

PLUG POWER INC
Form 10-Q
November 09, 2010

Table of Contents

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, 2010

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 1-34392

PLUG POWER INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

968 ALBANY SHAKER ROAD, LATHAM, NEW YORK 12110

(Address of Principal Executive Offices, including Zip Code)

(518) 782-7700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, non-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 4, 2010 was 131,745,075.



Table of Contents

PLUG POWER INC.

INDEX to FORM 10-Q

PART I. FINANCIAL INFORMATION	<u>Page</u>
<u>Item 1 Interim Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets September 30, 2010 and December 31, 2009</u>	3
<u>Condensed Consolidated Statements of Operations Three and nine months ended September 30, 2010 and September 30, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows Nine months ended September 30, 2010 and September 30, 2009</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	38
<u>Item 4 Controls and Procedures</u>	38
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	39
<u>Item 1A Risk Factors</u>	39
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3 Defaults Upon Senior Securities</u>	40
<u>Item 4 (Removed and Reserved)</u>	40

<u>Item 5</u> Other Information	40
<u>Item 6</u> Exhibits	40
<u>Signatures</u>	41

2

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1 Interim Financial Statements (Unaudited)****Plug Power Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)**

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,324,530	\$ 14,580,983
Trading securities - auction rate debt securities	-	53,397,179
Available-for-sale securities	10,409,654	47,959,920
Accounts receivable, less allowance of \$10,160 in 2010 and \$92,560 in 2009	4,334,119	2,004,670
Inventory	10,507,334	6,360,755
Assets held for sale	1,154,742	-
Auction rate debt securities repurchase agreement	-	5,977,822
Prepaid expenses and other current assets	1,365,167	3,217,446
Total current assets	38,095,546	133,498,775
Restricted cash	2,265,847	2,265,405
Property, plant and equipment, net	12,547,582	14,342,740
Investment in leased property, net	2,338,556	2,255,772
Intangible assets, net	10,264,704	11,821,830
Total assets	\$ 65,512,235	\$ 164,184,522
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 2,780,212	\$ 2,877,270
Accrued expenses	3,859,819	5,847,541
Product warranty reserve	917,803	-
Borrowings under line of credit	-	59,375,000
Current portion long term debt	356,474	413,708
Deferred revenue	3,627,703	4,596,717
Other current liabilities	569,951	379,584
Total current liabilities	12,111,962	73,489,820
Long term debt	900,467	1,150,408
Other liabilities	1,305,849	1,275,541
Total liabilities	14,318,278	75,915,769

Stockholders equity:		
Common stock, \$0.01 par value per share; 245,000,000 shares authorized;		
Issued (including shares in treasury):		
133,395,421 at September 30, 2010 and		
130,591,236 at December 31, 2009	1,333,954	1,305,913
Additional paid-in capital	769,469,653	767,808,572
Accumulated other comprehensive income	847,067	803,209
Accumulated deficit	(718,737,207)	(680,370,937)
Less common stock in treasury:		
1,804,487 shares at September 30, 2010 and		
986,199 shares		
at December 31, 2009	(1,719,510)	(1,278,004)
Total stockholders equity	51,193,957	88,268,753
Total liabilities and stockholders equity	\$ 65,512,235	\$ 164,184,522

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

Table of Contents

Plug Power Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Product and service revenue	\$ 4,795,534	\$ 1,044,853	\$ 10,284,480	\$ 3,612,268
Research and development contract revenue	957,270	1,497,400	2,943,261	4,772,600
Total revenue	5,752,804	2,542,253	13,227,741	8,384,868
Cost of product and service revenue	7,344,444	1,334,565	15,174,670	3,566,348
Cost of research and development contract revenue	1,729,962	2,814,876	5,290,848	7,762,465
Research and development expense	2,085,622	4,387,231	11,954,153	12,809,762
Selling, general and administrative expenses	3,430,197	3,973,651	17,828,728	11,666,567
Amortization of intangible assets	562,785	544,114	1,691,840	1,575,466
Operating loss	(9,400,206)	(10,512,184)	(38,712,498)	(28,995,740)
Interest and other income	141,930	627,357	752,591	1,317,805
Change in fair value of auction rate securities repurchase agreement	(2,842,790)	(570,106)	(5,977,822)	(4,133,861)
Net trading gain	2,842,790	570,106	5,977,822	4,133,861
Interest and other expense	(33,289)	(285,909)	(406,363)	(899,758)
Net loss	\$ (9,291,565)	\$ (10,170,736)	\$ (38,366,270)	\$ (28,577,693)
Loss per share:				
Basic and diluted	\$ (0.07)	\$ (0.08)	\$ (0.29)	\$ (0.22)
Weighted average number of common shares outstanding	131,501,132	129,356,230	131,038,368	128,960,903

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

4

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

	Nine months ended	
	September 30,	
	2010	2009
Cash Flows From Operating Activities:		
Net loss	\$ (38,366,270)	\$ (28,577,693)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,342,918	2,783,165
Amortization of intangible assets	1,691,840	1,575,466
Loss on disposal of property, plant and equipment	99,088	280,460
Stock-based compensation	1,334,515	1,780,715
Provision for bad debts	10,160	82,400
Net unrealized gains on trading securities	(5,977,822)	(4,133,861)
Change in fair value of auction rate debt securities repurchase agreement	5,977,822	4,133,861
Loss on repayable government assistance	-	324,300
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(2,332,416)	583,430
Inventory	(4,120,450)	(656,211)
Assets held for sale	(375,829)	-
Prepaid expenses and other current assets	1,843,448	886,636
Accounts payable and accrued expenses	(620,695)	(6,630,997)
Deferred revenue	(969,014)	(2,213,119)
Net cash used in operating activities	(39,462,705)	(29,781,448)
Cash Flows From Investing Activities:		
Purchase of property, plant and equipment	(1,197,463)	(46,324)
Investment in leased property, net	(283,560)	(2,461,526)
Restricted cash	(442)	(2,265,348)
Proceeds from disposal of property, plant and equipment	44,500	-
Proceeds from trading securities	59,375,001	3,300,000
Proceeds from maturities and sales of available-for-sale securities	70,365,905	94,564,022
Purchases of available-for-sale securities	(32,910,791)	(117,838,809)
Net cash provided by (used in) investing activities	95,393,150	(24,747,985)
Cash Flows From Financing Activities:		
Purchase of treasury stock	(441,506)	(534,418)
Proceeds from stock option exercises and employee stock purchase plan	-	76,493
Repayment of borrowings under line of credit	(59,375,000)	(3,300,000)
Proceeds from long term debt	-	1,652,445
Principal payments on long-term debt	(313,648)	-

Edgar Filing: PLUG POWER INC - Form 10-Q

Repayment of government assistance	-	(139,751)
Net cash used in financing activities	(60,130,154)	(2,245,231)
Effect of exchange rate changes on cash	(56,744)	66,560
Decrease in cash and cash equivalents	(4,256,453)	(56,708,104)
Cash and cash equivalents, beginning of period	14,580,983	80,844,500
Cash and cash equivalents, end of period	\$ 10,324,530	\$ 24,136,396

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

Table of Contents

Plug Power Inc.

Notes to Condensed 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 and is involved in the design, development, commercialization and manufacture of fuel cell systems for the industrial off-road (forklift or material handling) market. Plug Power has also provided product development for the back-up and stationary power markets world wide. Effective April 1, 2010, the Company is no longer considered a development stage enterprise since current principal operations have begun to provide more than insignificant revenues as the Company has received orders from repeat customers, increased its customer base and has a significant backlog. Prior to April 1, 2010, the Company was considered a development stage enterprise because substantially all of our resources and efforts were aimed at the discovery of new knowledge that could lead to significant improvement in fuel cell reliability and durability, and the establishment, expansion and stability of markets for our products.

The Company is focused on proton exchange membrane, or PEM, fuel cell and fuel processing technologies and fuel cell/battery hybrid technologies, 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 (LPG), natural gas, propane, methanol, ethanol, gasoline or biofuels. Hydrogen can also be obtained from the electrolysis of water. Hydrogen can be purchased directly from industrial gas providers or can be produced on-site at consumer locations.

We offer our hydrogen fueled PEM GenDrive™ power unit for sale on commercial terms for industrial off-road (forklift or material handling) applications, with a focus on multi-shift high volume manufacturing and high throughput distribution sites.

While we have invested in development and sales activities for low-temperature remote-prime power GenSys® products, we have determined to focus on our GenDrive products and not to develop or manufacture GenSys products in the near term.

In 2010, to the extent of existing purchase commitments, we continued to manufacture and support our GenCore® product, a hydrogen fueled PEM fuel cell system to provide back-up power for critical infrastructure. We intend to focus our efforts on developing, manufacturing and selling our GenDrive products and do not expect to develop or manufacture GenCore products in the near term.

The Company sells its products worldwide through our direct product sales force, original equipment manufacturers (OEMs) and their dealer networks. We sell to business, industrial and government customers.

6

Table of Contents

The Company was organized in the State of Delaware on June 27, 1997 and became listed on the NASDAQ exchange on October 29, 1999. The Company was originally formed as a joint venture between Edison Development Corporation and Mechanical Technology Incorporated. In 2007, the Company merged with and acquired all the assets, liabilities and equity of Cellex Power Products, Inc. (Cellex) and General Hydrogen Corporation (General Hydrogen).

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

Although the Company has a significant amount of available-for-sale securities, as described further below, as of September 30, 2010, neither the Company nor any of its subsidiaries was an investment company pursuant to the Investment Company Act of 1940, as amended.

Liquidity

We have experienced recurring operating losses and we anticipate incurring substantial additional losses. Our May 2010 restructuring plan, which involves focusing on our GenDrive business and consolidating our operations into our Latham, New York facility, is expected to reduce these losses going forward. We anticipate that the restructuring will reduce our annual operating expenses by approximately \$12 to \$15 million. Further, we are projecting a significant improvement in the gross margins and an increase in the number of shipments of our GenDrive products. As a result, we believe that our current cash, cash equivalents, available-for-sale securities balances and cash generated from future operations will provide sufficient liquidity to fund operations for the next twelve months. However, in the event that our operating expenses are higher than anticipated or the gross margins and shipments of our GenDrive products do not increase as we expect, we may be required to seek external equity or debt financing to fund our operations. There can be no assurance that we will be able to obtain any equity or debt financing on terms acceptable to us or at all. Our cash requirements depend primarily on working capital needed to sustain rapid growth of our business as we expand market adoption of our products and continue product development as we advance our product roadmap and release new products into the commercial marketplace. We expect to devote substantial capital resources to continuing to build a sales base, expanding market channels, servicing our installed base, hiring and training production staff, developing and better utilizing our manufacturing capacity and future product development. We expect to pursue the expansion of our operations primarily through internal growth and possibly strategic acquisitions and expect that such activities will be funded from existing cash, cash equivalents, available-for-sale securities and cash generated from future operations and, subject to market and other conditions, external equity or debt financing. There can be no assurance that we will be able to obtain any equity or debt financing on terms acceptable to us or at all. The failure to raise the funds necessary to finance future cash requirements or to consummate future acquisitions could adversely affect our financial condition, our ability to pursue our strategy and our results of operations.

Included in trading securities and working capital at December 31, 2009, was \$53.4 million of auction rate debt securities. The auction rate debt securities were secured by student loans which are generally guaranteed by the Federal government. These auction rate debt securities were structured to be tendered at par, at the investor's option, at auctions occurring every 27-30 days. However, due to the liquidity issues in the credit and capital markets, the market for auction rate debt securities began experiencing auction failures in February 2008 and there have been no successful auctions for the securities held in our portfolio since the failures began. We continued to receive interest on these securities, subject to an interest rate cap formula for each security as periodically adjusted in accordance with the respective securities' agreement. At December 31, 2009, the interest rates ranged from 0.61% to 3.48% on the auction rate debt securities.

Table of Contents

The Company had pledged these securities as collateral to a third-party lender for a Credit Line Agreement (See Note 10, Credit Line Agreement and Auction Rate Debt Securities Repurchase Agreement) entered into in December 2008. In December 2008, the Company entered into a Repurchase Agreement with a third-party lender such that the Company may require the third-party lender to repurchase the auction rate debt securities pledged as collateral for the Credit Line Agreement, at their par value, from June 30, 2010 through July 2, 2012 as full settlement for the advances on the Credit Line Agreement. The Company elected to record the Repurchase Agreement at its fair value in accordance with Accounting Standard Codification No. 825-10-25 to allow consistent treatment of the agreement and the underlying collateral. At December 31, 2009, the fair value of this item was approximately \$6.0 million, and was recorded as an asset on the condensed consolidated balance sheet. The change in the fair value of the Repurchase Agreement for the nine months ended September 30, 2010 and September 30, 2009 was approximately \$6.0 million and \$4.1 million, respectively, and was recorded as a net realized loss on the condensed consolidated statements of operations.

Effective July 1, 2010, all auction rate debt securities were repurchased at par by the third-party lender holding the collateral under the Repurchase Agreement which resulted in a corresponding reduction in amounts outstanding and the extinguishment of the Credit Line Agreement.

Under Internal Revenue Code (IRC) Section 382, the use of loss carryforwards may be limited if a change in ownership of a company occurs. If it is determined that due to transactions involving the Company's shares owned by its 5 percent shareholders a change of ownership has occurred under the provisions of IRC Section 382, the Company's net operating loss carryforwards could be subject to significant IRC Section 382 limitations and could no longer be available to the Company.

As a result of certain equity transactions that occurred during the fourth quarter of 2009, the Company began a formal IRC Section 382 study and completed the study in 2010. The Company believes it did not have a change of ownership, as defined by IRC Section 382, through the date of this report.

2. Basis of Presentation

Principles of Consolidation: The accompanying unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. It is the Company's policy to reclassify prior period consolidated financial statements to conform to current period presentation.

Interim Financial Statements: The unaudited condensed 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, 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.

8

Table of Contents

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These unaudited condensed 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, 2009.

The information presented in the accompanying condensed consolidated balance sheet as of December 31, 2009 has been derived from the Company's December 31, 2009 audited consolidated financial statements. All other information has been derived from the Company's unaudited condensed consolidated financial statements for the periods as of and ending September 30, 2010 and 2009.

Use of Estimates: The unaudited condensed interim consolidated financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements: The Company adopted the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) No. 860, Transfers and Servicing and Accounting Standards Update (ASU) No. 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets on January 1, 2010. This standard requires entities to provide more information about sales of securitized financial assets and similar transactions, particularly if the seller retains some risk with respect to the assets. This ASU limits the circumstances in which a financial asset may be de-recognized when the transferor has not transferred the entire financial asset or has continuing involvement with the transferred asset. The concept of a qualifying special-purpose entity, which had previously facilitated sale accounting for certain asset transfers, is removed by the new requirement. Also, this ASU revises how retained interests are initially measured and removes the guaranteed mortgage securitization recharacterization provisions. The adoption did not have a material effect on its condensed consolidated financial position, condensed consolidated results of operations, and liquidity.

The Company adopted ASC No. 810, Consolidation, ASU No. 2009-17, Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities and ASU No. 2010-10, Consolidation (Topic 810): Amendments for Certain Investment Funds on January 1, 2010. This standard and ASU amends certain requirements to improve financial reporting by companies involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The adoption did not have a material effect on its condensed consolidated financial position, condensed consolidated results of operations, and liquidity.

Table of Contents

In October 2009, the FASB issued ASU No. 2009-13 on Topic 605, Revenue Recognition - Multiple Deliverable Revenue Arrangements. The objective of this ASU is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. This ASU provides amendments to the criteria in Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. The amendments in this ASU establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. The amendments in this ASU also will replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant and expands the disclosure requirements related to a vendor's multiple-deliverable revenue arrangements. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted the provisions of this ASU during the second quarter of 2010 retroactive to January 1, 2010. The impact of this new accounting update on its condensed consolidated financial position, condensed consolidated results of operations, and liquidity is presented in Note 14.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures About Fair Value Measurements. This ASU adds disclosure requirements about transfers into and out of Levels 1, 2, and 3, clarifies existing fair value disclosure requirements about the appropriate level of disaggregation, and clarifies that a description of the valuation technique (e.g., market approach, income approach, or cost approach) and inputs used to measure fair value is required for recurring, nonrecurring, and Level 2 and 3 fair value measurements. These provisions were adopted by the Company during the reporting period ending March 31, 2010. As this ASU amends only the disclosure requirements for fair value measurements, the adoption did not impact its condensed consolidated financial position, condensed consolidated results of operations, or liquidity. The ASU also requires that Level 3 activity about purchases, sales, issuances, and settlements be presented on a gross basis rather than as a net number as currently required. This provision is effective for the Company's reporting period ending March 31, 2011. As this ASU amends only the disclosure requirements for fair value measurements, the adoption will have no impact on its condensed consolidated financial position, condensed consolidated results of operations, and liquidity.

In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events - Amendments to Certain Recognition and Disclosure Requirements. This ASU provides guidance related to events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This ASU guidance amends existing standards to address potential conflicts with the Securities and Exchange Commission (SEC) guidance and refines the scope of the reissuance disclosure requirements to include revised financial statements only. Under this guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated. These provisions were adopted by the Company during the reporting period ending March 31, 2010. As this ASU amends only the disclosure requirements for subsequent events, the adoption did not impact its condensed consolidated financial position, condensed consolidated results of operations, and liquidity. See "Subsequent Events" in Note 15.

Table of Contents

In April 2010, the FASB issued ASU No. 2010-17, Revenue Recognition – Milestone Method (Topic 605). This ASU provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. This ASU is effective prospectively for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, of this new accounting update on its condensed consolidated financial position, condensed consolidated results of operations, and liquidity.

3. Fair Value Measurements

The Company complies with the provisions of FASB ASC No. 820, Fair Value Measurements and Disclosures (ASC 820), in measuring fair value and in disclosing fair value measurements. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. FASB ASC No. 820-10-35, Fair Value Measurements and Disclosures- Subsequent Measurement (ASC 820-10-35), clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10-35-3 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

ASC 820-10-35 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1 Inputs Level 1 inputs are unadjusted quoted prices in active markets for assets or liabilities identical to those to be reported at fair value. An active market is a market in which transactions occur for the item to be fair valued with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs Level 2 inputs are inputs other than quoted prices included within Level 1. Level 2 inputs are observable either directly or indirectly. These inputs include: (a) Quoted prices for similar assets or liabilities in active markets; (b) Quoted prices for identical or similar assets or liabilities in markets that are not active, such as when there are few transactions for the asset or liability, the prices are not current, price quotations vary substantially over time or in which little information is released publicly; (c) Inputs other than quoted prices that are observable for the asset or liability; and (d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Table of Contents

Level 3 Inputs Level 3 inputs are unobservable inputs for an asset or liability. These inputs should be used to determine fair value only when observable inputs are not available. Unobservable inputs should be developed based on the best information available in the circumstances, which might include internally generated data and assumptions being used to price the asset or liability.

When determining the fair value measurements for assets or liabilities required or permitted to be recorded at and/or marked to fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets. Nevertheless, certain assets are not actively traded in observable markets and the Company must use alternative valuation techniques to derive a fair value measurement.

As of September 30, 2010, the Company no longer held any trading securities - auction rate debt securities since they were repurchased at par by the third-party lender holding the collateral under the Repurchase Agreement which resulted in a corresponding reduction in amounts outstanding and the extinguishment of the Credit Line Agreement.

The following tables summarize the basis used to measure certain financial assets at fair value on a recurring basis in the condensed consolidated balance sheets:

Basis of Fair Value Measurements

Balance at September 30, 2010	Total	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 10,409,654	\$ 10,409,654	\$	\$

Balance at December 31, 2009	Total	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities - auction rate debt securities	\$53,397,179	\$	\$	\$ 53,397,179
Available-for-sale securities	\$47,959,920	\$ 47,959,920	\$	\$

12	Auction rate debt securities repurchase agreement	\$5,977,822	\$	\$ 5,977,822
----	--	-------------	----	--------------

Table of Contents

The following tables show reconciliations of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (i.e. Level 3) for the nine months ended September 30, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs
<u>Trading Securities - Auction Rate Debt Securities</u>	
Beginning of period	\$ 53,397,179
Sale of trading securities for the nine months ended September 30, 2010	(59,375,001)
Net unrealized gains on trading securities for the nine months ended September 30, 2010	5,977,822
Fair value of trading securities - auction rate debt securities at September 30, 2010	\$ -
	Fair Value Measurements Using Significant Unobservable Inputs
<u>Auction Rate Debt Securities Repurchase Agreement</u>	
Beginning of period	\$ 5,977,822
Change in fair value of auction rate debt securities repurchase agreement for the nine months ended September 30, 2010	(5,977,822)
Fair value of auction rate debt securities repurchase agreement at September 30, 2010	\$ -

The following summarizes the valuation technique for assets measured and recorded at fair value:

Available-for-sale securities: For our level 1 securities, which represent Federal treasury securities, fair value is based on quoted market prices.

Table of Contents

Trading securities auction rate debt securities and auction rate debt securities repurchase agreement: The securities valued using unobservable inputs were the auction rate debt securities and auction rate debt securities repurchase agreement as the financial and capital markets have experienced significant dislocation and illiquidity in regard to these types of instruments and there is currently no secondary market for these types of securities. There have been no successful auctions since early 2008. The valuation of these auction rate debt securities and auction rate debt securities repurchase agreement is an estimate based upon factors specific to these securities, including duration, tax status (taxable or tax-exempt), credit quality, the existence of insurance wraps, and the composition of the underlying student loans (Federal Family Education Loan Program or private loans). Assumptions were made about future cash flows based upon interest rate formulas as described above. Also, the valuation included estimates of market data including yields or spreads of similar trading instruments, when available, or assumptions believed to be reasonable for non-observable inputs such as likelihood of redemption. These securities were redeemed at par in July 2010.

4. Earnings Per Share

The Company reports net loss per basic and diluted common share in accordance with the provisions of FASB ASC No. 260, Earnings Per Share (ASC 206), which establishes standards for computing and presenting loss per share. Basic earnings per common share are computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as convertible preferred stock, stock options, unvested restricted stock, and warrants) were exercised or converted into common stock or resulted in the issuance of common stock (net of any assumed repurchases) that then shared in the earnings of the Company, if any. This is computed by dividing net earnings by the combination of dilutive common share equivalents, which is comprised of shares issuable under outstanding warrants, the Company's share-based compensation plans and the weighted average number of common shares outstanding during the reporting period. Since the Company is in a net loss position, all common stock equivalents would be considered anti-dilutive and are, therefore, not included in the determination of diluted earnings per share. Accordingly, basic and diluted loss per share are the same.

The following table provides the components of the calculations of basic and diluted earnings per share:

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 2009
Numerator:				
Net loss	\$ (9,291,565)	\$ (10,170,736)	\$ (38,366,270)	\$ (28,577,695)
Denominator:				
Weighted average number of common shares	131,501,132	129,356,230	131,038,368	128,960,900

Table of Contents

The dilutive potential common shares are summarized as follows:

	At September 30, 2010	2009
Stock options outstanding	5,403,692	6,944,861
Unvested restricted stock	5,480,235	15,000
Warrants ⁽¹⁾	571,429	571,429
Number of dilutive potential common shares	11,455,356	7,531,290

(1) The warrants were granted to the shareholders of General Hydrogen as part of the acquisition of that company.

5. Intangible Assets

The gross carrying amount and accumulated amortization of the Company's acquired identifiable intangible assets related to Plug Power Canada Inc. as of September 30, 2010 are as follows:

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Effect of Foreign Currency Translation	Total
Acquired Technology	8 years	\$ 15,900,000	\$ (7,236,174)	\$ 1,027,934	\$ 9,691,760
Customer Relationships	8 years	1,000,000	(427,056)		572,944
		\$ 16,900,000	\$ (7,663,230)	\$ 1,027,934	\$ 10,264,704

6. Stockholders' Equity

Changes in stockholders' equity for the nine months ended September 30, 2010 are as follows:

Common Stock Shares	Amount	Additional Paid-in- Capital	Accumulated Other Comprehensive	Accumulated Deficit	Treasury Stock Shares	Amount	Total	Stockholders' Equity	Comprehensive Income

Edgar Filing: PLUG POWER INC - Form 10-Q

Income (Loss)

December 31, 2009	130,591,236	\$ 1,305,913	\$ 767,808,572	\$ 803,209	\$ (680,370,937)	986,199	\$ (1,278,004)	\$ 88,268,753	
Net loss	-	-	-	-	(38,366,270)	-	-	(38,366,270)	\$ (38,366,270)
Foreign currency translation adjustment	-	-	-	139,010	-	-	-	139,010	139,010
Unrealized loss on available-for-sale securities, net of reclassification adjustments for realized net losses and gains	-	-	-	(95,152)	-	-	-	(95,152)	(95,152)
Total comprehensive loss									\$ (38,366,270)
Stock based compensation	2,804,185	28,041	1,661,081	-	-	-	-	1,689,122	
Treasury stock	-	-	-	-	-	818,288	(441,506)	(441,506)	
September 30, 2010	133,395,421	\$ 1,333,954	\$ 769,469,653	\$ 847,067	\$ (718,737,207)	1,804,487	\$ (1,719,510)	\$ 51,193,957	

Table of Contents**7. Supplemental Disclosures of Cash Flows Information**

The following represents required supplemental disclosures of cash flows information and non-cash financing, investing and operating activities which occurred during the nine months ended September 30, 2010 and 2009:

	September 30, 2010	September 30, 2009
Stock-based compensation accrual impact	\$ 354,608	\$ 436,819
Change in unrealized loss on available-for-sale securities	(95,152)	(143,507)
Cash paid for interest	391,525	763,604
Transfer of property, plant and equipment to assets held for sale	778,913	-

8. Repayable Government Assistance

During the year ended December 31, 2000, the Company's wholly-owned subsidiary, Plug Power Canada Inc., formerly known as Cellex Power Products Inc., entered into an Industrial Research Assistance Program (IRAP) Repayable Contribution Agreement with the National Research Council of Canada (NRC) under which it received contributions totaling Cdn\$500,000 for certain development activities. The agreement with the NRC provided for payment of royalties of up to 170% of the contributions received subject to certain conditions, payable quarterly, calculated at 3.5% of gross revenues. Plug Power Canada's repayment obligation to the NRC existed from July 1, 2002 to March 31, 2009. At April 1, 2009, if the total amount repaid to the NRC was less than the Cdn\$500,000 contribution, then Plug Power Canada would continue to make payments to the NRC until either the full Cdn\$500,000 was repaid or until July 1, 2012, whichever came first. The maximum liability under this repayment obligation was Cdn\$850,000. If at any point Plug Power Canada's repayments reached this amount, the obligation would cease.

At April 1, 2009, the total amount repaid to the NRC was less than the Cdn\$500,000 contribution, therefore Plug Power Canada was required to make payments to the NRC until either the full Cdn\$500,000 was repaid or until July 1, 2012, whichever came first. As of February 2010 Plug Power Canada repaid the full Cdn\$500,000.

The Company recorded the estimate of amounts owed under this arrangement as a debt, with royalty payments recorded as a reduction of the debt. Accordingly, liabilities relating to this agreement in the amount of \$119,408 have been recorded as current portion of repayable government assistance (other current liabilities) in the condensed consolidated balance sheet as of December 31, 2009.

Table of Contents**9. Restructuring Charges**

On May 25, 2010, the Company adopted a restructuring plan to focus and align the Company on its GenDrive business. As part of this plan, the Company is consolidating all operations to its Latham, New York headquarters. The consolidation of operations is continuing over the next several months. The Company recorded restructuring charges in the amount of \$116,724 and \$6,501,616 within selling, general and administrative expenses in the condensed consolidated statement of operations for the three and nine months ending September 30, 2010 in relation to this restructuring. At September 30, 2010, \$385,006 remains in accrued expenses on the condensed consolidated balance sheets.

The accrued restructuring charges relating to the May 2010 restructuring are comprised of the following at September 30, 2010:

	Accrued restructuring charges at January 1, 2010	Total amount expensed	Cash payments	Accrued restructuring charges at September 30, 2010
Personnel Related	\$	\$ 2,542,374	\$ (2,457,368)	\$ 85,006
Contract Cancellation		3,718,993	(3,418,993)	300,000
Non-cash Settlement		234,489	N/A	N/A
Other		5,760	(5,760)	
Total	\$	\$ 6,501,616	\$ (5,882,121)	\$ 385,006

During 2008, the Company adopted two restructuring plans to focus the Company on becoming a market and sales driven organization, to drive revenue growth, improve organizational efficiency and to position the Company for long-term profitability. As part of the plans, the Company implemented reductions in workforce, terminated purchase commitments, charged off inventory related to lapsed product lines, cut back discretionary spending, and deferred non strategic projects. The Company decreased selling, general and administrative expenses by \$460,234 and \$476,234, respectively, in the three and nine months ending September 30, 2010 as a result of changes in original estimates in relation to this restructuring. At September 30, 2010, approximately \$822,794 remains in accrued expenses on the condensed consolidated balance sheets related to these 2008 restructurings for contract cancellations and remaining net lease obligations.

Table of Contents

10. Credit Line Agreement and Auction Rate Debt Securities Repurchase Agreement

In December 2008, the Company entered into a Credit Line Agreement with a third-party lender with a maximum availability of \$62.9 million. The Company's auction rate debt securities included in trading securities on the consolidated balance sheets were pledged as collateral for the Credit Line Agreement. As of December 31, 2008, the Company had drawn down \$62.9 million on this line of credit. During the nine months ended September 30, 2010 and September 30, 2009, approximately \$59.4 million and \$3.3 million, respectively, of auction rate debt securities were sold by the third-party lender holding the collateral which resulted in a corresponding reduction in amounts outstanding under the Credit Line Agreement. The fair value of the auction rate debt securities was \$53.4 million at December 31, 2009. The Credit Line Agreement had interest at a variable rate equal to the average rate of interest earned by the Company on the auction rate debt securities pledged as collateral for the Credit Line Agreement. The interest rate on the line of credit advances was 1.2% at December 31, 2009. Interest expense on the advances on the Credit Line Agreement was approximately \$305,000 and \$652,000 for the nine months ended September 30, 2010 and September 30, 2009, respectively.

The advances on the Credit Line Agreement were repayable on demand by the third-party lender. If the third-party lender had exercised its right to demand repayment of the advances under the Credit Line Agreement prior to June 30, 2010 (the date upon which the Company could first exercise its rights under the Repurchase Agreement discussed below), the third-party lender was required to arrange alternative financing on terms substantially the same as the Credit Line Agreement or the third party lender must repurchase the auction rate debt securities pledged as collateral for the Credit Line Agreement at their par value, which was \$59.4 million at December 31, 2009.

In December 2008, the Company also entered into a Repurchase Agreement with the third-party lender such that the Company may require the third-party lender to repurchase the auction rate debt securities pledged as collateral for the Credit Line Agreement, at their par value, from June 30, 2010 through July 2, 2012 as full settlement for the advances on the Credit Line Agreement. The Company elected to record this item at its fair value in accordance with ASC No. 825-10-25 to allow consistent treatment of this repurchase agreement and the underlying collateral. At December 31, 2009, the fair value of this item was approximately \$6.0 million and was recorded as an asset on the condensed consolidated balance sheets. The change in the fair value of the Repurchase Agreement for the nine months ended September 30, 2010 and September 30, 2009 was approximately \$6.0 million and \$4.1 million, respectively, and is recorded as a realized loss on the condensed consolidated statements of operations.

Effective July 1, 2010, all auction rate debt securities were repurchased at par by the third-party lender holding the collateral under the Repurchase Agreement which resulted in a corresponding reduction in amounts outstanding and the extinguishment of the Credit Line Agreement.

Table of Contents

11. Debt and Lease Arrangement

In March 2009, the Company signed a \$1.7 million promissory note issued by Key Equipment Finance Inc. for the purpose of financing its investment in equipment that was leased to its customer, Central Grocers, beginning on April 1, 2009. Monthly installments of \$32,900 are due through March 2014 and the note bears interest at a fixed rate of 7.23% per annum on a 360-day year. The Company was required to pledge \$1.8 million in cash to collateralize the debt. This note is also secured by the equipment that is leased to Central Grocers as described in the Master Security Agreement and Collateral Schedule No. 01 dated as of March 20, 2009, together known as the Master Security Agreement.

The outstanding balance of the debt as of September 30, 2010 and December 31, 2009 is \$1.2 million and \$1.4 million, respectively, and is recorded as current portion of long term debt and long term debt in the condensed consolidated balance sheets. Restricted cash and the amount of the corresponding pledge requirement as of September 30, 2010 and December 31, 2009 was \$1.7 million and is recorded as restricted cash in the condensed consolidated balance sheets. Principal payments due on long-term debt over the next five fiscal years are as follows: 2011, \$323,000; 2012, \$347,000; 2013, \$373,000; 2014, \$98,000; and 2015, \$0.

On April 1, 2009, the Company began leasing this same equipment to its customer, Central Grocers. The terms of the arrangement are 60 monthly installments of \$32,900. Upon expiration of the 60 months (initial term of the lease), Central Grocers has the option to renew the lease for an additional five years at mutually agreed upon pricing, to purchase all equipment for a purchase price equal to the then fair market value thereof, or to return the equipment to the Company. The Company shall provide maintenance in accordance with the lease agreement.

In July 2009, the Company signed a letter of credit with Key Bank in the amount of \$525,000. The standby letter of credit is required by the agreement negotiated between Air Products and Chemicals, Inc. (Air Products) and the Company to supply hydrogen infrastructure and hydrogen to Central Grocers at their distribution center. The standby letter of credit is collateralized by cash held in a restricted account and is recorded as restricted cash in the condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009 at \$525,000.

In October 2009, the Company entered into a 15 month financing arrangement for an electrolyzer. The outstanding balance of the debt as of September 30, 2010 and December 31, 2009 was approximately \$39,000 and \$123,000, respectively, and is recorded as current portion of long term debt and long term debt in the condensed consolidated balance sheets.

Table of Contents**12. Available-For-Sale Securities**

The amortized cost and fair value of the Company's available-for-sale securities as of September 30, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Securities	\$ 10,409,008	\$ 11,077	\$ 10,431	\$ 10,409,654

The amortized cost and fair value of the Company's available-for-sale securities as of December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Securities	\$ 47,864,122	\$ 95,798	\$	\$ 47,959,920

There were gross unrealized losses of \$10,431 and \$0 in the available-for-sale securities portfolio at September 30, 2010 and December 31, 2009, respectively. The contractual maturities of available-for-sale securities are all by the year ended December 31, 2011 for balances as of September 30, 2010, and December 31, 2010 for balances as of December 31, 2009.

The Company recognized gross gains, gross losses and proceeds on available-for-sale securities for each of the nine months ended September 30 as follows:

	2010	2009
Proceeds on Sales	\$ 14,975,693	\$ 2,699,181
Proceeds on Maturities	\$ 55,390,212	\$ 91,864,841

Gross Realized Gains	\$	-	\$	-
Gross Realized Losses	\$	-	\$	-

[Table of Contents](#)

13. Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the provision of ASC 825-10-65, Financial Instruments – Transition and Open Effective Date Information (ASC 825-10-65). ASC 825-10-65 requires disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. Although the estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies, the estimates presented are not necessarily indicative of the amounts that the Company could realize in current market exchanges.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, accounts receivable, accrued interest receivable and payable, notes receivable and borrowings under line of credit: The carrying amounts reported in the condensed consolidated balance sheets approximate fair value because of the short maturities of these instruments.

Long term debt: The carrying amount reported in the condensed consolidated balance sheets approximates fair value as the debt was negotiated at market rates during the first quarter 2009 and there have not been any significant changes since that time.

14. Multiple-Deliverable Revenue Arrangements

Effective April 1, 2010, the Company adopted ASU No. 2009-13 on Topic 605, Revenue Recognition – Multiple Deliverable Revenue Arrangements retroactive to January 1, 2010. The objective of this ASU is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. This ASU provides amendments to the criteria in Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. The amendments in this ASU establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The amendments in this ASU also replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant and expands the disclosure requirements related to a vendor's multiple-deliverable revenue arrangements. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, however, the Company chose early adoption of this ASU as noted above.

Table of Contents

In an arrangement with multiple-deliverables, the delivered items will be considered a separate unit of accounting if the following criteria are met:

- The delivered item or items have value to the customer on a standalone basis.
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item or items is considered probable and substantially in the control of the vendor.

The Company enters into multiple-deliverable revenue arrangements that may contain a combination of fuel cell systems or equipment, installation, service, maintenance, fueling and other support services. The delivered item, equipment, does have value to the customer on a standalone basis and could be separately sold by another vendor. In addition, the Company does not include a right of return on its products.

The Company was previously prohibited from separating these multiple deliverables into individual units of accounting without VSOE of fair value or other TPE of fair value. This evidence was not available due to our limited experience and lack of evidence of fair value of the undelivered components of the sale. Without this level of evidence, the Company had to treat each sale as a single unit of accounting and defer the revenue recognition of each sale, recognizing revenue over a straight-line basis as the continued service, maintenance and other support obligations expired. Under ASU No. 2009-13, the requirement to have VSOE or TPE in order to recognize revenue has been modified, and it now allows the vendor to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available.

Per the provisions of ASU No. 2009-13, the Company allocates arrangement consideration to each deliverable in an arrangement based on its relative selling price. The Company determines selling price using VSOE, if it exists, otherwise TPE. If neither VSOE nor TPE of selling price exists for a unit of accounting, the Company uses ESP.

VSOE is generally limited to the price that a vendor charges when it sells the same or similar products or services on a standalone basis. TPE is determined based on the prices charged by competitors of the Company for a similar deliverable when sold separately. The Company generally expects that it will not be able to establish VSOE or TPE for certain deliverables due to the lack of standalone sales and the nature of the markets in which the Company competes, and, as such, the Company typically will determine selling price using ESP.

The objective of ESP is to determine the price at which the Company would transact if the product or service were sold by the Company on a standalone basis. The Company's determination of ESP may involve a weighting of several factors based on the specific facts and circumstances of the arrangement. Specifically, the Company may consider the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, 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 will determine ESP for deliverables in future agreements based on the specific facts and circumstances of the arrangement.

Table of Contents

As noted above, in determining selling price, TPE is generally not readily available due to a lack of a competitive environment in selling fuel cell technology. However, when determining selling price for certain deliverables such as service and maintenance, if available, the Company utilizes prices charged by its competitors as TPE when estimating its costs for labor hours.

Each deliverable within the Company's multiple-deliverable revenue arrangements is accounted for as a separate unit of accounting under the guidance of ASU No. 2009-13. Once a standalone selling price for all the deliverables that meet the separation criteria has been met, whether by VSOE, TPE or ESP, the relative selling price method is used to proportionately allocate each element of the arrangement to the sale consideration. The Company plans to analyze the selling prices used in its allocation of arrangement consideration at a minimum on an annual basis. Selling prices will be analyzed on a more frequent basis if a significant change in the Company's business necessitates a more timely analysis or if the Company experiences significant variances in its selling prices.

Deliverables not meeting the criteria for being a separate unit of accounting are combined with a deliverable that does meet that criterion. The appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting.

The majority of the Company's multiple-deliverable revenue arrangements ship complete within the same quarter. The Company anticipates that the effect of the adoption of this guidance on subsequent periods will be primarily based on the arrangements entered into and the timing of shipment of deliverables.

As a result of implementing ASU No. 2009-13, the Company recognized approximately \$3.6 million and \$6.3 million as revenue in the three and nine months ended September 30, 2010, respectively, that would have been deferred under the previous guidance for multiple-element revenue arrangements. Total revenue recognized under multiple-deliverable revenue arrangements in the three and nine months ended September 30, 2010 was approximately 76.0% and 60.8% of total product and service revenue, respectively.

Table of Contents

During the previously reported interim period ended March 31, 2010, the following was reported in the condensed consolidated statement of operations:

Product and service revenue	\$	1,539,342
Net loss	\$	(12,182,585)
Earnings per share	\$	(0.09)

During the previously reported interim period ended March 31, 2010, the following would have been the effect of the change of adopting ASU No. 2009-13 in the condensed consolidated statement of operations:

Product and service revenue	\$	3,163,177
Net loss	\$	(10,558,750)
Earnings per share	\$	(0.08)

For all product and service revenue transactions entered into prior to the implementation of ASU No. 2009-13, the Company will continue to defer the recognition of product and service revenue and recognize revenue on a straight-line basis as the continued service, maintenance and other support obligations expire, which are generally for periods of twelve to thirty months, or which can extend over multiple years. While contract terms for those transactions generally required payment shortly after shipment or delivery and installation of the fuel cell system and were not contingent on the achievement of specific milestones or other substantive performance, the multiple-element revenue obligations within our contractual arrangements were generally not accounted for separately based on our limited experience and lack of evidence of fair value of the undelivered components.

15. Subsequent Events

Effective October 26, 2010, the Company announced that it has licensed the intellectual property (IP) relating to its stationary power products, GenCore and GenSys, to IdaTech plc on a non-exclusive basis. As part of the transaction, the Company also sold inventory, equipment and certain other assets related to its stationary power business. The Company currently has over 140 patents and maintains ownership of, and the right to use, the patents and other intellectual property licensed to IdaTech. Total consideration for the licensing and assets was \$5 million and was received during October 2010. The consideration is subject to reduction by a maximum of \$1 million in the event that the Company does not deliver certain of the assets sold. As of September 30, 2010, approximately \$1.2 million is included in assets held for sale in the unaudited condensed consolidated balance sheets.

The Company has evaluated subsequent events and transactions through the date of this filing for potential recognition or disclosure in the financial statements and has noted no other subsequent events requiring recognition or disclosure.

Table of Contents

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 condensed 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, 2009. 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, estimate, expect, intend, may, should, will and would or similar words. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Investors are cautioned not to 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 unit orders will not ship, be installed and/or convert to revenue, in whole or in part; the cost and timing of developing our products and our ability to raise the necessary capital to fund such development costs; the cost and availability of fuel and fueling infrastructures for our products; market acceptance of our GenDrive system; 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 improve system reliability for GenDrive; our ability to successfully expand our product lines; competitive factors, such as price competition and competition from other traditional and alternative energy companies; our ability to manufacture products on a large-scale commercial basis; our ability to protect our intellectual property; the cost of complying with current and future governmental regulations; and other risks and uncertainties discussed, but are not limited to, those set forth in Item 1A-Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on March 16, 2010 as updated by Part II, Item 1A of this Form 10-Q. 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.

Table of Contents

Overview

Plug Power Inc., or the Company, is a leading provider of alternative energy technology and is involved in the design, development, commercialization and manufacture of fuel cell systems for the industrial off-road (forklift or material handling) market. Plug Power has also provided product development for the back-up and stationary power markets world wide. Effective April 1, 2010, the Company is no longer considered a development stage enterprise since current principal operations have begun to provide more than insignificant revenues as the Company has received orders from repeat customers, increased its customer base and has a significant backlog. Prior to April 1, 2010, the Company was considered a development stage enterprise because substantially all of our resources and efforts were aimed at the discovery of new knowledge that could lead to significant improvement in fuel cell reliability and durability, and the establishment, expansion and stability of markets for our products.

We are focused on proton exchange membrane, or PEM, fuel cell and fuel processing technologies and fuel cell/battery hybrid technologies, 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 (LPG), natural gas, propane, methanol, ethanol, gasoline or biofuels. Hydrogen can also be obtained from the electrolysis of water. Hydrogen can be purchased directly from industrial gas providers or can be produced on-site at consumer locations.

We offer our hydrogen fueled PEM GenDrive™ power unit for sale on commercial terms for industrial off-road (forklift or material handling) applications, with a focus on multi-shift high volume manufacturing and high throughput distribution sites.

While we have invested in development and sales activities for low-temperature remote-prime power GenSys® products, we have determined to focus on our GenDrive products and not to develop or manufacture GenSys products in the near term.

In 2010, to the extent of existing purchase commitments, we continued to manufacture and support our GenCore® product, a hydrogen fueled PEM fuel cell system to provide back-up power for critical infrastructure. We intend to focus our efforts on developing, manufacturing and selling our GenDrive products and do not expect to develop or manufacture GenCore products in the near term.

Recent Developments

Service and Supply Agreement. On February 2, 2010, the Company signed a service and supply agreement with the Raymond Corporation (Raymond), a global provider of material handling solutions that improve space utilization and productivity, with lower cost of operation and greater operator acceptance. Raymond is now an independent distributor for the sale, rental and lease of Plug Power GenDrive fuel cell units in North America. As an authorized service provider, Raymond also will provide warranty and maintenance service on GenDrive products through its

North American Sales and Service Center Network. In addition, Raymond is a GenDrive authorized distributor of service parts.

26

Table of Contents

On July 15, 2010, the Company and Ballard Power Systems Inc. (Ballard) announced an extension to their existing supply agreement through 2014. Ballard will remain the exclusive supplier of fuel cell stacks for the Company's full suite of GenDrive products. In addition, the Company will become the exclusive systems integrator for Ballard's fuel cell stack into solutions addressing the material handling market in North America. The previous agreement was due to expire December 31, 2010.

Commercialization Agreement. On February 4, 2010, the Company signed a commercialization agreement with CITIC GuoAn Mengguli Power Science & Technology Co., Ltd. (MGL), a leader in advanced lithium-ion batteries and materials, for the joint marketing and sales of their co-developed high power lithium-ion battery systems into automotive applications. In our on-going effort to improve performance and reduce cost of its GenDrive products for the material handling market, we began the development of a lithium based hybrid battery system to replace our nickel-metal hydride hybrid batteries. Based on the successful introduction of the lithium battery systems into GenDrive products, it became evident that other adjacent markets could also benefit from this sophisticated and configurable technology. Through this agreement, Plug Power and MGL will first introduce their products to the Chinese automotive industry, where New Energy sponsored programs are supporting the deployment of at least 500,000 hybrid and pure electric vehicles over the next four years.

Restructuring. On May 25, 2010, the Company adopted a restructuring plan to focus and align the Company on its GenDrive business. As part of this plan, the Company is consolidating all operations to its Latham, New York headquarters. The consolidation of operations will continue over the next several months. With the full implementation of the restructuring plan, the Company's operating expenses are expected to decrease by \$12 to 15 million annually, preserving necessary capital to help accelerate market adoption in the material handling market. The Company recorded restructuring charges in the amount of \$6,501,616 within selling, general and administrative expenses in the condensed consolidated statement of operations for 2010 in relation to this restructuring. At September 30, 2010, \$385,006 remains in accrued expenses on the condensed consolidated balance sheets.

Licensing Agreement. Effective October 26, 2010, the Company announced that it has licensed the intellectual property (IP) relating to its stationary power products, GenCore and GenSys, to IdaTech plc on a non-exclusive basis. As part of the transaction, the Company also sold inventory, equipment and certain other assets related to its stationary power business. The Company currently has over 140 patents and maintains ownership of, and the right to use, the patents and other intellectual property licensed to IdaTech. Total consideration for the licensing and assets was \$5 million and was received during October 2010. The consideration is subject to reduction by a maximum of \$1 million in the event that the Company does not deliver certain of the assets sold. As of September 30, 2010, approximately \$1.2 million is included in assets held for sale in the unaudited condensed consolidated balance sheets. While the Company plans to focus its efforts on the GenDrive product line, it will also continue to pursue opportunities to monetize the technology and intellectual property relating to GenSys and GenCore.

Departure of Directors or Principal Officers. On August 27, 2010, Mark A. Sperry stepped down from his positions as Senior Vice President of the Company and as General Manager of the Company's Continuous Power Division. The

Company and Mr. Sperry have entered into an agreement under which Mr. Sperry will provide consulting services to the Company for a period of up to twelve (12) months. The Company's maximum obligation under the consulting agreement shall not exceed \$100,000.

On October 15, 2010, Jeffrey M. Drazen tendered his resignation as a member of the Board of Directors of the Company. The resignation was effective October 13, 2010. Mr. Drazen has no disagreements with the Company on any matter relating to the Company's operations, policies or practices.

[Table of Contents](#)

Results of Operations

Product and service revenue. Effective April 1, 2010, the Company adopted ASU No. 2009-13 on Topic 605, Revenue Recognition – Multiple Deliverable Revenue Arrangements retroactive to January 1, 2010. ASU No. 2009-13 amends the FASB ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. As a result of implementing ASU No. 2009-13, we recognized approximately \$3.6 million and \$6.3 million in the three and nine months ended September 30, 2010 that would have been deferred under the Company's previous guidance for multiple-deliverable revenue arrangements. The Company anticipates that the effect of the adoption of this guidance on subsequent periods will be primarily based on the arrangements entered into and the timing of shipment of deliverables. See Note 14, Multiple-Deliverable Revenue Arrangements of the unaudited condensed consolidated financial statements, Part I, Item 1 of this Form 10-Q for further discussion of our multiple-deliverable revenue arrangements.

For all product and service revenue transactions entered into prior to the implementation of ASU No. 2009-13, the Company will continue to defer the recognition of product and service revenue and recognize revenue on a straight-line basis as the continued service, maintenance and other support obligations expire, which are generally for periods of twelve to thirty months, or which can extend over multiple years. While contract terms for those transactions generally required payment shortly after shipment or delivery and installation of the fuel cell system and were not contingent on the achievement of specific milestones or other substantive performance, the multiple-element revenue obligations within our contractual arrangements were generally not accounted for separately based on our limited experience and lack of evidence of fair value of the undelivered components.

Product and service revenue for the three months ended September 30, 2010 increased approximately \$3.8 million, or 359.0%, to \$4.8 million from \$1.0 million for the three months ended September 30, 2009. Approximately \$3.6 million of the increase is related to the adoption of ASU No. 2009-13 as well as an increase in current period system shipments partially offset by a decrease in revenue from prior period system shipments no longer being recognized. A portion of the non-deferred revenue represents revenue associated with replacement parts or services not covered by service agreements or other similar types of sales where the Company has no continuing obligation after the parts are shipped or delivered or after services are rendered.

In the product and service revenue category, during the three months ended September 30, 2010, we shipped 170 fuel cell systems to end customers as compared to 6 fuel cell systems shipped to end customers during the three months ended September 30, 2009. In the three months ended September 30, 2010, we recognized approximately \$4.2 million of revenue for products shipped or delivered or services rendered in the three months ended September 30, 2010 as compared to approximately \$407,000 of revenue recognized in the three months ended September 30, 2009 for products shipped or delivered or services rendered in the three months ended September 30, 2009, which includes approximately \$357,000 of non-deferred revenue. Additionally, in the three months ended September 30, 2010 and 2009 we recognized approximately \$638,000, respectively of product and services revenue from fuel cell shipments made in prior years.

Table of Contents

Product and service revenue for the nine months ended September 30, 2010 increased approximately \$6.7 million, or 184.7%, to \$10.3 million from \$3.6 million for the nine months ended September 30, 2009. Approximately \$6.3 million of the increase is related to the adoption of ASU No. 2009-13 as well as an increase in current period system shipments partially offset by a decrease in revenue from prior period system shipments no longer being recognized. A portion of the non-deferred revenue represents revenue associated with replacement parts or services not covered by service agreements or other similar types of sales where the Company has no continuing obligation after the parts are shipped or delivered or after services are rendered.

In the product and service revenue category, during the nine months ended September 30, 2010, we shipped 371 fuel cell systems (361 are related to sales to end customers and 10 were delivered to Central Grocers under a lease arrangement whereby Plug Power retains title and ownership of the equipment) as compared to 172 fuel cell systems (32 are related to sales to end customers and 140 were delivered to Central Grocers under a lease arrangement whereby Plug Power retains title and ownership of the equipment) shipped during the nine months ended September 30, 2009. In the nine months ended September 30, 2010, we recognized approximately \$8.1 million of revenue for products shipped or delivered or services rendered in the nine months ended September 30, 2010 as compared to approximately \$1.0 million of revenue recognized in the nine months ended September 30, 2009 for products shipped or delivered or services rendered in the nine months ended September 30, 2009, which includes approximately \$934,000 of non-deferred revenue. Additionally, in the nine months ended September 30, 2010 we recognized approximately \$2.2 million of product and services revenue from fuel cell shipments made prior to 2010, whereas in the nine months ended September 30, 2009 we recognized approximately \$2.6 million of product and service revenue from fuel cell shipments made prior to 2009.

Research and development contract revenue. Research and development contract revenue primarily relates to 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 generally 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. Revenue from fixed fee contracts is recognized on the basis of percentage of completion. We expect to continue certain research and development contract work that is directly related to our current product development efforts.

Research and development contract revenue for the three months ended September 30, 2010 decreased approximately \$540,000, or 36.1%, to approximately \$957,000 from \$1.5 million for the three months ended September 30, 2009. The decrease is primarily related to having fewer active contracts in 2010.

Research and development contract revenue for the nine months ended September 30, 2010 decreased approximately \$1.8 million, or 38.3%, to approximately \$2.9 million from \$4.8 million for the nine months ended September 30, 2009. The decrease is primarily related to having fewer active contracts in 2010.

Cost of product and service revenue. Cost of product and service revenue includes the direct material and labor cost as well as an allocation of overhead costs that relate to the manufacturing of products we sell. In addition, cost of product and service revenue also includes the labor and material costs incurred for product maintenance, replacement parts and service under our contractual obligations.

Table of Contents

Cost of product and service revenue for the three months ended September 30, 2010 increased approximately \$6.0 million, or 450.3%, to \$7.3 million from \$1.3 million for the three months ended September 30, 2009. The increase is primarily related to increased product and service fuel cell system shipments to end customers. There were 170 fuel cell system shipments for the three months ended September 30, 2010 as compared to 6 for the three months ended September 30, 2009. There were no fuel cell system shipments being accounted for under a lease arrangement during the three months ended September 30, 2010 and 2009. The increase also includes an allocation of overhead costs charged to cost of product and service revenue as a result of increased sales and a focus on commercial production of our product. Accordingly, some of these costs were included in research and development expense prior to this quarter, due to the Company's focus on research and development at that time.

Cost of product and service revenue for the nine months ended September 30, 2010 increased approximately \$11.6 million, or 325.5%, to \$15.2 million from \$3.6 million for the nine months ended September 30, 2009. The increase is primarily related to increased product and service fuel cell system shipments to end customers. There were 371 fuel cell system shipments for the nine months ended September 30, 2010 as compared to 172 for the nine months ended September 30, 2009, which includes 10 and 140 fuel cells, respectively, that are being accounted for under a lease arrangement. Therefore, the cost recognized on those shipments is recorded on the condensed consolidated balance sheets as investment in leased property and is being depreciated over the lease term. The increase also includes an allocation of overhead costs charged to cost of product and service revenue as a result of increased sales and a focus on commercial production of our product. Accordingly, some of these costs were included in research and development expense prior to this quarter, due to the Company's focus on research and development at that time.

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

Cost of research and development contract revenue for the three months ended September 30, 2010 decreased approximately \$1.1 million, or 38.5%, to \$1.7 million from \$2.8 million for the three months ended September 30, 2009. This decrease is primarily related to having fewer active contracts in 2010.

Cost of research and development contract revenue for the nine months ended September 30, 2010 decreased approximately \$2.5 million, or 31.8%, to \$5.3 million from \$7.8 million for the nine months ended September 30, 2009. This decrease is primarily related to having fewer active contracts in 2010.

Table of Contents

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 outside suppliers for subcontracted components and services, 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, 2010 decreased approximately \$2.3 million, or 52.5%, to \$2.1 million from \$4.4 million for the three months ended September 30, 2009. This decrease was primarily a result of the wind-down of our operations in Plug Power Energy India Private Limited, Plug Power Canada as well as our Plug Power Holland organization. The decrease was also coupled with our allocation of overhead costs charged to cost of product and service revenue as a result of increased sales and a focus on commercial production of our product. Accordingly, some of these costs were included in research and development expense prior to this quarter, due to the Company's focus on research and development at that time.

Research and development expense for the nine months ended September 30, 2010 decreased approximately \$856,000, or 6.7%, to \$12.0 million from \$12.8 million for the nine months ended September 30, 2009. This decrease was primarily a result of the wind-down of our operations in Plug Power Energy India Private Limited, Plug Power Canada as well as our Plug Power Holland organization. The decrease was also coupled with our allocation of overhead costs charged to cost of product and service revenue as a result of increased sales and a focus on commercial production of our product. Accordingly, some of these costs were included in research and development expense prior to this quarter, due to the Company's focus on research and development at that time.

Selling, general and administrative expenses. Selling, general and administrative expenses includes cash and non-cash compensation, benefits 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, 2010 decreased approximately \$543,000, or 13.7%, to \$3.4 million from \$4.0 million for the three months ended September 30, 2009. This decrease was primarily the result of the wind-down of our operations in Canada.

Table of Contents

Selling, general and administrative expenses for the nine months ended September 30, 2010 increased approximately \$6.1 million, or 52.8%, to \$17.8 million from \$11.7 million for the nine months ended September 30, 2009. This increase was primarily a result of the corporate restructuring plan announced in May 2010.

Amortization of intangible assets. Amortization of intangible assets represents the amortization associated with the Company's acquired identifiable intangible assets from Plug Power Canada Inc., including acquired technology and customer relationships, which are being amortized over eight years.

Amortization of intangible assets increased to approximately \$563,000 for the three months ended September 30, 2010, compared to approximately \$544,000 for the three months ended September 30, 2009. The increase is related to foreign currency fluctuations.

Amortization of intangible assets increased to approximately \$1.7 million for the nine months ended September 30, 2010, compared to approximately \$1.6 million for the nine months ended September 30, 2009. The increase is related to foreign currency fluctuations.

Interest and other income. Interest and other income consists primarily of interest earned on our cash, cash equivalents, available-for-sale securities, trading securities and other income.

Interest and other income for the three months ended September 30, 2010 decreased approximately \$485,000, or 77.4%, to \$142,000 from \$627,000 for the three months ended September 30, 2009. This decrease is primarily related to lower cash balances coupled with lower yields on our investments due to a declining interest rate environment offset by increased rental income received from our Latham facility. Interest income on trading securities and available-for-sale securities for the three months ended September 30, 2010 was approximately \$0 and \$49,000, respectively. Interest income on trading securities and available-for-sale securities for the three months ended September 30, 2009 was approximately \$95,000 and \$94,000, respectively.

Interest and other income for the nine months ended September 30, 2010 decreased approximately \$565,000, or 42.9%, to \$753,000 from \$1.3 million for the nine months ended September 30, 2009. This decrease is primarily related to lower cash balances coupled with lower yields on our investments due to a declining interest rate environment offset by increased rental income received from our Latham facility. Interest income on trading securities and available-for-sale securities for the nine months ended September 30, 2010 was approximately \$352,000 and \$157,000, respectively. Interest income on trading securities and available-for-sale securities for the nine months ended September 30, 2009 was approximately \$570,000 and \$299,000, respectively.

Table of Contents

Gain on auction rate debt securities repurchase agreement. In December 2008, the Company entered into a Repurchase Agreement with the third-party lender such that the Company may require the third-party lender to repurchase the auction rate debt securities pledged as collateral for the Credit Line Agreement, at their par value, from June 30, 2010 through July 2, 2012. As a result of the Repurchase Agreement entered into with a third party lender in December 2008, the Company reclassified the auction rate debt securities from available-for-sale securities to trading securities. The Company elected to record this item at its fair value in accordance with FASB ASC No. 825-10-25, Fair Value Option. The third-party lender repurchased the securities on July 1, 2010 in accordance with the Repurchase Agreement. The corresponding Credit Line Agreement was paid in full on July 1, 2010 in conjunction with the repurchase of the auction rate debt securities. The change in fair value of approximately \$2.8 million and \$6.0 million during the three and nine months ended September 30, 2010 was recorded as a loss in the condensed consolidated statements of operations which is offset by the change in fair value of the auction rate debt securities held as collateral of approximately \$2.8 million and \$6.0 million that is recorded as a gain in the condensed consolidated statements of operations for the three and nine months ended September 30, 2010. At December 31, 2009, the fair value of this item was \$6.0 million. The change in fair value of approximately \$570,000 and \$4.1 million during the three and nine months ended September 30, 2009 was recorded as a loss in the condensed consolidated statements of operations which is offset by the change in fair value of the auction rate debt securities held as collateral of approximately \$570,000 and \$4.1 million that is recorded as a gain in the condensed consolidated statements of operations for the three and nine months ended September 30, 2009.

Interest and other expense. Interest and other expense consists of interest on repayable government assistance amounts related to the activities of Cellex and General Hydrogen, interest related to the Credit Line Agreement and long term debt, and foreign currency exchange gain/(loss).

Interest and other expense for the three months ended September 30, 2010 and 2009 was approximately \$33,000 and \$286,000, respectively. Interest expense related to the Credit Line Agreement was approximately \$8,000 and \$216,000, respectively, for the three months ended September 30, 2010 and 2009.

Interest and other expense for the nine months ended September 30, 2010 and 2009 was approximately \$406,000 and \$900,000, respectively. Interest expense related to the Credit Line Agreement was approximately \$305,000 and \$652,000, respectively, for the nine months ended September 30, 2010 and 2009.

Income taxes. We did not report a benefit for federal and state income taxes in the condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 as the deferred tax asset generated from our net operating loss has been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carry forward will not be realized.

Table of Contents**Liquidity and Capital Resources**

We have experienced recurring operating losses and we anticipate incurring substantial additional losses. Our May 2010 restructuring plan, which involves focusing on our GenDrive business and consolidating our operations into our Latham, New York facility, is expected to reduce these losses going forward. We anticipate that the restructuring will reduce our annual operating expenses by approximately \$12 to \$15 million. Further, we are projecting a significant improvement in the gross margins and an increase in the number of shipments of our GenDrive products. As a result, we believe that our current cash, cash equivalents, available-for-sale securities balances and cash generated from future operations will provide sufficient liquidity to fund operations for the next twelve months. However, in the event that our operating expenses are higher than anticipated or the gross margins and shipments of our GenDrive products do not increase as we expect, we may be required to seek external equity or debt financing to fund our operations. There can be no assurance that we will be able to obtain any equity or debt financing on terms acceptable to us or at all. Our cash requirements depend primarily on working capital needed to sustain rapid growth of our business as we expand market adoption of our products and continue product development as we advance our product roadmap and release new products into the commercial marketplace. We expect to devote substantial capital resources to continuing to build a sales base, expanding market channels, servicing our installed base, hiring and training production staff, developing and better utilizing our manufacturing capacity and future product development. We expect to pursue the expansion of our operations primarily through internal growth and possibly strategic acquisitions and expect that such activities will be funded from existing cash, cash equivalents, available-for-sale securities and cash generated from future operations and, subject to market and other conditions, external equity or debt financing. There can be no assurance that we will be able to obtain any equity or debt financing on terms acceptable to us or at all. The failure to raise the funds necessary to finance future cash requirements or to consummate future acquisitions could adversely affect our financial condition, our ability to pursue our strategy and our results of operations.

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

(in thousands)	Nine months ended or at September 30, 2010	Nine months ended or at September 30, 2009	Year ended or at December 31, 2009
Cash and cash equivalents at end of period	\$ 10,325	\$ 24,136	\$ 14,581
Available-for-sale securities at end of period	10,410	46,975	47,960
Trading securities auction rate debt securities at end of period	-	53,485	53,397
Borrowings under line of credit at end of period	-	59,575	59,375
Working capital at end of period	25,984	70,432	60,009
Net loss	38,366	28,578	40,709

Edgar Filing: PLUG POWER INC - Form 10-Q

Net cash used in operating activities	39,463	29,781	38,228
Purchase of property, plant and equipment	1,197	46	533

Included in trading securities and working capital at December 31, 2009, was \$53.4 million of auction rate debt securities. The auction rate debt securities were secured by student loans which are generally guaranteed by the Federal government. These auction rate debt securities were structured to be tendered at par, at the investor's option, at auctions occurring every 27-30 days. However, due to the liquidity issues in the credit and capital markets, the market for auction rate debt securities began experiencing auction failures in February 2008, and there have been no successful auctions for the securities held in our portfolio since the failures began. We continued to receive interest on these securities, subject to an interest rate cap formula for each security as periodically adjusted in accordance with the respective securities' agreement. At December 31, 2009, the interest rates ranged from 0.61% to 3.48% on the auction rate debt securities.

Table of Contents

The Company had pledged these securities as collateral to a third-party lender for a Credit Line Agreement (See Note 10, Credit Line Agreement and Auction Rate Debt Securities Repurchase Agreement) entered into in December 2008. In December 2008, the Company entered into a Repurchase Agreement with a third-party lender such that the Company may require the third-party lender to repurchase the auction rate debt securities pledged as collateral for the Credit Line Agreement at their par value, from June 30, 2010 through July 2, 2012 as full settlement for the advances on the Credit Line Agreement. The fair value of the Repurchase Agreement at its origination was \$10.2 million. The fair value of the Repurchase Agreement at September 30, 2010 and December 31, 2009 was \$0 and \$6.0 million, respectively and is recorded as an asset on the condensed consolidated balance sheets. The change in fair value of approximately \$2.8 million and \$570,000 during the three months ended September 30, 2010 and 2009, respectively, was recorded as a loss in the condensed consolidated statements of operations which is offset by the change in fair value of the auction rate debt securities held as collateral of approximately \$2.8 million and \$570,000 that is recorded as a gain in the condensed consolidated statements of operations for the three months ended September 30, 2010 and 2009, respectively. The change in fair value of approximately \$6.0 million and \$4.1 million during the nine months ended September 30, 2010 and 2009, respectively, was recorded as a loss in the condensed consolidated statements of operations which is offset by the change in fair value of the auction rate debt securities held as collateral of approximately \$6.0 million and \$4.1 million that is recorded as a gain in the condensed consolidated statements of operations for the nine months ended September 30, 2010 and 2009, respectively.

Effective July 1, 2010, all auction rate debt securities were repurchased at par by the third-party lender holding the collateral under the Repurchase Agreement which resulted in a corresponding reduction in amounts outstanding and the extinguishment of the Credit Line Agreement.

Our cash requirements depend on numerous factors, including completion of our product development activities, ability to commercialize our fuel cell systems, market acceptance of our systems and other factors. We expect to pursue the expansion of our operations through internal growth and strategic acquisitions. As of September 30, 2010, we had cash and cash equivalents of \$10.3 million, available-for-sale securities of \$10.4 million and working capital of \$26.0 million.

During the nine months ended September 30, 2010, cash used for operating activities was \$39.5 million, consisting primarily of a net loss of \$38.4 million offset, in part, by non-cash expenses in the amount of \$5.5 million, including \$4.1 million for amortization and depreciation, \$1.3 million for stock based compensation, \$99,000 for loss on disposal of property, plant and equipment and \$10,000 in bad debt. Cash provided by investing activities for the nine months ended September 30, 2010 was \$95.4 million, consisting of \$59.4 million in proceeds from trading securities and \$37.5 million of maturities (net of purchases) of available-for-sale securities offset, in part, by \$1.2 million used to purchase property, plant and equipment and \$284,000 used as an investment in leased property. Cash used for financing activities for the nine months ended September 30, 2010 was approximately \$60.1 million consisting of \$59.4 million in repayment of borrowings under line of credit, \$442,000 for the purchase of treasury stock and \$314,000 in principal payments on long-term debt.

Table of Contents

Income Taxes

Under Internal Revenue Code (IRC) Section 382, the use of loss carryforwards may be limited if a change in ownership of a company occurs. If it is determined that due to transactions involving the Company's shares owned by its 5 percent shareholders a change of ownership has occurred under the provisions of IRC Section 382, the Company's net operating loss carryforwards could be subject to significant IRC Section 382 limitations and could no longer be available to the Company.

As a result of certain equity transactions that occurred during the fourth quarter of 2009, the Company began a formal IRC Section 382 study and completed the study in 2010. The Company believes it did not have a change of ownership, as defined by IRC Section 382, through the date of this report.

Critical Accounting Policies and Estimates

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

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" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The following material changes or modifications have been made to the policies since December 31, 2009:

Effective April 1, 2010, the Company adopted ASU No. 2009-13 on Topic 605, Revenue Recognition - Multiple Deliverable Revenue Arrangements retroactive to January 1, 2010. The objective of this ASU is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. This ASU provides amendments to the criteria in Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. The amendments in this ASU establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is

available. The amendments in this ASU also replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant and expands the disclosure requirements related to a vendor's multiple-deliverable revenue arrangements. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, however, the Company chose early adoption of this ASU as noted above.

Table of Contents

The Company was previously prohibited from separating these multiple deliverables into individual units of accounting without VSOE of fair value or other TPE of fair value. This evidence was not available due to our limited experience and lack of evidence of fair value of the undelivered components of the sale. Without this level of evidence, the Company had to treat each sale as a single unit of accounting and defer the revenue recognition of each sale, recognizing revenue over a straight-line basis as the continued service, maintenance and other support obligations expired. Under ASU No. 2009-13, the requirement to have VSOE or TPE in order to recognize revenue has been modified, and it now allows the vendor to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available.

For all product and service revenue transactions entered into prior to the implementation of ASU No. 2009-13, the Company will continue to defer the recognition of product and service revenue and recognize revenue on a straight-line basis as the continued service, maintenance and other support obligations expire, which are generally for periods of twelve to thirty months, or which can extend over multiple years. While contract terms for those transactions generally required payment shortly after shipment or delivery and installation of the fuel cell system and were not contingent on the achievement of specific milestones or other substantive performance, the multiple-element revenue obligations within our contractual arrangements were generally not accounted for separately based on our limited experience and lack of evidence of fair value of the undelivered components.

See Note 14, Multiple-Deliverable Revenue Arrangements of the unaudited condensed consolidated financial statements, Part I, Item 1 of this Form 10-Q for further discussion of our multiple-deliverable revenue arrangements.

The product and service revenue contracts entered into as of January 1, 2010 generally provide a one to two-year product warranty to customers from date of shipment. We currently estimate the costs of satisfying warranty claims based on an analysis of past experience and provide for future claims in the period the revenue is recognized. The Company carefully monitors the warranty work requested by its customers and management believes that its current warranty reserve appears adequate as of September 30, 2010. The Company's product and service warranty as of September 30, 2010 is approximately \$918,000 and is included in product warranty reserve in the unaudited condensed consolidated balance sheets.

Recent Accounting Pronouncements

A discussion of recent accounting pronouncements is included in Note 2, Basis of Presentation of the unaudited condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Table of Contents

Item 3 Quantitative and Qualitative Disclosures about Market Risk

We invest our excess 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. Accordingly, other than with respect to auction rate debt securities, we believe that, while the investment-grade securities we hold are subject to changes in the financial standing of the issuer of such securities, 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.

A portion of the Company's total financial performance was attributable to our operations in Canada. Our exposure to changes in foreign currency rates primarily arises from short-term inter-company transactions with our Canadian subsidiary and from client receivables in different currencies. Foreign sales are mostly made by our Canadian subsidiary and are typically denominated in Canada dollars. Our foreign subsidiaries incur most of their expenses in their local currency as well, which helps minimize our risk of exchange rate fluctuations, particularly between the U.S. dollar and the Canadian dollar. As exchange rates vary, the Company's results can be materially affected.

In addition, the Company may source inventory among its worldwide operations. This practice can give rise to foreign exchange risk resulting from the varying cost of inventory to the receiving location as well as from the revaluation of intercompany balances. The Company mitigates this risk through local sourcing efforts.

Item 4 Controls and Procedures

(a) Evaluation of disclosure controls and procedures

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934, our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in internal controls over financial reporting

As required by Rule 13a-15(d) under the Securities Exchange Act of 1934, our management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

Table of Contents

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

On September 29, 2010, Aspen Technology, Inc. filed a complaint against Plug Power Inc. in the Suffolk County, Massachusetts Superior Court, alleging that the Company breached a software license and service agreement due to nonpayment. The complaint seeks monetary damages of approximately \$745,000, which is allegedly the remaining license fee payable by the Company under the agreement, plus attorneys' fees and interest.

Item 1A - Risk Factors

Part II, Item 1A, "Risk Factors" of our most recently filed Annual Report on Form 10-K with the Securities and Exchange Commission, filed on March 16, 2010, sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Except as set forth below, or to the extent additional 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.

A continued failure to comply with NASDAQ's listing standards could result in the delisting of our common stock from the NASDAQ Capital Market and severely limit trading in our common stock.

We have failed to comply with NASDAQ's \$1.00 minimum bid price requirement since June 7, 2010, when our common stock listing was transferred to the NASDAQ Capital Market from the NASDAQ Global Market. In order to maintain our listing, we have until December 6, 2010, to regain compliance with the minimum bid price requirement. If we have not regained compliance with the minimum bid price requirement by December 6, 2010, our common stock will be delisted, subject to our right to a hearing and, in the event of a favorable determination by NASDAQ, an additional period to regain compliance. There can be no assurance that our common stock will continue to remain listed on the NASDAQ Capital Market. If our common stock is delisted, the ability to trade in our common stock would be severely limited.

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

(a) During the three months ended September 30, 2010, we issued 255,448 shares of our common stock in connection with matching contributions under our 401(k) Savings & Retirement Plan. The issuance of these shares is exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended.

(b) Not applicable.

(c) None.

Table of Contents

Item 3 Defaults Upon Senior Securities

None.

Item 4 Removed and Reserved

None.

Item 5 Other Information

(a) None.

(b) None.

Item 6 Exhibits

- 3.1 Amended and Restated Certificate of Incorporation of Plug Power Inc. (1)
- 3.2 Third Amended and Restated By-laws of Plug Power Inc. (3)
- 3.3 Certificate of Amendment to Amended and Restated Certificate of Incorporation of Plug Power Inc. (1)
- 3.4 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. (2)
- 31.1 and 31.2 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (4)
- 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. (4)

(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 Registration Statement on Form 8-A dated June 24, 2009.

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

(4) Furnished herewith

40

Table of Contents

Signatures

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

PLUG POWER INC.

Date: November 9, 2010

By: /s/ Andrew Marsh
Andrew Marsh
Chief Executive Officer

Date: November 9, 2010

By: /s/ Gerald A. Anderson
Gerald A. Anderson
Chief Financial Officer