks of text: (i) Interim Consolidated Balance Sheets at September 30, 2016 and

December 31, 2015; (ii) Interim Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015; (iii) Interim Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2016 and 2015; (iv) Interim Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2016; (v) Interim Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015; 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 8, 2016	By:	/s/ Andrew Marsh Andrew Marsh President, Chief Executive Officer and Director (Principal Executive Officer)
Date: November 8, 2016	By:	/s/ Paul B. Middleton Paul B. Middleton Chief Financial Officer (Principal Financial Officer)