

PLUG POWER INC
Form 10-Q
August 08, 2017
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.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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.

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(Exact name of registrant as specified in its charter)

Delaware	22-3672377
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

968 ALBANY SHAKER ROAD, LATHAM, NEW YORK 12110

(Address of Principal Executive Offices, including Zip Code)

(518) 782-7700

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 8, 2017 was 224,730,644.

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PART 1. FINANCIAL INFORMATION

Item 1 — Interim Financial Statements (Unaudited)

Plug Power Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,090	\$ 46,014
Restricted cash	14,830	11,219
Accounts receivable	15,268	11,923
Inventory	42,703	29,940
Prepaid expenses and other current assets	13,126	11,837
Total current assets	88,017	110,933
Restricted cash	37,202	43,403
Property, plant, and equipment, net of accumulated depreciation of \$30,594 and \$29,666, respectively	8,375	8,246
Leased property, net of accumulated depreciation of \$7,799 and \$4,544, respectively	70,293	54,060
Goodwill	9,006	8,291
Intangible assets, net of accumulated amortization of \$1,382 and \$1,032, respectively	3,926	3,933
Other assets	11,761	11,966
Total assets	\$ 228,580	\$ 240,832
Liabilities, Redeemable Preferred Stock, and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 28,149	\$ 32,112
Accrued expenses	6,336	8,519
Accrual for loss contracts related to service	—	752
Deferred revenue	5,050	5,736
Finance obligations	21,197	14,787
Current portion of long-term debt	5,383	2,964
Other current liabilities	995	1,615
Total current liabilities	67,110	66,485

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Deferred revenue	17,312	17,413
Common stock warrant liability	3,779	11,387
Finance obligations	22,743	29,767
Long-term debt	17,955	20,829
Other liabilities	261	241
Total liabilities	129,160	146,122
Redeemable preferred stock		
Series C redeemable convertible preferred stock, \$0.01 par value per share (aggregate involuntary liquidation preference \$16,664); 10,431 shares authorized; Issued and outstanding: 5,231 at June 30, 2017 and December 31, 2016	1,153	1,153
Series D redeemable convertible preferred stock, \$0.01 par value per share (aggregate involuntary liquidation preference \$0 at June 30, 2017 and \$18,500 at December 31, 2016); 5,000,000 shares authorized; Issued and outstanding: none at June 30, 2017 and 18,500 at December 31, 2016	—	8,469
Stockholders' equity:		
Common stock, \$0.01 par value per share; 450,000,000 shares authorized; Issued (including shares in treasury): 225,295,596 at June 30, 2017 and 191,723,974 at December 31, 2016	2,253	1,917
Additional paid-in capital	1,215,879	1,137,482
Accumulated other comprehensive income	1,403	247
Accumulated deficit	(1,118,177)	(1,051,467)
Less common stock in treasury: 582,328 at June 30, 2017 and December 31, 2016	(3,091)	(3,091)
Total stockholders' equity	98,267	85,088
Total liabilities, redeemable preferred stock, and stockholders' equity	\$ 228,580	\$ 240,832

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

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Plug Power Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue:				
Sales of fuel cell systems and related infrastructure	\$ 8,560	\$ 9,121	\$ 10,757	\$ 14,339
Services performed on fuel cell systems and related infrastructure	5,049	5,360	10,198	10,633
Power Purchase Agreements	4,945	3,062	9,256	5,768
Fuel delivered to customers	3,986	2,638	7,477	4,648
Other	64	278	151	403
Gross revenue	22,604	20,459	37,839	35,791
Provision for common stock warrants	(1,820)	—	(1,820)	—
Net revenue	20,784	20,459	36,019	35,791
Cost of revenue:				
Sales of fuel cell systems and related infrastructure	6,441	8,043	8,727	11,941
Services performed on fuel cell systems and related infrastructure	5,068	5,926	11,634	11,709
Provision for loss contracts related to service	—	(1,071)	—	(1,071)
Power Purchase Agreements	7,450	3,616	14,065	6,497
Fuel delivered to customers	5,303	3,208	9,452	5,619
Other	65	353	163	542
Total cost of revenue	24,327	20,075	44,041	35,237
Gross (loss) profit	(3,543)	384	(8,022)	554
Operating expenses:				
Research and development	6,625	5,201	12,623	10,031
Selling, general and administrative	17,904	8,559	27,049	16,849
Total operating expenses	24,529	13,760	39,672	26,880
Operating loss	(28,072)	(13,376)	(47,694)	(26,326)
Interest and other expense, net	(2,251)	(1,208)	(4,388)	(1,682)

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Change in fair value of common stock warrant liability	(12,296)	1,456	(14,576)	2,734
Loss before income taxes	\$ (42,619)	\$ (13,128)	\$ (66,658)	\$ (25,274)
Income tax benefit	—	—	—	392
Net loss attributable to the Company	\$ (42,619)	\$ (13,128)	\$ (66,658)	\$ (24,882)
Preferred stock dividends declared and accretion of discount	(26)	(26)	(3,061)	(52)
Net loss attributable to common shareholders	\$ (42,645)	\$ (13,154)	\$ (69,719)	\$ (24,934)
Net loss per share: Basic and diluted	\$ (0.19)	\$ (0.07)	\$ (0.34)	\$ (0.14)
Weighted average number of common shares outstanding	220,310,678	180,282,904	205,748,184	180,204,334

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

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Plug Power Inc. and Subsidiaries

Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net loss attributable to the Company	\$ (42,619)	\$ (13,128)	\$ (66,658)	\$ (24,882)
Other comprehensive income (loss) - foreign currency translation adjustment	936	(289)	1,156	294
Comprehensive loss	\$ (41,683)	\$ (13,417)	\$ (65,502)	\$ (24,588)

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

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Plug Power Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

(In thousands, except share amounts)

(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock Shares	Amount	Accumulated Deficit	Total Stockholder Equity
December 31, 2016	191,723,974	\$ 1,917	\$ 1,137,482	\$ 247	582,328	\$ (3,091)	\$ (1,051,467)	\$ 85,088
Net loss attributable to the Company	—	—	—	—	—	—	(66,658)	(66,658)
Other comprehensive income	—	—	—	1,156	—	—	—	1,156
Stock-based compensation	69,254	1	4,791	—	—	—	—	4,792
Stock dividend	37,809	—	52	—	—	—	(52)	—
Public offerings, common stock, net	9,314,666	93	20,591	—	—	—	—	20,684
Conversion of preferred stock	9,548,393	96	7,682	—	—	—	—	7,778
Stock option exercises	100,000	1	36	—	—	—	—	37
Exercise of warrants, net of warrants issued	14,501,500	145	39,741	—	—	—	—	39,886
Provision for common stock warrants	—	—	8,513	—	—	—	—	8,513
Accretion of discount	—	—	(3,009)	—	—	—	—	(3,009)
June 30, 2017	225,295,596	\$ 2,253	\$ 1,215,879	\$ 1,403	582,328	\$ (3,091)	\$ (1,118,177)	\$ 98,267

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

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Plug Power Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2017	2016
Cash Flows From Operating Activities:		
Net loss attributable to the Company	\$ (66,658)	\$ (24,882)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment, and leased property	4,183	1,528
Amortization of intangible assets	290	295
Stock-based compensation	4,792	4,377
Amortization of debt issuance costs	296	307
Provision for common stock warrants	8,513	—
Loss on disposal of leased property	—	41
Provision for loss contracts related to service	—	(1,071)
Change in fair value of common stock warrant liability	14,576	(2,734)
Changes in operating assets and liabilities that provide (use) cash:		
Accounts receivable	(3,345)	9,973
Inventory	(12,763)	(2,176)
Prepaid expenses and other assets	66	(2,523)
Accounts payable, accrued expenses, and other liabilities	(6,746)	6,577
Accrual for loss contracts related to service	(752)	(3,559)
Deferred revenue	(787)	(1,914)
Net cash used in operating activities	(58,335)	(15,761)
Cash Flows From Investing Activities:		
Purchases of property, plant and equipment	(1,057)	(2,525)
Purchases for construction of leased property	(19,488)	(26,317)
Net cash used in investing activities	(20,545)	(28,842)
Cash Flows From Financing Activities:		
Change in restricted cash	2,590	(60)
Proceeds from exercise of warrants, net of transaction costs	17,702	111
Proceeds from exercise of stock options	37	19
Payments for redemption of preferred stock	(3,700)	—
Proceeds from public offerings, net of transaction costs	19,534	—
Proceeds from short-term borrowing, net of transaction costs	—	23,874
Principal payments on short-term borrowing	—	(25,000)
Proceeds from borrowing of long-term debt, net of transaction costs	621	23,875
Principal payments on long-term debt	(1,278)	—

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(Decrease) increase in finance obligations	(708)	23,795
Net cash provided by financing activities	34,798	46,614
Effect of exchange rate changes on cash	158	68
(Decrease) increase in cash and cash equivalents	(43,924)	2,079
Cash and cash equivalents, beginning of period	46,014	63,961
Cash and cash equivalents, end of period	\$ 2,090	\$ 66,040
Other Supplemental Cash Flow Information:		
Cash paid for interest	\$ 1,946	\$ 1,311
Summary of noncash financing activity-conversion of preferred stock to common stock:	\$ 7,778	—

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

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Notes to Interim Consolidated Financial Statements (Unaudited)

1. Nature of Operations

Description of Business

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

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

We provide and continue to develop commercially-viable hydrogen and fuel cell product solutions to replace lead acid batteries in material handling vehicles and industrial trucks for some of the world's largest distribution and manufacturing businesses. We are focusing our efforts on industrial mobility applications (forklifts and electric industrial vehicles) at multi shift high volume manufacturing and high throughput distribution sites where our products and services provide a unique combination of productivity, flexibility and environmental benefits. Additionally, we manufacture and sell fuel cell products to replace batteries and diesel generators in stationary backup power applications. These products prove valuable with telecommunications, transportation and utility customers as robust, reliable and sustainable power solutions. Our current products and services include:

GenDrive: GenDrive is our hydrogen fueled PEM fuel cell system providing power to material handling vehicles;

GenFuel: GenFuel is our hydrogen fueling delivery system;

GenCare: GenCare is our ongoing maintenance program for GenDrive fuel cells, GenSure products and GenFuel products;

GenSure: GenSure (formerly ReliOn) is our stationary fuel cell solution providing scalable, modular PEM fuel cell power to support the backup and grid-support power requirements of the telecommunications, transportation, and utility sectors;

GenKey: GenKey is our turn-key solution combining either GenDrive or GenSure with GenFuel and GenCare, offering complete simplicity to customers transitioning to fuel cell power;

ProGen: ProGen is our fuel cell engine technology, under development for use in mobility and stationary fuel cell systems; and

GenFund: GenFund is a collaboration with leasing organizations to provide cost efficient and seamless financing solutions to customers.

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

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

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

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

Liquidity

Our cash requirements relate primarily to working capital needed to operate and grow our business, including funding operating expenses, growth in inventory to support both shipments of new units and servicing the installed base, growth in equipment leased to customers under long-term arrangements, funding the growth in our GenKey “turn-key” solution, which includes the installation of our customers’ hydrogen infrastructure as well as delivery of the hydrogen fuel, continued development and expansion of our products, payment of lease obligations under sale/leaseback financings, and the repayment or refinancing of our long-term debt. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and quantity of product orders and shipments; attaining and expanding positive gross margins across all product lines; the timing and amount of our operating expenses; the timing and costs of working capital needs; the timing and costs of building a sales base; the ability of our customers to obtain financing to support commercial transactions; our ability to obtain financing arrangements to support the sale or leasing of our products and services to customers and to repay or refinance our long-term debt, and the terms of such agreements that may require us to pledge or restrict substantial amounts of our cash to support these financing arrangements; the timing and costs of developing marketing and distribution channels; the timing and costs of product service requirements; the timing and costs of hiring and training product staff; the extent to which our products gain market acceptance; the timing and costs of product development and introductions; the extent of our ongoing and new research and development programs; and changes in our strategy or our planned activities. If we are unable to fund our operations with positive cash flows and cannot obtain external financing, we may not be able to sustain future operations. As a result, we may be required to delay, reduce and/or cease our operations and/or seek bankruptcy protection.

We have experienced and continue to experience negative cash flows from operations and net losses. The Company incurred net losses attributable to common shareholders of \$69.7 million for the six months ended June 30, 2017 and \$57.6 million, \$55.8 million, and \$88.6 million for the years ended December 31, 2016, 2015, and 2014, respectively, and has an accumulated deficit of \$1.1 billion at June 30, 2017.

During the six months ended June 30, 2017, cash used in operating activities was \$58.3 million, consisting primarily of a net loss attributable to the Company of \$66.7 million and net outflows from fluctuations in working capital and other assets and liabilities of \$24.3 million, offset by the impact of noncash charges/gains of \$32.7 million. The changes in working capital primarily were related to building of inventory, an increase in accounts receivables and decreases of accounts payable. As of June 30, 2017, we had cash and cash equivalents of \$2.1 million and net working capital of \$20.9 million. By comparison, at December 31, 2016, we had cash and cash equivalents of \$46.0 million and net working capital of \$44.4 million.

Net cash used in investing activities for the six months ended June 30, 2017, totaled \$20.5 million and included purchases of property, plant and equipment and outflows associated with materials, labor, and overhead necessary to construct new leased property. Cash outflows related to equipment that we sell and equipment we lease directly to customers are included in net cash used in operating activities and net cash used in investing activities, respectively. Net cash provided by financing activities for the six months ended June 30, 2017 primarily resulted from net proceeds of \$19.5 million pursuant to public offerings of common stock, net proceeds of \$17.7 million pursuant to exercise of warrants, and a decrease in restricted cash, offset by redemption of Series D preferred stock, principal payments of long-term debt and decreases in finance obligations.

During July 2017, the Company completed a series of sale/leaseback agreements with Wells Fargo, the purpose of which were to provide project financing of leased property operated at Walmart. The proceeds of these transactions, which will be accounted for as capital leases, were \$13.6 million, as described in Note 14, Subsequent Events.

Also during July 2017, the Company and NY Green Bank announced an amendment to the Term Loan Facility, as described in Note 7, Long-term Debt, and Note 14 Subsequent Events. The amendment provided an additional \$20.0

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

million of working capital financing. As a result, the Company borrowed the additional \$20.0 million of working capital financing in July 2017. To facilitate the amendment of the Term Loan Facility, the Company amended and restated the master lease agreement with Generate Capital, the purpose of which was to provide project financing of leased property through the Company's wholly-owned subsidiary Proton GCI SPVI LLC.

The combination of the Amazon Transaction Agreement, as described in Note 4, Amazon.com Transaction Agreement, the improved Walmart financing, as described in Note 14, Subsequent Events, the amended Term Loan Facility with NY Green Bank, as described in Notes 7 and 14, Long-term Debt and Subsequent Events, respectively, the Wells Fargo master lease agreement, and the Generate Capital amended master lease agreement, each of which is described in Note 14, Subsequent Events, significantly improves the Company's liquidity and ability to manage working capital.

In previous years, the Company signed sale/leaseback agreements with various financial institutions to facilitate the Company's commercial transactions with key customers. The Company had sold certain fuel cell systems and hydrogen infrastructure to the financial institutions, and leased the equipment back to support certain customer locations and to fulfill its varied PPAs. In connection with these operating leases, the financial institutions require the Company to maintain cash balances in restricted accounts securing the Company's lease obligations. Cash received from customers under the PPAs is used to make lease payments. As the Company performs under these agreements, the required restricted cash balances are released, according to a set schedule. The total remaining lease payments to financial institutions under these agreements was \$38.6 million, which has been fully secured with restricted cash and pledged service escrows.

We have historically funded our operations primarily through public and private offerings of common and preferred stock, as well as short-term borrowings, long-term debt, project financing and warrant exercises. The Company believes that its current working capital and cash anticipated to be generated from future operations, as well as borrowings from lending and project financing sources and proceeds from equity offerings, will provide sufficient liquidity to fund operations for at least one year after the date that the financial statements are issued. There is no guarantee that future funding will be available if and when required or at terms acceptable to the Company. This projection is based on our current expectations regarding new project financing and product sales and service, cost structure, cash burn rate and other operating assumptions.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Interim Financial Statements

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

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, filed for the fiscal year ended December 31, 2016.

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

The information presented in the accompanying unaudited interim consolidated balance sheet as of December 31, 2016, has been derived from the Company's December 31, 2016 audited consolidated financial statements. All other information has been derived from the unaudited interim consolidated financial statements of the Company.

Revenue Recognition

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

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

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

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

Once relative selling prices are determined, the Company proportionately allocates the sale consideration to each element of the arrangement. The allocated sales consideration related to fuel cell systems and infrastructure, spare

parts, and hydrogen infrastructure is recognized as revenue at shipment if title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable, collection of the related receivable is reasonably assured, and customer acceptance criteria, if any, have been successfully demonstrated. The allocated sales consideration related to service and maintenance is generally recognized as revenue on a straight-line basis over the term of the contract, as appropriate.

For those customers who do not purchase an extended maintenance contract, the Company does not include a right of return on its products other than rights related to standard warranty provisions that permit repair or replacement of defective goods. The Company accrues for anticipated standard warranty costs at the same time that revenue is recognized for the related product. Only a limited number of fuel cell units are under standard warranty.

In a vast majority of its commercial transactions, the Company sells extended maintenance contracts that generally provide for a five to ten year warranty from the date of product installation. These types of contracts are accounted for as a separate deliverable, and accordingly, revenue generated from these transactions is deferred and recognized in income over the warranty period, generally on a straight-line basis. Additionally, the Company may enter into annual service and extended maintenance contracts that are billed monthly. Revenue generated from these transactions is recognized in income on a straight-line basis over the term of the contract. Costs are recognized as incurred over the term of the contract. When costs are projected to exceed revenues on the life of the contract, an accrual for loss contracts

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

is recorded. Costs are estimated based upon historical experience, contractual agreements and the estimated impact of the Company's cost reduction initiatives. The actual results may differ from these estimates.

Power Purchase Agreements

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

During 2017 and 2016, the Company's sale/leaseback transactions with third-party financial institutions were required to be accounted for as capital leases under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 840-40, Leases – Sale/Leaseback Transactions (ASC Subtopic 840-40). As a result, no upfront revenue was recognized at the closing of these transactions and a finance obligation for each lease was established. The fuel cell systems and related infrastructure that are provided to customers through these PPAs are considered leased property on the accompanying unaudited interim consolidated balance sheet. Costs to service the leased property are considered cost of PPA revenue on the accompanying unaudited interim consolidated statement of operations.

All PPAs entered into through December 31, 2015 had a corresponding sale-leaseback transaction with a third-party financial institution, which was required to be accounted for as an operating lease. The Company accounts for these sale/leaseback transactions as operating leases in accordance with ASC Subtopic 840-40. The Company has rental expense associated with sale/leaseback agreements with financial institutions that were entered into commensurate with the PPAs. Rental expense is recognized on a straight-line basis over the life of the agreements and is characterized as cost of PPA revenue on the accompanying unaudited interim consolidated statement of operations.

Fuel Delivered to Customers

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

Research and Development Contracts

Contract accounting is used for research and development contract revenue. The Company generally shares in the cost of these programs with cost sharing percentages ranging from 30% to 50% of total project costs. Revenue from time and material contracts is recognized on the basis of hours expended plus other reimbursable contract costs incurred during the period and is included within the “other” revenue line on the unaudited interim consolidated statement of operations. All allowable work performed through the end of each calendar quarter is billed, subject to limitations in the respective contracts.

Cash Equivalents

Cash equivalents consist of money market accounts with an initial term of less than three months. At June 30, 2017 and December 31, 2016, cash equivalents consist of money market accounts. For purposes of the unaudited interim consolidated statements of cash flows, the Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company’s cash and cash equivalents are deposited with financial institutions located in the U.S. and may at times exceed insured limits.

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

Common Stock Warrant Accounting

The Company accounts for common stock warrants as either derivative liabilities or as equity instruments depending on the specific terms of the warrant agreement.

Derivative Liabilities

Registered common stock warrants that require the issuance of registered shares upon exercise and do not sufficiently preclude an implied right to cash settlement are accounted for as derivative liabilities. We currently classify these derivative warrant liabilities on the accompanying unaudited interim consolidated balance sheets as a long-term liability, which are revalued at each balance sheet date subsequent to the initial issuance, using the Black-Scholes pricing model. This pricing model, which is based, in part, upon unobservable inputs for which there is little or no market data, requires the Company to develop its own assumptions. Changes in the fair value of the warrants are reflected in the accompanying unaudited interim consolidated statements of operations as change in fair value of common stock warrant liability.

Equity Instruments

Common stock warrants that meet certain applicable requirements of ASC Subtopic 815-40, Derivatives and Hedging – Contracts in Entity’s Own Equity, and other related guidance, including the ability of the Company to settle the warrants without the issuance of registered shares or the absence of rights of the grantee to require cash settlement, are accounted for as equity instruments. The Company classifies these equity instruments within additional paid-in capital on the accompanying unaudited interim consolidated balance sheets. Common stock warrants accounted for as equity instruments represent the warrants issued to Amazon.com Inc. as discussed in Note 4. These warrants are remeasured at each financial reporting date prior to vesting, using the Monte Carlo pricing model. Once these warrants vest, they are no longer remeasured. This pricing model, which is based, in part, upon unobservable inputs for which there is little or no market data, requires the Company to develop its own assumptions. Changes in fair value resulting from remeasurement of common stock warrants issued in connection with the Amazon Transaction Agreement, as described in Note 4, Amazon.com Transaction Agreement are recorded as cumulative catch up adjustments as a reduction of revenue.

Use of Estimates

The unaudited interim consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

Recent Accounting Pronouncements

In July 2017, an accounting update was issued to address narrow issues identified as a result of the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liabilities and equity. This update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. The Company

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

early adopted this accounting update during the three months ended June 30, 2017. The adoption of this accounting update did not have a significant effect on the Company's consolidated financial statements.

In May 2017, an accounting update was issued to provide clarity and reduce both diversity in the practice and cost and complexity when applying the guidance under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This accounting update is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The amendments in this update should be applied prospectively to an award modified on or after the adoption date.

In January 2017, an accounting update was issued to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. This accounting update is effective for years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the impact this update will have on the consolidated financial statements.

In November 2016, an accounting update was issued to reduce the existing diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. This accounting update is effective for years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact this update will have on the consolidated financial statements.

In October 2016, an accounting update was issued to simplify how an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of this update are intellectual property and property, plant, and equipment. This accounting update is effective for the annual periods beginning after December 15, 2017 and interim periods within those years. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements.

In August 2016, an accounting update was issued to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This accounting update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is evaluating

the impact this update will have on the consolidated financial statements.

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

In June 2014, an accounting update was issued that replaces the existing revenue recognition framework regarding contracts with customers. In July 2015, the FASB announced a one year delay in the required adoption date from January 1, 2017 to January 1, 2018. The Company has established an internal implementation team to oversee the adoption of the new standard. To date the Company has identified relevant arrangements and performance obligations and is assessing the impact of the new guidance. The Company is currently evaluating the impact that adoption of the new standard will have on the timing and amount of revenue recognized, as compared to current accounting practices. The Company anticipates providing further information about the impacts of adoption in the coming quarters. The Company

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

is also evaluating whether to adopt the guidance using the full or modified retrospective basis, and will make that determination during the second half of 2017.

3. Earnings Per Share

Basic earnings per common share are computed by dividing net loss attributable to common shareholders 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 stock options, unvested restricted stock, common stock warrants, and preferred stock) 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 conversion of preferred stock, and 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 to be 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 dilutive potential common shares are summarized as follows:

	At June 30,	
	2017	2016
Stock options outstanding (1)	15,016,609	11,752,286
Restricted stock outstanding	248,077	204,444
Common stock warrants (2)	60,537,546	4,000,100
Preferred stock (3)	5,554,594	5,554,594
Number of dilutive potential common shares	81,356,826	21,511,424

(1) During the three months ended June 30, 2017 and 2016, the Company granted 314,511 and 265,000 stock options, respectively. During the six months ended June 30, 2017 and 2016, the Company granted 450,863 and 280,000 stock options, respectively.

(2) In February 2013, the Company issued 23,637,500 warrants as part of an underwritten public offering with an exercise price of \$0.15 per warrant. Of these warrants issued in February 2013, 100 were unexercised as of June 30, 2017 and 2016.

In January 2014, the Company issued 4,000,000 warrants as part of an underwritten public offering with an exercise price of \$4.00 per warrant. In December 2016, as a result of additional public offerings, and pursuant to the effect of the anti-dilution provisions of these warrants, the exercise price of the \$4.00 warrants was reduced to \$0.65. Of these warrants issued in January 2014, all 4,000,000 warrants were exercised during the three months ended June 30, 2017, as described in Note 9, Stockholders' Equity.

In December 2016, the Company issued 10,501,500 warrants as part of two concurrent underwritten public offerings with an exercise price of \$1.50 per warrant. Of these warrants issued in December 2016, all 10,501,500 warrants were exercised during the three months ended June 30, 2017, as described in Note 9, Stockholders' Equity.

In April 2017, the Company issued 5,250,750 warrants with an exercise price of \$2.69 per warrant, as described in Note 9, Stockholders' Equity. Of these warrants issued in April 2017, none have been exercised as of June 30, 2017.

In April 2017, the Company issued warrants to acquire up to 55,286,696 of the Company's common stock as part of a transaction agreement, subject to certain vesting events, as described in Note 4, Amazon.com, Inc. Transaction Agreement. The first tranche of 5,819,652 warrant shares vested upon the execution of the transaction agreement. Of these warrants issued in April 2017, none have been exercised as of June 30, 2017.

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

- (3) The preferred stock amount represents the dilutive potential common shares of the Series C redeemable convertible preferred stock, based on the conversion price of the preferred stock as of June 30, 2017 and 2016, respectively. Of the 10,431 Series C redeemable preferred stock issued in May 16, 2013, 5,200 had been converted to common stock during the year ended December 31, 2013, with the remainder still outstanding. Of the 18,500 Series D redeemable convertible preferred stock issued on December 22, 2016, 3,700 shares have been redeemed and the remaining 14,800 have been converted to common stock as of June 30, 2017.

4. Amazon.com, Inc. Transaction Agreement

On April 4, 2017, the Company and Amazon.com, Inc. (“Amazon”) entered into a Transaction Agreement (the “Amazon Transaction Agreement”), pursuant to which the Company agreed to issue to Amazon.com NV Investment Holdings LLC, a wholly owned subsidiary of Amazon, warrants to acquire up to 55,286,696 shares of the Company’s common stock (the “Amazon Warrant Shares”), subject to certain vesting events described below. The Company and Amazon entered into the Amazon Transaction Agreement in connection with existing commercial agreements between the Company and Amazon with respect to the deployment of the Company’s GenKey fuel cell technology at Amazon distribution centers. The existing commercial agreements contemplate, but do not guarantee, future purchase orders for the Company’s fuel cell technology. Additionally, Amazon and Plug Power will begin working together on technology collaboration, exploring the expansion of applications for Plug Power’s line of ProGen fuel cell engines. The vesting of the Amazon Warrant Shares is linked to payments made by Amazon or its affiliates (directly or indirectly through third parties) pursuant to the existing commercial agreements.

The majority of the Amazon Warrant Shares will vest based on Amazon’s payment of up to \$600.0 million to the Company in connection with Amazon’s purchase of goods and services from the Company. The first tranche of 5,819,652 Amazon Warrant Shares vested upon the execution of the Amazon Transaction Agreement. Accordingly, \$6.7 million was recognized as selling, general and administrative expense on the accompanying unaudited interim consolidated statement of operations for the three and six month periods ended June 30, 2017. The second tranche of 29,098,260 Amazon Warrant Shares will vest in four installments of 7,274,565 Amazon Warrant Shares each time Amazon or its affiliates, directly or indirectly through third parties, make an aggregate of \$50.0 million in payments for goods and services to the Company, up to payments totaling \$200.0 million in the aggregate. The exercise price for the first and second tranches of Amazon Warrant Shares will be \$1.1893 per share. After Amazon has made payments to the Company totaling \$200.0 million, the third tranche of 20,368,784 Amazon Warrant Shares will vest in eight installments of 2,546,098 Amazon Warrant Shares each time Amazon or its affiliates, directly or indirectly through third parties, make an aggregate of \$50.0 million in payments for goods and services to the Company, up to payments totaling \$400.0 million in the aggregate. The exercise price of the third tranche of Amazon Warrant Shares will be an amount per share equal to ninety percent (90%) of the 30-day volume weighted average share price of the common stock as of the first vesting date of the second tranche of Amazon Warrant Shares. The Amazon Warrant Shares are exercisable through April 4, 2027.

The Amazon Warrant Shares provide for net share settlement that, if elected by the holders, will reduce the number of shares issued upon exercise to reflect net settlement of the exercise price. The Amazon Warrant Shares provide for certain adjustments that may be made to the exercise price and the number of shares of common stock issuable upon exercise due to customary anti-dilution provisions based on future events. Vested warrants are classified as equity instruments.

Because the Amazon Warrant Shares contain performance criteria (i.e. aggregate purchase levels), which Amazon must achieve for the Amazon Warrant Shares to vest, as detailed above, the final measurement date for the Amazon Warrant Shares is the date on which the Amazon Warrant Shares vest. Prior to the final measurement, when achievement of the performance criteria has been deemed probable, the estimated fair value of Amazon Warrant Shares is being recorded as a reduction to revenue based on the projected number of Amazon Warrant Shares expected to vest, the proportion of purchases by Amazon and its affiliates within the period relative to the aggregate purchase levels required for the Amazon Warrant Shares to vest and the then-current fair value of the related Amazon Warrant Shares. To the extent that projections change in the future as to the number of Amazon Warrant Shares that will vest, as well as changes in the

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

fair value of the Amazon Warrant Shares, a cumulative catch-up adjustment will be recorded in the period in which the estimates change.

At June 30, 2017, 5,819,652 of the Amazon Warrant Shares have vested. The amount of selling, general and administrative expense attributed to this first tranche was \$7.1 million, including legal and other fees associated with the negotiation and completion of the agreement. The amount of provision for common stock warrants recorded as a reduction of revenue during the three and six months ended June 30, 2017 was \$1.8 million.

5. Inventory

Inventory as of June 30, 2017 and December 31, 2016 consists of the following (in thousands):

	June 30, 2017	December 31, 2016
Raw materials and supplies	\$ 31,041	\$ 26,298
Work-in-process	8,840	1,865
Finished goods	2,822	1,777
	\$ 42,703	\$ 29,940

Raw materials and supplies includes spare parts inventory held at service locations valued at \$8.1 million and \$3.3 million as of June 30, 2017 and December 31, 2016, respectively.

6. Leased Property

Leased property at June 30, 2017 and December 31, 2016 consists of the following (in thousands):

	June 30,	December 31,
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	2017	2016
Leased property	\$ 78,092	\$ 58,604
Less: accumulated depreciation	(7,799)	(4,544)
Leased property, net	\$ 70,293	\$ 54,060

Depreciation expense related to leased property was \$1.7 million and \$0.5 million for the three months ended June 30, 2017 and 2016, respectively. Depreciation expense related to leased property was \$3.3 million and \$0.7 million for the six months ended June 30, 2017 and 2016, respectively.

7. Long-Term Debt

NY Green Bank Loan

On December 23, 2016, the Company, and its subsidiaries Emerging Power Inc. and Emergent Power Inc. entered into a loan and security agreement with NY Green Bank, a Division of the New York State Energy Research & Development Authority (NY Green Bank), pursuant to which NY Green Bank made available to the Company a secured term loan facility in the amount of \$25.0 million (Term Loan Facility), subject to certain terms and conditions. The Company borrowed \$25.0 million upon closing and incurred costs of \$1.2 million. At June 30, 2017, the outstanding principal balance under the Term Loan Facility was \$23.8 million. The fair value of the Term Loan Facility approximates the carrying value as of June 30, 2017. During July 2017, the Company and NY Green Bank announced an amendment to the Term Loan Facility, as described in Note 14, Subsequent Events. The amendment provided an additional \$20.0 million of working capital financing.

Advances under the Term Loan Facility bear interest at a rate equal to the sum of (i) the LIBOR rate for the applicable interest period, plus (ii) the credit default swap index coupon for the applicable interest period, plus (iii) 6.00% per annum. The interest rate at June 30, 2017 was approximately 11.2%. The term of the loan is three years, with a maturity

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

date of December 23, 2019. As of June 30, 2017, and prior to the amendment mentioned above, estimated remaining principal payments will approximately be \$4.8 million, \$9.0 million, and \$10.0 million during the years ended December 31, 2017, 2018, and 2019, respectively. These payments will be funded by restricted cash released, as described in Note 13, Commitments and Contingencies.

Interest and a varying portion of the principal amount is payable on a quarterly basis and the entire then outstanding principal balance of the Term Loan Facility, together with all accrued and unpaid interest, is due and payable on the maturity date. On the maturity date, the Company may also be required to pay additional fees of up to \$1.8 million if the Company is unable to meet certain goals related to the deployment of fuel cell systems in the State of New York and increasing the Company's number of full-time employees in the State of New York. The Company is currently on track to meet those goals.

8. Accrual for Loss Contracts Related to Service

The following table summarizes activity related to the accrual for loss contracts related to service during the six months ended June 30, 2017 and 2016, respectively (in thousands):

	Six months ended	
	June 30, 2017	June 30, 2016
Beginning balance	\$ 752	\$ 10,050
Change in estimate	—	(1,071)
Reductions for losses realized	(752)	(3,559)
Ending balance	\$ —	\$ 5,420

9. Stockholders' Equity

Exercise of Common Stock Warrants

On December 22, 2016, the Company issued 10,501,500 warrants in connection with offerings of common stock and Series D Redeemable Preferred Stock at an exercise price of \$1.50 per share. On April 12, 2017, the Company and

Tech Opportunities LLC (“Tech Opps”) entered into an agreement, pursuant to which Tech Opps exercised in full its warrants to purchase an aggregate of 10,501,500 shares of common stock, at an exercise price of \$1.50 per share. The net proceeds received by the Company pursuant to the exercise of the existing warrants was \$15.1 million and the Company issued to Tech Opps warrants to acquire up to 5,250,750 shares of common stock at an exercise price of \$2.69 per share. The warrants will be exercisable beginning on October 12, 2017 and will expire on October 12, 2019. The warrants are subject to anti-dilution provisions in the event of issuance of additional shares of common stock and certain other conditions, as further described in the warrant agreement.

During April 2017, the 4,000,000 warrants issued in January 2014 as part of an underwritten public offering with Heights Capital Management Inc., were exercised in full to purchase an aggregate of 4,000,000 shares of the Company’s common stock, at an exercise price of \$0.65 per share. The aggregate cash exercise price paid to the Company pursuant to the exercise of the warrants was \$2.6 million.

Pursuant to the exercises of the above warrants, additional paid-in capital was increased \$27.1 million and warrant liability reduced by \$27.1 million.

At Market Issuance Sales Agreement

On April 3, 2017, the Company entered into an At Market Issuance Sales Agreement (the “Sales Agreement”) with FBR Capital Markets & Co., as sales agent (“FBR”), pursuant to which the Company may offer and sell, from time to time through FBR, shares of common stock par value \$0.01 per share having an aggregate offering price of up to \$75.0 million. During 2017, the Company has issued 9,314,666 shares of common stock and raised net proceeds, after

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

accruals, underwriting discounts and commissions and other fees and expenses, of \$20.7 million, pursuant to the Sales Agreement.

10. Redeemable Convertible Preferred Stock

In December 2016, the Company completed an offering of an aggregate of 18,500 shares of the Company's Series D Redeemable Preferred Stock, par value \$0.01 per share (the "Series D Preferred Stock") to purchase 7,381,500 shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), resulting in aggregate proceeds of approximately \$15.6 million. During the six months ended June 30, 2017, the Company redeemed 3,700 shares of the Series D Preferred Stock, at an aggregate redemption price of approximately \$3.7 million. On April 5, 2017, all of the remaining outstanding shares of the Series D Preferred Stock were converted into an aggregate of 9,548,393 shares of common stock at a conversion price of \$1.55. The conversion was done at the election of the holder in accordance with the terms of the offering. No shares of Series D Preferred Stock remain outstanding.

On January 26, 2017, Air Liquide sold an aggregate of 2,620 shares of the Company's Series C Redeemable Preferred Stock, par value \$0.01 per share (the "Series C Preferred Stock") to FiveT Capital Holding AG and FiveMore Special Situations Fund Limited. Following the sale, Air Liquide owns 2,611 shares of Series C Preferred Stock, Five T Capital Holding AG owns 1,750 shares of Series C Preferred Stock and FiveMore Special Situations Fund Limited owns 870 shares of Series C Preferred Stock.

11. Income Taxes

The deferred tax asset generated from the Company's net operating loss has been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carry forward will not be realized. The Company also recognizes accrued interest and penalties related to unrecognized tax benefits, if any, as a component of income tax expense.

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

12. Fair Value Measurements

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

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

Fair value of the common stock warrant liability is based on the Black-Scholes and Monte Carlo pricing models which are based, in part, upon unobservable inputs for which there is little or no market data, requiring the Company to develop its own assumptions. The Company used the following assumptions for its common stock warrants:

	Six months ended	
	June 30, 2017	June 30, 2016
Risk-free interest rate	1.01% - 2.36%	0.73% - 0.86%
Volatility	62.00% - 108.77%	59.50% - 95.23%
Expected average term	0.64 - 10.00	1.64 - 2.55

There was no expected dividend yield for the warrants granted. Additionally, the Monte Carlo pricing models used in the determination of the fair value of the warrants issued in connection with the Amazon Transaction Agreement also incorporate assumptions involving future revenues associated with Amazon, and related timing.

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

If factors change and different assumptions are used, the warrant liability and the change in estimated fair value could be materially different. Generally, as the market price of our common stock increases, the fair value of the warrants increase, and conversely, as the market price of our common stock decreases, the fair value of the warrants decrease. Also, a significant increase in the volatility of the market price of the Company's common stock, in isolation, would result in significantly higher fair value measurements; and a significant decrease in volatility would result in significantly lower fair value measurements.

The following table shows the activity in the common stock warrant liability (in thousands):

	Six months ended	
	June 30, 2017	June 30, 2016
Common stock warrant liability		
Beginning of period	\$ 11,387	\$ 5,735
Change in fair value of common stock warrants	14,576	(1,278)
Issuance of common stock warrants	4,905	—
Exercise of common stock warrants	(27,089)	(140)
End of period	\$ 3,779	\$ 4,317

13. Commitments and Contingencies

Operating Leases

As of June 30, 2017 and December 31, 2016, the Company has several non-cancelable operating leases (as lessor and as lessee), primarily associated with sale/leaseback transactions that are partially secured by restricted cash (see also Note 1) as summarized below. These leases expire over the next six years. Minimum rent payments under operating leases are recognized on a straight line basis over the term of the lease. Leases where the Company is the lessor contain termination clauses with associated penalties, the amount of which cause the likelihood of cancelation to be remote.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2017 are (in thousands):

	As Lessor	As Lessee
Remainder of 2017	\$ 10,152	\$ 6,164
2018	20,304	12,125
2019	20,107	10,936
2020	18,951	9,802
2021	14,715	5,535
2022 and thereafter	6,482	759
Total future minimum lease payments	\$ 90,711	\$ 45,321

Rental expense for all operating leases was \$6.6 million and \$6.4 for the six months ended June 30, 2017 and 2016, respectively. Rental expense for all operating leases was \$3.3 million and \$3.4 for the three months ended June 30, 2017 and 2016, respectively.

At June 30, 2017 and December 31, 2016, prepaid rent and security deposits associated with sale/leaseback transactions were \$11.5 million and \$11.8 million, respectively. At June 30, 2017, \$1.8 million of the amount is included in prepaid expenses and other current assets and \$9.7 million was included in other assets on the unaudited interim consolidated balance sheet. At December 31, 2016, \$1.9 million of this amount was included in prepaid expenses and other current assets and \$9.9 million was included in other assets on the consolidated balance sheet.

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

Finance Obligations

During the six months ended June 30, 2017, the Company entered into a sale/leaseback transaction, which was accounted for as a capital lease and reported as part of finance obligations on the Company's unaudited interim consolidated balance sheet. The outstanding balance of finance obligations related to sale/leaseback transactions at June 30, 2017 was \$29.8 million. The fair value of the finance obligation approximates the carrying value as of June 30, 2017.

Future minimum lease payments under non-cancelable capital leases related to sale/leaseback transactions (with initial or remaining lease terms in excess of one year) as of June 30, 2017 are (in thousands):

	Total Payments	Imputed Interest	Net Present Value
Remainder of 2017	\$ 13,025	\$ 2,019	\$ 11,006
2018	11,818	2,163	9,655
2019	3,600	1,499	2,101
2020	3,600	1,135	2,465
2021	3,600	711	2,889
2022 and thereafter	1,908	175	1,733
Total future minimum lease payments	\$ 37,551	\$ 7,702	\$ 29,849

In prior years, the Company received cash for future services to be performed associated with certain sale/leaseback transactions and recorded the balance as a finance obligation. The outstanding balance of this obligation at June 30, 2017 and December 31, 2016 is \$11.7 million and \$12.8 million, respectively. The amount is amortized using the effective interest method. The fair value of this finance obligation approximates the carrying value as of June 30, 2017.

The Company has a capital lease associated with its property in Latham, New York. Liabilities relating to this agreement of \$2.3 million and \$2.4 million have been recorded as a finance obligation, in the accompanying unaudited interim consolidated balance sheets as of June 30, 2017 and December 31, 2016, respectively. The fair value of this finance obligation approximates the carrying value as of June 30, 2017.

Restricted Cash

The Company has entered into sale/leaseback agreements associated with its products and services. In connection with these agreements, cash of \$51.0 million is required to be restricted as security and will be released over the lease term. The Company has additional letters of credit backed by security deposits as disclosed in the Operating Leases section above.

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

Litigation

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

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Notes to Interim Consolidated Financial Statements (Unaudited) (continued)

Concentrations of credit risk

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

At June 30, 2017, two customers comprise approximately 78.8% of the total accounts receivable balance, with each customer individually representing 56.2% and 22.6% of total accounts receivable, respectively. At December 31, 2016, two customers comprise approximately 59.9% of the total accounts receivable balance, with each customer individually representing 40.0% and 19.9% of total accounts receivable, respectively.

For the six months ended June 30, 2017, 71.3% of total consolidated revenues were associated primarily with Walmart and Amazon, with each representing 40.2% and 31.1% of total consolidated revenues, respectively. For the six months ended June 30, 2016, 49.4% of total consolidated revenues were associated primarily with Walmart and one other customer, with each representing 38.6% and 10.8% of total consolidated revenues, respectively.

14. Subsequent Events

Wal-Mart Stores, Inc. Transaction Agreement

On July 17, 2017, the Company and Wal-Mart Stores, Inc. ("Walmart") entered into a Transaction Agreement (the "Walmart Transaction Agreement"), pursuant to which the Company agreed to issue to Walmart a warrant to acquire up to 55,286,696 shares of common stock, subject to certain vesting events (the "Walmart Warrant Shares"). The Company and Walmart entered into the Walmart Transaction Agreement in connection with existing commercial agreements between the Company and Walmart with respect to the deployment of the Company's GenKey fuel cell technology across various Walmart distribution centers. The existing commercial agreements contemplate, but do not guarantee, future purchase orders for the Company's fuel cell technology. The vesting of the warrant shares, is linked to payments made by Walmart or its affiliates (directly or indirectly through third parties) pursuant to the existing commercial agreements.

In connection with the consummation of the Walmart Transaction Agreement referenced above, the Company entered into a master lease agreement (the "Wells Fargo MLA") with Wells Fargo to facilitate the Company's commercial transactions with Walmart. Pursuant to the Wells Fargo MLA, the Company sells fuel cell systems and

hydrogen infrastructure to Wells Fargo and then leases them back and operates them at Walmart sites. During July 2017, proceeds from transactions under this program, which will be accounted for as capital leases, were \$13.6 million.

NY Green Bank Amendment

During July 2017, the Company and NY Green Bank announced an amendment to the Term Loan Facility to increase the size of the total commitment from \$25.0 million to \$45.0 million. As a result, the Company borrowed the additional \$20.0 million of working capital financing in July 2017. The maturity of the facility will remain at December 2019. As with the existing facility, the up-sized facility will be repaid primarily as the Company's various restricted cash reserves are released over the term of the facility.

To facilitate the amendment of the Term Loan Facility, Proton GCI SPV I LLC, a wholly-owned subsidiary of the Company, amended and restated the master lease agreement (the "Generate Capital MLA") with Generate Capital to facilitate commercial transactions with certain of Proton GCI SPV I LLC's customers. Pursuant to the Generate Capital MLA, Proton GCI SPV I LLC leases fuel cell systems and hydrogen infrastructure from Generate Capital and operates them.

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

The following discussion should be read in conjunction with our accompanying unaudited interim consolidated financial statements and notes thereto included within this report, and our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, filed for the fiscal year ended December 31, 2016. In addition to historical information, this Form 10-Q and the following discussion contain statements that are not historical facts and are considered forward-looking within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements contain projections of our future results of operations or of our financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “continue,” “estimate,” “expect,” “intend,” “may,” “should,” “will,” “would,” “plan,” “projected” or the negative of such words or other similar words or phrases. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Investors are cautioned not to unduly rely on forward-looking statements because they involve risks and uncertainties, and actual results may differ materially from those discussed as a result of various factors, including, but not limited to: the risk that we continue to incur losses and might never achieve or maintain profitability; the risk that we will need to raise additional capital to fund our operations and such capital may not be available to us; the risk that our lack of extensive experience in manufacturing and marketing products may impact our ability to manufacture and market products on a profitable and large-scale commercial basis; the risk that unit orders will not ship, be installed and/or converted to revenue, in whole or in part; the risk that a loss of one or more of our major customers could result in a material adverse effect on our financial condition; the risk that a sale of a significant number of shares of stock could depress the market price of our common stock; the risk that negative publicity related to our business or stock could result in a negative impact on our stock value and profitability; the risk of potential losses related to any product liability claims or contract disputes; the risk of loss related to an inability to maintain an effective system of internal controls; our ability to attract and maintain key personnel; the risks related to the use of flammable fuels in our products; the risk that pending orders may not convert to purchase orders, in whole or in part; the cost and timing of developing, marketing and selling our products and our ability to raise the necessary capital to fund such costs; our ability to obtain financing arrangements to support the sale or leasing of our products and services to customers; the ability to achieve the forecasted gross margin on the sale of our products; the cost and availability of fuel and fueling infrastructures for our products; the risk of elimination of government subsidies and economic incentives for alternative energy products; market acceptance of our products and services, including GenDrive units; our ability to establish and maintain relationships with third parties with respect to product development, manufacturing, distribution and servicing and the supply of key product components; the cost and availability of components and parts for our products; our ability to develop commercially viable products; our ability to reduce product and manufacturing costs; our ability to successfully market, distribute and service our products and services internationally; our ability to improve system reliability for our products; competitive factors, such as price competition and competition from other traditional and alternative energy companies; our ability to protect our intellectual property; the cost of complying with current and future federal, state and international governmental regulations; the risks associated with potential future acquisitions; the volatility of our stock price; and other risks and uncertainties discussed under Item 1A—Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed March 10, 2017. Readers should not place undue reliance on our forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made and are not guarantees of future performance. Except as may be required by applicable law, we do not undertake or intend to update any forward-looking statements after the date of this Form 10-Q.

Overview

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

We are focused on proton exchange membrane, or PEM, fuel cell and fuel processing technologies, fuel cell/battery hybrid technologies, and associated hydrogen storage and dispensing infrastructure from which multiple products are available. A fuel cell is an electrochemical device that combines hydrogen and oxygen to produce electricity and heat without combustion. Hydrogen is derived from hydrocarbon fuels such as liquid petroleum gas, or LPG, natural gas, propane, methanol, ethanol, gasoline or biofuels. Plug Power develops complete hydrogen delivery, storage and

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

We provide and continue to develop commercially-viable hydrogen and fuel cell product solutions to replace lead acid batteries in material handling vehicles and industrial trucks for some of the world's largest distribution and manufacturing businesses. We are focusing our efforts on industrial mobility applications (forklifts and electric industrial vehicles) at multi shift high volume manufacturing and high throughput distribution sites where our products and services provide a unique combination of productivity, flexibility and environmental benefits. Additionally, we manufacture and sell fuel cell products to replace batteries and diesel generators in stationary backup power applications. These products prove valuable with telecommunications, transportation and utility customers as robust, reliable and sustainable power solutions. Our current products and services include:

GenDrive: GenDrive is our hydrogen fueled PEM fuel cell system providing power to material handling vehicles;

GenFuel: GenFuel is our hydrogen fueling delivery system;

GenCare: GenCare is our ongoing maintenance program for GenDrive fuel cells, GenSure products and GenFuel products;

GenSure: GenSure (formerly ReliOn) is our stationary fuel cell solution providing scalable, modular PEM fuel cell power to support the backup and grid-support power requirements of the telecommunications, transportation, and utility sectors;

GenKey: GenKey is our turn-key solution combining either GenDrive or GenSure with GenFuel and GenCare, offering complete simplicity to customers transitioning to fuel cell power;

ProGen: ProGen is our fuel cell engine technology, under development for use in mobility and stationary fuel cell systems; and

GenFund: GenFund is a collaboration with leasing organizations to provide cost efficient and seamless financing solutions to customers.

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

Recent Developments

Wal-Mart Stores, Inc. Transaction Agreement

On July 17, 2017, the Company and Wal-Mart Stores, Inc. (“Walmart”) entered into a Transaction Agreement (the “Walmart Transaction Agreement”), pursuant to which the Company agreed to issue to Walmart a warrant to acquire up to 55,286,696 shares of common stock, subject to certain vesting events (the “Walmart Warrant Shares”). The Company and Walmart entered into the Walmart Transaction Agreement in connection with existing commercial agreements between the Company and Walmart with respect to the deployment of the Company’s GenKey fuel cell technology across various Walmart distribution centers. The existing commercial agreements contemplate, but do not guarantee, future purchase orders for the Company’s fuel cell technology. The vesting of the warrant shares, is linked to payments made by Walmart or its affiliates (directly or indirectly through third parties) pursuant to the existing commercial agreements.

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In connection with the consummation of the Walmart Transaction Agreement referenced above, the Company entered into a master lease agreement (the “Wells Fargo MLA”) with Wells Fargo to facilitate the Company’s commercial transactions with Walmart. Pursuant to the Wells Fargo MLA, the Company sells fuel cell systems and hydrogen infrastructure to Wells Fargo and then leases them back and operates them at Walmart sites. During July 2017, proceeds from transactions under this program, which will be accounted for as capital leases, were \$13.6 million.

NY Green Bank Amendment

During July 2017, the Company and NY Green Bank announced an amendment to the Term Loan Facility to increase the size of the total commitment from \$25.0 million to \$45.0 million. As a result, the Company borrowed the additional \$20.0 million of working capital financing in July 2017. The maturity of the facility will remain at December 2019. As with the existing facility, the up-sized facility will be repaid primarily as the Company’s various restricted cash reserves are released over the term of the facility.

To facilitate the amendment of the Term Loan Facility, Proton GCI SPV I LLC, a wholly-owned subsidiary of the Company, amended and restated the master lease agreement (the “Generate Capital MLA”) with Generate Capital to facilitate commercial transactions with certain of Proton GCI SPV I LLC’s customers. Pursuant to the Generate Capital MLA, Proton GCI SPV I LLC leases fuel cell systems and hydrogen infrastructure from Generate Capital and operates them.

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Results of Operations

Revenue, cost of revenue, gross (loss)/profit and gross margin for the three and six months ended June 30, 2017 and 2016, were as follows (in thousands):

	Three Months Ended June 30,					Six Months Ended June 30,				
	Net Revenue	Cost of Revenue	Gross (Loss)/Profit	Gross Margin		Net Revenue	Cost of Revenue	Gross (Loss)/Profit	Gross Margin	
For the periods ended June 30, 2017:										
Sales of fuel cell systems and related infrastructure Services performed on fuel cell systems and related infrastructure	\$ 8,560	\$ 6,441	\$ 2,119	24.8	%	\$ 10,757	\$ 8,727	\$ 2,030	18.9	%
Power Purchase Agreements Fuel delivered to customers	5,049	5,068	(19)	(0.4)	%	10,198	11,634	(1,436)	(14.1)	%
Other	4,945	7,450	(2,505)	(50.7)	%	9,256	14,065	(4,809)	(52.0)	%
Provision for common stock warrants	3,986	5,303	(1,317)	(33.0)	%	7,477	9,452	(1,975)	(26.4)	%
Total	64	65	(1)	(1.6)	%	151	163	(12)	(7.9)	%
	(1,820)	—	(1,820)	—		(1,820)	—	(1,820)	—	
	\$ 20,784	\$ 24,327	\$ (3,543)	(17.0)	%	\$ 36,019	\$ 44,041	\$ (8,022)	(22.3)	%
For the periods ended June 30, 2016:										
Sales of fuel cell systems and related infrastructure Services performed on fuel cell	\$ 9,121	\$ 8,043	\$ 1,078	11.8	%	\$ 14,339	\$ 11,941	\$ 2,398	16.7	%
	5,360	5,926	(566)	(10.6)	%	10,633	11,709	(1,076)	(10.1)	%

systems and
related
infrastructure

Power										
Purchase										
Agreements	3,062	3,616	(554)	(18.1)	%	5,768	6,497	(729)	(12.6)	%
Fuel										
delivered to										
customers	2,638	3,208	(570)	(21.6)	%	4,648	5,619	(971)	(20.9)	%
Other	278	353	(75)	(27.0)	%	403	542	(139)	(34.5)	%
Provision for										
loss contracts										
related to										
service	—	(1,071)	1,071	—		—	(1,071)	1,071	—	
Total	\$ 20,459	\$ 20,075	\$ 384	1.9	%	\$ 35,791	\$ 35,237	\$ 554	1.5	%

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

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

Revenue from sales of fuel cell systems and related infrastructure for the three months ended June 30, 2017 decreased \$561 thousand or 6.2%, to \$8.6 million from \$9.1 million for the three months ended June 30, 2016. There were 307 units recognized as revenue for the three months ended June 30, 2017, compared to 254 for the three months ended June 30, 2016. The change in revenue is consistent with the change in product mix (the increase in units was more than offset by the decrease in infrastructure sites sold year over year). An additional 523 units were shipped during the three

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months ended June 30, 2017 and held as leased assets. As such, the Company will recognize revenue on these units over the life of the related PPA under “Power Purchase Agreements” in the Consolidated Statement of Operations. Two sales associated with hydrogen installations occurred during the three months ended June 30, 2017. In addition, two additional sites were constructed and held as leased assets. There were three sales associated with hydrogen installations for the three months ended June 30, 2016. In addition, three additional sites were constructed and held as leased property during the three months ended June 30, 2016, also because they were associated with sale/leaseback transactions accounted for capital leases.

Revenue from sales of fuel cell systems and related infrastructure for the six months ended June 30, 2017 decreased \$3.6 million, or 25.0%, to \$10.8 million from \$14.3 million for the six months ended June 30, 2016. The change in revenue is consistent with the change in mix of units and infrastructure sites sold year over year. There were 341 units recognized as revenue for the six months ended June 30, 2017, compared to 414 for the six months ended June 30, 2016. An additional 928 units were shipped during the six months ended June 30, 2017 and held as leased assets. As such, the Company will recognize revenue on these units over the life of the related PPA under “Power Purchase Agreements” in the Consolidated Statement of Operations. Two sales associated with hydrogen installations occurred during the six months ended June 30, 2017. In addition, four additional sites were constructed and held as leased assets. There were three sales associated with hydrogen installations for the six months ended June 30, 2016. In addition, six additional sites were constructed and held as leased property during the six months ended June 30, 2016, also because they were associated with sale/leaseback transactions accounted for as capital leases.

Revenue – services performed on fuel cell systems and related infrastructure. Revenue from services performed on fuel cell systems and related infrastructure represents revenue earned on our service and maintenance contracts and sales of spare parts. At June 30, 2017, there were 8,772 fuel cell units and 32 hydrogen installations under extended maintenance contracts, an increase of 2.3% and an increase of 23.1% from 8,574 and 26 at June 30, 2016, respectively.

Revenue from services performed on fuel cell systems and related infrastructure for the three months ended June 30, 2017 decreased \$311 thousand, or 5.8%, to \$5.0 million from \$5.4 million for the three months ended June 30, 2016, due to fewer billable incidents and nonrecurring revenue, offset by sales and product mix.

Revenue from services performed on fuel cell systems and related infrastructure for the six months ended June 30, 2017 decreased \$435 thousand, or 4.1%, to \$10.2 million from \$10.6 million for the six months ended June 30, 2016, due to fewer billable incidents and nonrecurring revenue, offset by sales and product mix.

Revenue – Power Purchase Agreements. Revenue from PPAs represents payments received from customers for power generated through the provision of equipment and service. The equipment and service can be associated with sale/leaseback transactions in which the Company sells fuel cell systems and related infrastructure to a third-party, leases them back and operates them at customers’ locations who are parties to PPAs with the Company. Alternatively, the Company can retain the equipment as leased property and provide it to customers under PPAs. At June 30, 2017,

there were 29 GenKey sites associated with PPAs, as compared to 20 at June 30, 2016.

Power Purchase Agreements for the three months ended June 30, 2017 increased \$1.9 million, or 61.5%, to \$4.9 million from \$3.1 million for the three months ended June 30, 2016. The increase is due to the increased number of sites the Company has deployed with these types of arrangements.

Power Purchase Agreements for the six months ended June 30, 2017 increased \$3.5 million, or 60.5%, to \$9.3 million from \$5.8 million for the six months ended June 30, 2016. The increase is due to the increased number of sites the Company has deployed with these types of arrangements.

Revenue – fuel delivered to customers. Revenue associated with fuel delivered to customers represents the sale of hydrogen to customers that has been purchased by the Company from a third party. As part of the GenKey solution, the Company contracts with fuel suppliers to purchase liquid hydrogen, which is then sold to its customers. At June 30, 2017, there were 46 sites associated with fuel contracts, as compared to 31 at June 30, 2016. The sites generally are the same as those which had purchased hydrogen installations within the GenKey solution.

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Revenue associated with fuel delivered to customers for the three months ended June 30, 2017 increased \$1.3 million, or 51.1%, to \$4.0 million from \$2.6 million for the three months ended June 30, 2016. The increase in revenue is due to an increase of sites taking fuel deliveries at June 30, 2017, compared to June 30, 2016.

Revenue associated with fuel delivered to customers for the six months ended June 30, 2017 increased \$2.8 million, or 60.9%, to \$7.5 million from \$4.6 million for the six months ended June 30, 2016. The increase in revenue is due to an increase of sites taking fuel deliveries at June 30, 2017, compared to June 30, 2016.

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

Other revenue for the three months ended June 30, 2017 decreased \$214 thousand, or 77.0%, to \$64 thousand from \$278 thousand for the three months ended June 30, 2017. During the three months ended June 30, 2017, the Company's other revenue was associated with a research & development project with the European Union. The Company had no revenue associated with a customer stack development program as it did in the three months ended June 30, 2016 which was for \$125 thousand.

Other revenue for the six months ended June 30, 2017 decreased \$252 thousand, or 62.5%, to \$151 thousand from \$403 thousand for the six months ended June 30, 2017. During the six months ended June 30, 2017, the Company's other revenue was associated with a research & development project with the European Union. The Company had no revenue associated with a customer stack development program as it did in the six months ended June 30, 2016 which was for \$250 thousand.

Revenue – provision for common stock warrants. In 2017, the Company entered into a Transaction Agreement (the "Amazon Transaction Agreement") with Amazon.com, Inc ("Amazon"). The Company records a portion of the estimated fair value of common stock warrants issued as part of the Amazon Transaction Agreement as a reduction of revenue based upon the projected number of common stock warrants expected to vest, the proportion of purchases by Amazon and its affiliates within the period relative to the aggregate purchase levels required for the Amazon Warrant Shares to vest and the then-current fair value of the related common stock warrants. The amount of provision for common stock warrants recorded as a reduction of revenue during the three and six months ended June 30, 2017 was \$1.8 million.

Cost of revenue – sales of fuel cell systems and related infrastructure. Cost of revenue from sales of fuel cell systems and related infrastructure includes direct materials, labor costs, and allocated overhead costs related to the

manufacture of our fuel cells such as GenDrive units and GenSure stationary backup power units, as well as hydrogen fueling infrastructure referred to at the site level as hydrogen installations.

Cost of revenue from sales of fuel cell systems and related infrastructure for the three months ended June 30, 2017 decreased 19.9%, or \$1.6 million, compared to the three months ended June 30, 2016, driven by the product mix change and product cost downs. Gross margin generated from sales of fuel cell systems and related infrastructure was 24.8% for the three months ended June 30, 2017, up from 11.8% for the three months ended June 30, 2016, due to previously stated favorable product mix change and production cost reductions during the three months ended June 30, 2017 compared to the same period in 2016.

Cost of revenue from sales of fuel cell systems and related infrastructure for the six months ended June 30, 2017 decreased 26.9%, or \$3.2 million, compared to the six months ended June 30, 2016, driven by the product mix change and product cost reductions. Gross margin generated from sales of fuel cell systems and related infrastructure was 18.9% for the six months ended June 30, 2017, up from 16.7% for the six months ended June 30, 2016, due to previously stated favorable product mix change and production cost reductions during the three months ended June 30, 2017 compared to the same period in 2016.

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Cost of revenue – services performed on fuel cell systems and related infrastructure. Cost of revenue from services performed on fuel cell systems and related infrastructure includes the labor, material costs and allocated overhead costs incurred for our product service and hydrogen site maintenance contracts and spare parts. On June 30, 2017, there were 8,772 fuel cell units and 32 hydrogen installations under extended maintenance contracts, an increase of 5.3% and an increase of 23.1% from 8,330 and 26 on June 30, 2016, respectively.

Cost of revenue from services performed on fuel cell systems and related infrastructure for the three months ended June 30, 2017 decreased 14.5%, or \$0.9 million, to \$5.1 million, compared to the three months ended June 30, 2016 of \$5.9 million. Gross margin improved to (0.4%) for the three months ended June 30, 2017 from (10.6%) for the three months ended June 30, 2016. The change versus the prior year is due primarily to a reduction in costs resulting from changes in product configuration rolled out to new key accounts and leverage of the existing fixed costs in the field.

Cost of revenue from services performed on fuel cell systems and related infrastructure for the six months ended June 30, 2017 decreased 0.6%, or \$0.1 million, to \$11.6 million, compared to the six months ended June 30, 2016 of \$11.7 million. Gross margin worsened to (14.1%) for the six months ended June 30, 2017 from (10.1%) for the six months ended June 30, 2016. The change versus the prior year is due to ramp up and commercialization costs incurred that are associated with the launch of new configurations in 2016, offset by a reduction in costs as mentioned above.

Cost of revenue – Power Purchase Agreements. Cost of revenue from PPAs includes payments made to financial institutions for leased equipment and service used to fulfill the PPAs. Leased units are primarily associated with sale/leaseback transactions in which the Company sells fuel cell systems and related infrastructure to a third-party, leases them back, and operates them at customers' locations who are parties to PPAs with the Company. Alternatively, the Company can hold the equipment for investment and recognize the depreciation and service cost of the assets as cost of revenue from PPAs. At June 30, 2017, there were 29 GenKey sites associated with PPAs, as compared to 20 at June 30, 2016.

Cost of revenue from Power Purchase Agreements for the three months ended June 30, 2017 increased \$3.8 million, or 106.0%, to \$7.5 million from \$3.6 million for the three months ended June 30, 2016. The increase was a result of the increase in the number of customer sites party to these agreements. Gross margin declined to (50.7%) for the three months ended June 30, 2017 from (18.1%) for the three months ended June 30, 2016, due primarily to ramp up and commercialization costs incurred that are associated with the launch of new configurations in 2016.

Cost of revenue from Power Purchase Agreements for the six months ended June 30, 2017 increased \$7.6 million, or 116.5%, to \$14.1 million from \$6.5 million for the six months ended June 30, 2016. The increase was a result of the increase in the number of customer sites party to these agreements. Gross margin declined to (52.0%) for the six months ended June 30, 2017 from (12.6%) for the six months ended June 30, 2016, due primarily to ramp up and commercialization costs incurred that are associated with the launch of new configurations in 2016.

Cost of revenue – fuel delivered to customers. Cost of revenue from fuel delivered to customers represents the purchase of hydrogen from suppliers that ultimately is sold to customers. As part of the GenKey solution, the Company contracts with fuel suppliers to purchase liquid hydrogen and separately sells to its customers upon delivery. As of June 30, 2017, there were 46 sites under contract receiving molecule delivery, as compared to 33 at June 30, 2016. The sites generally are the same as those which had purchased hydrogen installations within the GenKey solution.

Cost of revenue from fuel delivered to customers for the three months ended June 30, 2017 increased \$2.1 million, or 65.3%, to \$5.3 million from \$3.2 million for the three months ended June 30, 2016. The increase is due primarily to higher volume of liquid hydrogen delivered to customer sites as a result of an increase in the number of hydrogen installations completed under GenKey agreements and higher fuel costs. Gross margin percent decreased to (33.0%)

during the three months ended June 30, 2017 from (21.6%) during the three months ended June 30, 2016 due to higher fuel costs.

Cost of revenue from fuel delivered to customers for the six months ended June 30, 2017 increased \$3.8 million, or 68.2%, to \$9.5 million from \$5.6 million for the six months ended June 30, 2016. The increase is due primarily to higher volume of liquid hydrogen delivered to customer sites as a result of an increase in the number of hydrogen

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installations completed under GenKey agreements and higher fuel costs. Gross margin percent decreased to (26.4%) during the six months ended June 30, 2017 from (20.9%) during the six months ended June 30, 2016 due to higher fuel costs.

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

Cost of other revenue for the three months ended June 30, 2017 decreased \$288 thousand, or 81.6%, to \$65 thousand from \$353 thousand for the six months ended June 30, 2016. The Company had no costs associated with a customer stack development program as it did in the three months ended June 30, 2016. The entire cost of other revenue in the period is related to the research & development project with the European Union.

Cost of other revenue for the six months ended June 30, 2017 decreased \$379 thousand, or 69.9%, to \$163 thousand from \$542 thousand for the six months ended June 30, 2016. The Company had no costs associated with a customer stack development program as it did in the six months ended June 30, 2016. The entire cost of other revenue in the period is related to the research & development project with the European Union.

Cost of revenue – provision for loss contracts related to service. In 2015, the Company recognized a \$10.1 million provision for loss contracts related to service. This provision represents extended maintenance contracts that have projected costs over the remaining life of the contracts that exceed contractual revenues. During the three and six months ended June 30, 2017 and 2016, the Company did not have a provision for loss contracts related to service. During the three and six months ended June 30, 2016, the Company renegotiated one of its service contracts and replaced 96 of the older fuel cell systems in service at that particular customer. As a result, the projected costs over the remaining life of the amended contract were estimated to be reduced as compared to the previous estimate, resulting in a lower necessary accrual. The change in estimate was recorded as a gain within cost of revenue where the original charge was recorded.

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

Research and development expense for the three months ended June 30, 2017 increased \$1.4 million, or 27.4% to \$6.6 million, from \$5.2 million for the three months ended June 30, 2016. This increase was primarily related to an increase in development of ProGen, and personnel related expenses from higher headcount, focused on refinement of hydrogen infrastructure design, multiple product cost-down programs and prototyping for stack performance enhancement.

Research and development expense for the six months ended June 30, 2017 increased \$2.6 million, or 25.8% to \$12.6 million, from \$10.0 million for the six months ended June 30, 2016. This increase was primarily related to an increase in development of ProGen, and personnel related expenses from higher headcount, focused on refinement of hydrogen infrastructure design, multiple product cost-down programs and prototyping for stack performance enhancement.

Selling, general and administrative expenses. Selling, general and administrative expenses includes cash and non-cash compensation, benefits, amortization of intangible assets and related costs in support of our general corporate

functions, including general management, finance and accounting, human resources, selling and marketing, information technology and legal services.

On April 4, 2017, the Company and Amazon entered into the Amazon Transaction Agreement, pursuant to which the Company agreed to issue to Amazon warrants to acquire up to 55,286,696 shares of common stock, subject to certain vesting events. The first tranche of 5,819,652 warrant shares vested upon the execution of the Amazon Transaction Agreement, and as a result, \$7.1 million was recognized as selling, general and administrative expense on the

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accompanying unaudited interim consolidated statement of operations for the three and six month periods ended June 30, 2017.

Selling, general and administrative expenses for the three months ended June 30, 2017, increased \$9.3 million, or 109.1%, to \$17.9 million from \$8.6 million for the three months ended June 30, 2016. This increase primarily is due to the aforementioned provision for common stock warrants associated with the Amazon Transaction Agreement.

Selling, general and administrative expenses for the six months ended June 30, 2017, increased \$10.2 million, or 60.5%, to \$27.0 million from \$16.8 million for the six months ended June 30, 2016. This increase primarily is due to the aforementioned provision for common stock warrants associated with the Amazon Transaction Agreement.

Interest and other expense (income), net. Interest and other expense, net consists of interest and other expenses related to interest on our short-term borrowing, long-term debt, obligations under capital lease and our finance obligations, as well as foreign currency exchange gain (loss), offset by interest and other income consisting primarily of interest earned on our cash and cash equivalents, note receivable, and other income. During 2016, the Company entered into a series of capital leases with Generate Lending LLC. In December 2016, the Company entered into a loan and security agreement with NY Green Bank.

Net interest and other expense for the three months ended June 30, 2017, increased \$1.0 million as compared to the three months ended June 30, 2016. The increase is attributed to interest on the various financing structures described above, offset by interest and other income which remained relatively insignificant for the three months ended June 30, 2017.

Net interest and other expense for the six months ended June 30, 2017, increased \$2.7 million as compared to the six months ended June 30, 2016. The increase is attributed to interest on the various financing structures described above, offset by interest and other income which remained relatively insignificant for the six months ended June 30, 2017.

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

The change in fair value of common stock warrant liability for the three months ended June 30, 2017 resulted in an increase in the associated warrant liability of \$12.3 million as compared to a decrease of \$1.5 million for the three months ended June 30, 2016. These variances are primarily due to changes in the number of warrants outstanding, the average term, the Company's common stock share price, and changes in volatility of our common stock, which are significant inputs to the Black-Scholes valuation model.

The change in fair value of common stock warrant liability for the six months ended June 30, 2017 resulted in an increase in the associated warrant liability of \$14.6 million as compared to a decrease of \$2.7 million for the six months ended June 30, 2016. These variances are primarily due to changes in the number of warrants outstanding, the average term, the Company's common stock share price, and changes in volatility of our common stock, which are significant inputs to the Black-Scholes valuation model.

Income taxes. The deferred tax asset generated from our net operating loss has been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carry forward will not be realized. The Company also recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Liquidity and Capital Resources

Our cash requirements relate primarily to working capital needed to operate and grow our business, including funding operating expenses, growth in inventory to support both shipments of new units and servicing the installed base, growth in equipment leased to customers under long-term arrangements, funding the growth in our GenKey “turn-key” solution, which includes the installation of our customers’ hydrogen infrastructure as well as delivery of the hydrogen fuel, continued development and expansion of our products, payment of lease obligations under sale/leaseback financings, and

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the repayment or refinancing of our long-term debt. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and quantity of product orders and shipments; attaining and expanding positive gross margins across all product lines; the timing and amount of our operating expenses; the timing and costs of working capital needs; the timing and costs of building a sales base; the ability of our customers to obtain financing to support commercial transactions; our ability to obtain financing arrangements to support the sale or leasing of our products and services to customers and to repay or refinance our long-term debt, and the terms of such agreements that may require us to pledge or restrict substantial amounts of our cash to support these financing arrangements; the timing and costs of developing marketing and distribution channels; the timing and costs of product service requirements; the timing and costs of hiring and training product staff; the extent to which our products gain market acceptance; the timing and costs of product development and introductions; the extent of our ongoing and new research and development programs; and changes in our strategy or our planned activities. If we are unable to fund our operations with positive cash flows and cannot obtain external financing, we may not be able to sustain future operations. As a result, we may be required to delay, reduce and/or cease our operations and/or seek bankruptcy protection.

We have experienced and continue to experience negative cash flows from operations and net losses. The Company incurred net losses attributable to common shareholders of \$69.7 million for the six months ended June 30, 2017 and \$57.6 million, \$55.8 million, and \$88.6 million for the years ended December 31, 2016, 2015, and 2014, respectively, and has an accumulated deficit of \$1.1 billion at June 30, 2017.

During the six months ended June 30, 2017, cash used in operating activities was \$58.3 million, consisting primarily of a net loss attributable to the Company of \$66.7 million and net outflows from fluctuations in working capital and other assets and liabilities of \$24.3 million, offset by the impact of noncash charges/gains of \$32.7 million. The changes in working capital primarily were related to building of inventory, an increase in accounts receivables and decreases of accounts payable. As of June 30, 2017, we had cash and cash equivalents of \$2.1 million and net working capital of \$20.9 million. By comparison, at December 31, 2016, we had cash and cash equivalents of \$46.0 million and net working capital of \$44.4 million.

Net cash used in investing activities for the six months ended June 30, 2017, totaled \$20.5 million and included purchases of property, plant and equipment and outflows associated with materials, labor, and overhead necessary to construct new leased property. Cash outflows related to equipment that we sell and equipment we lease directly to customers are included in net cash used in operating activities and net cash used in investing activities, respectively. Net cash provided by financing activities for the six months ended June 30, 2017 primarily resulted from net proceeds of \$19.5 million pursuant to public offerings of common stock, net proceeds of \$17.7 million pursuant to exercise of warrants, and a decrease in restricted cash, offset by redemption of Series D preferred stock, principal payments of long-term debt and decreases in finance obligations.

During July 2017, the Company completed a series of sale/leaseback agreements with Wells Fargo, the purpose of which were to provide project financing of leased property operated at Walmart. The proceeds of these transactions, which will be accounted for as capital leases, were \$13.6 million.

Also during July 2017, the Company and NY Green Bank announced an amendment to the Term Loan Facility, the amendment provided an additional \$20.0 million of working capital financing. As a result, the Company borrowed the additional \$20.0 million of working capital financing in July 2017. As a result of the amendment to the Term Loan Facility, the Company announced an amendment and restatement of a master lease agreement with Generate Capital, the purpose of which was to provide project financing of leased property through the Company's wholly-owned subsidiary Proton GCI SPVI LLC.

The combination of the Amazon Transaction Agreement, the improved Walmart financing, the amended Term Loan Facility with NY Green Bank, the Wells Fargo master lease agreement, and the Generate Capital amended master lease agreement, significantly improves the Company's liquidity and ability to manage working capital.

In previous years, the Company signed sale/leaseback agreements with various financial institutions to facilitate the Company's commercial transactions with key customers. The Company had sold certain fuel cell systems and hydrogen infrastructure to the financial institutions, and leased the equipment back to support certain customer locations and to fulfill its varied PPAs. In connection with these operating leases, the financial institutions require the Company to maintain cash

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balances in restricted accounts securing the Company's lease obligations. Cash received from customers under the PPAs is used to make lease payments. As the Company performs under these agreements, the required restricted cash balances are released, according to a set schedule. The total remaining lease payments to financial institutions under these agreements was \$38.6 million, which has been fully secured with restricted cash and pledged service escrows.

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

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

	Six months ended or at June 30, 2017	Year ended or at December 31, 2016
Cash and cash equivalents at end of period	\$ 2,090	\$ 46,014
Restricted cash at end of period	52,032	54,622
Working capital at end of period	20,907	44,448
Net loss attributable to common shareholders	69,719	57,591
Net cash used in operating activities	58,335	29,636
Purchases of property, plant and equipment and leased property	20,545	58,075
Net cash provided by financing activities	34,798	69,885

Amazon.com, Inc. Transaction Agreement

On April 4, 2017, the Company and Amazon.com, Inc. ("Amazon") entered into a Transaction Agreement (the "Amazon Transaction Agreement"), pursuant to which the Company agreed to issue to Amazon.com NV Investment Holdings LLC, a wholly owned subsidiary of Amazon, warrants to acquire up to 55,286,696 shares of the Company's common stock (the "Amazon Warrant Shares"), subject to certain vesting events described below. The Company and Amazon entered into the Amazon Transaction Agreement in connection with existing commercial agreements between the Company and Amazon with respect to the deployment of the Company's GenKey fuel cell technology at Amazon distribution centers. The existing commercial agreements contemplate, but do not guarantee, future purchase orders for the Company's fuel cell technology. Additionally, Amazon and Plug Power will begin working together on

technology collaboration, exploring the expansion of applications for Plug Power's line of ProGen fuel cell engines. The vesting of the Amazon Warrant Shares is linked to payments made by Amazon or its affiliates (directly or indirectly through third parties) pursuant to the existing commercial agreements.

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The majority of the Amazon Warrant Shares will vest based on Amazon's payment of up to \$600.0 million to the Company in connection with Amazon's purchase of goods and services from the Company. The first tranche of 5,819,652 Amazon Warrant Shares vested upon the execution of the Amazon Transaction Agreement. Accordingly, \$6.7 million was recognized as selling, general and administrative expense on the accompanying unaudited interim consolidated statement of operations for the three and six month periods ended June 30, 2017. The second tranche of 29,098,260 Amazon Warrant Shares will vest in four installments of 7,274,565 Amazon Warrant Shares each time Amazon or its affiliates, directly or indirectly through third parties, make an aggregate of \$50.0 million in payments for goods and services to the Company, up to payments totaling \$200.0 million in the aggregate. The exercise price for the first and second tranches of Amazon Warrant Shares will be \$1.1893 per share. After Amazon has made payments to the Company totaling \$200.0 million, the third tranche of 20,368,784 Amazon Warrant Shares will vest in eight installments of 2,546,098 Amazon Warrant Shares each time Amazon or its affiliates, directly or indirectly through third parties, make an aggregate of \$50.0 million in payments for goods and services to the Company, up to payments totaling \$400.0 million in the aggregate. The exercise price of the third tranche of Amazon Warrant Shares will be an amount per share equal to ninety percent (90%) of the 30-day volume weighted average share price of the common stock as of the first vesting date of the second tranche of Amazon Warrant Shares. The Amazon Warrant Shares are exercisable through April 4, 2027.

The Amazon Warrant Shares provide for net share settlement that, if elected by the holders, will reduce the number of shares issued upon exercise to reflect net settlement of the exercise price. The Amazon Warrant Shares provide for certain adjustments that may be made to the exercise price and the number of shares of common stock issuable upon exercise due to customary anti-dilution provisions based on future events. Vested warrants are classified as equity instruments.

Because the Amazon Warrant Shares contain performance criteria (i.e. aggregate purchase levels), which Amazon must achieve for the Amazon Warrant Shares to vest, as detailed above, the final measurement date for the Amazon Warrant Shares is the date on which the Amazon Warrant Shares vest. Prior to the final measurement, when achievement of the performance criteria has been deemed probable, the estimated fair value of Amazon Warrant Shares is being recorded as a reduction to revenue based on the projected number of Amazon Warrant Shares expected to vest, the proportion of purchases by Amazon and its affiliates within the period relative to the aggregate purchase levels required for the Amazon Warrant Shares to vest and the then-current fair value of the related Amazon Warrant Shares. To the extent that projections change in the future as to the number of Amazon Warrant Shares that will vest, as well as changes in the fair value of the Amazon Warrant Shares, a cumulative catch-up adjustment will be recorded in the period in which the estimates change.

At June 30, 2017, 5,819,652 of the Amazon Warrant Shares have vested. The amount of selling, general and administrative expense attributed to this first tranche was \$7.1 million, including legal and other fees associated with the negotiation and completion of the agreement. The amount of provision for common stock warrants recorded as a reduction of revenue during the three and six months ended June 30, 2017 was \$1.8 million.

Exercise of Common Stock Warrants

On December 22, 2016, the Company issued 10,501,500 warrants in connection with offerings of common stock and Series D Redeemable Preferred Stock at an exercise price of \$1.50 per share. On April 12, 2017, the Company and Tech Opportunities LLC (“Tech Opps”) entered into an agreement, pursuant to which Tech Opps exercised in full its warrants to purchase an aggregate of 10,501,500 shares of common stock, at an exercise price of \$1.50 per share. The net proceeds received by the Company pursuant to the exercise of the existing warrants was \$15.1 million and the Company issued to Tech Opps warrants to acquire up to 5,250,750 shares of common stock at an exercise price of \$2.69 per share. The warrants will be exercisable beginning on October 12, 2017 and will expire on October 12, 2019. The warrants are subject to anti-dilution provisions in the event of issuance of additional shares of common stock and certain other conditions, as further described in the warrant agreement.

During April 2017, the 4,000,000 warrants issued in January 2014 as part of an underwritten public offering with Heights Capital Management Inc., were exercised in full to purchase an aggregate of 4,000,000 shares of the Company’s common stock, at an exercise price of \$0.65 per share. The aggregate cash exercise price paid to the Company pursuant to the exercise of the warrants was \$2.6 million.

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Pursuant to the exercises of the above warrants, additional paid-in capital was increased reduced \$27.1 million and warrant liability reduced by \$27.1 million.

At Market Issuance Sales Agreement

On April 3, 2017, the Company entered into an At Market Issuance Sales Agreement (the “Sales Agreement”) with FBR Capital Markets & Co., as sales agent (“FBR”), pursuant to which the Company may offer and sell, from time to time through FBR, shares of common stock par value \$0.01 per share having an aggregate offering price of up to \$75.0 million. During 2017, the Company has issued 9,314,666 shares of common stock and raised net proceeds, after accruals, underwriting discounts and commissions and other fees and expenses, of \$20.7 million, pursuant to the Sales Agreement.

Redeemable Convertible Preferred Stock

In December 2016, the Company completed an offering of an aggregate of 18,500 shares of the Company’s Series D Redeemable Preferred Stock, par value \$0.01 per share (the “Series D Preferred Stock”) to purchase 7,381,500 shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), resulting in aggregate proceeds of approximately \$15.6 million. During the six months ended June 30, 2017, the Company redeemed 3,700 shares of the Series D Preferred Stock, at an aggregate redemption price of approximately \$3.7 million. On April 5, 2017, all of the remaining outstanding shares of the Series D Preferred Stock were converted into an aggregate of 9,548,393 shares of common stock at a conversion price of \$1.55. The conversion was done at the election of the holder in accordance with the terms of the offering. No shares of Series D Preferred Stock remain outstanding.

On January 26, 2017, Air Liquide sold an aggregate of 2,620 shares of the Company’s Series C Redeemable Preferred Stock, par value \$0.01 per share (the “Series C Preferred Stock”) to FiveT Capital Holding AG and FiveMore Special Situations Fund Limited. Following the sale, Air Liquide owns 2,611 shares of Series C Preferred Stock, Five T Capital Holding AG owns 1,750 shares of Series C Preferred Stock and FiveMore Special Situations Fund Limited owns 870 shares of Series C Preferred Stock.

Operating Leases

As of June 30, 2017, the Company has several non-cancelable operating leases (as lessor and as lessee), primarily associated with sale/leaseback transactions that are partially secured by restricted cash as summarized below. These leases expire over the next six years. Minimum rent payments under operating leases are recognized on a straight line basis over the term of the lease. Leases where the Company is the lessor contain termination clauses with associated penalties, the amount of which cause the likelihood of cancelation to be remote.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2017 are (in thousands):

	As Lessor	As Lessee
Remainder of 2017	\$ 10,152	\$ 6,164
2018	20,304	12,125
2019	20,107	10,936
2020	18,951	9,802
2021	14,715	5,535
Thereafter	6,482	759
Total future minimum lease payments	\$ 90,711	\$ 45,321

Finance Obligations

During the six months ended June 30, 2017, the Company entered into a sale/leaseback transaction, which was accounted for as a capital lease and reported as part of finance obligations on the Company's unaudited interim consolidated balance sheet. The outstanding balance of finance obligations related to sale/leaseback transactions at June 30, 2017 was \$29.8 million. The fair value of the finance obligation approximates the carrying value as of June 30, 2017.

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Future minimum lease payments under non-cancelable capital leases related to sale/leaseback transactions (with initial or remaining lease terms in excess of one year) as of June 30, 2017 are (in thousands):

	Total Payments	Imputed Interest	Net Present Value
Remainder of 2017	\$ 13,025	\$ 2,019	\$ 11,006
2018	11,818	2,163	9,655
2019	3,600	1,499	2,101
2020	3,600	1,135	2,465
2021	3,600	711	2,889
2022 and thereafter	1,908	175	1,733
Total future minimum lease payments	\$ 37,551	\$ 7,702	\$ 29,849

In prior years, the Company received cash for future services to be performed associated with certain sale/leaseback transactions and recorded the balance as a finance obligation. The outstanding balance of this obligation at June 30, 2017 and December 31, 2016 is \$11.7 million and \$12.8 million, respectively. The amount is amortized using the effective interest method. The fair value of this finance obligation approximates the carrying value as of June 30, 2017.

The Company has a capital lease associated with its property in Latham, New York. Liabilities relating to this agreement of \$2.3 million and \$2.4 million have been recorded as a finance obligation, in the accompanying unaudited interim consolidated balance sheets as of June 30, 2017 and December 31, 2016, respectively. The fair value of this finance obligation approximates the carrying value as of June 30, 2017.

Restricted Cash

The Company has entered into sale/leaseback agreements associated with its products and services. In connection with these agreements, cash of \$51.0 million is required to be restricted as security and will be released over the lease term. The Company has additional letters of credit backed by security deposits as disclosed in the Operating Leases section above.

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

Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these unaudited interim consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of and during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition for multiple element arrangements, bad debts, inventories, intangible assets, valuation of long-lived assets, accrual for loss contracts on service, product warranty reserves, unbilled revenue, common stock warrants, income taxes, stock-based compensation, contingencies, and purchase accounting. We base our estimates and judgments on historical experience and on various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about (1) the carrying values of assets and liabilities and (2) the amount of revenue and expenses realized that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We refer to the policies and estimates set forth in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates", as well as a discussion of significant accounting policies included in Note 2, Summary of Significant Accounting Policies, of the consolidated financial statements, both of which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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Recent Accounting Pronouncements

In July 2017, an accounting update was issued to address narrow issues identified as a result of the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liabilities and equity. This update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. The Company early adopted this accounting update during the three months ended June 30, 2017. The adoption of this accounting update did not have a significant effect on the Company's consolidated financial statements.

In May 2017, an accounting update was issued to provide clarity and reduce both diversity in the practice and cost and complexity when applying the guidance under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This accounting update is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The amendments in this update should be applied prospectively to an award modified on or after the adoption date.

In January 2017, an accounting update was issued to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. This accounting update is effective for years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the impact this update will have on the consolidated financial statements.

In November 2016, an accounting update was issued to reduce the existing diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. This accounting update is effective for years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact this update will have on the consolidated financial statements.

In October 2016, an accounting update was issued to simplify how an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of this update are intellectual property and property, plant, and

equipment. This accounting update is effective for the annual periods beginning after December 15, 2017 and interim periods within those years. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements.

In August 2016, an accounting update was issued to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This accounting update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact this update will have on the consolidated financial statements.

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

In June 2014, an accounting update was issued that replaces the existing revenue recognition framework regarding contracts with customers. In July 2015, the FASB announced a one year delay in the required adoption date from January 1, 2017 to January 1, 2018. The Company has established an internal implementation team to oversee the adoption of the new standard. To date the Company has identified relevant arrangements and performance obligations and is

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assessing the impact of the new guidance. The Company is currently evaluating the impact that adoption of the new standard will have on the timing and amount of revenue recognized, as compared to current accounting practices. The Company anticipates providing further information about the impacts of adoption in the coming quarters. The Company is also evaluating whether to adopt the guidance using the full or modified retrospective basis, and will make that determination during the second half of 2017.

Item 3 — Quantitative and Qualitative Disclosures about Market Risk

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

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

Item 4 — Controls and Procedures

(a) Disclosure controls and procedures.

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

(b) Changes in internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1 — Legal Proceedings

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

Item 1A - Risk Factors

Part I, Item 1A, "Risk Factors" of our most recently filed Annual Report on Form 10-K, filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2016, sets forth information relating to important risks

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

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

(a) None.

(b) Not applicable.

(c) None.

Item 3 — Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

None.

Item 5 — Other Information

(a) None.

(b) None.

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Item 6 — Exhibits

- 3.1 Amended and Restated Certificate of Incorporation of Plug Power. (1)
- 3.2 Certificate of Amendment to Amended and Restated Certificate of Incorporation of Plug Power Inc. (1)
- 3.3 Second Certificate of Amendment of Amended and Restated Certificate of Incorporation of Plug Power Inc. (2)
- 3.4 Third Certificate of Amendment to Amended and Restated Certificate of Incorporation of Plug Power. (3)
- 3.5 Third Amended and Restated By-laws of Plug Power Inc. (4)
- 3.6 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Plug Power Inc. classifying and designating the Series A Junior Participating Cumulative Preferred Stock. (5).
- 3.7 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Plug Power Inc. classifying and designating the Series C Redeemable Convertible Preferred Stock (6)
- 3.8 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Plug Power Inc. classifying and designating the Series D Redeemable Convertible Preferred Stock (7)
- 3.9 Certificate of Correction to Third Certificate of Amendment of Amended and Restated Certificate of Incorporation of Plug Power Inc. dated as of December 21, 2016 (8)
- 3.10 At Market Issuance Sales Agreement, dated April 3, 2017, by and between Plug Power Inc. and FBR Capital Markets & Co. (9)
- 3.11 Warrant to Purchase Common Stock, issued April 4, 2017, by and between Plug Power Inc. and Amazon.com NV Investment Holdings LLC (10)
- 3.12 Transaction Agreement, dated as of April 4, 2017, by between Plug Power Inc. and Amazon.com, Inc. (10)
- 3.13 Warrant to Purchase Common Stock, issued April 12, 2017, by and between Plug Power Inc. and Tech Opportunities LLC (11)
- 3.14 Warrant Exercise Agreement, dated as of April 12, 2017, by and between Plug Power Inc. and Tech Opportunities LLC (11)
- 3.15 Fourth Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Plug Power Inc. (12)
- 3.16 Second Amended and Restated 2011 Stock Option and Incentive Plan. (12)
- 3.17

Warrant to Purchase Common Stock, issued July 20, 2017, by and between Plug Power Inc. and Wal-mart Stores, Inc. (13)

3.18 Amendment No. 8, effective as of July 20, 2017, to Shareholder Rights Agreement by and between Plug Power Inc. and Broadridge Corporate Issuer Solutions, Inc., as Rights Agent. (13)

3.19 Transaction Agreement, dated as of July 20, 2017, by and between Plug Power Inc. and Wal-Mart Stores, Inc. (13)

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3.20	Amendment No. 8 to Loan and Security Agreement, dated as of June 30, 2017, by and among Plug Power Inc., Emerging Power Inc., Emergent Power Inc. and NY Green Bank. (14)
3.21	Master Lease Agreement, dated as of June 30, 2017, by and between Plug Power Inc. and Wells Fargo Equipment Finance, Inc. (14)
3.22	Amended and Restated Master Lease Agreement, dated as of June 30, 2017, by and between Proton GCI SPV I LLC and Generate Plug Power SLB 1, LLC. (14)
3.23	Amended and Restated Loan and Security Agreement, dated as of July 21, 2017, by and between Plug Power Inc. and NY Green Bank. (15)
31.1 and 31.2	Certifications pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (16)
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. (16)
101.INS*	XBRL Instance Document (16)
101.SCH*	XBRL Taxonomy Extension Schema Document (16)
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document (16)
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document (16)
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document (16)
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document (16)

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- (1) Incorporated by reference to the Company's Form 10-K for the period ended December 31, 2008.
 - (2) Incorporated by reference to the Company's current Report on Form 8-K dated May 19, 2011.
 - (3) Incorporated by reference to the Company's current Report on Form 8-K dated July 25, 2014.
 - (4) Incorporated by reference to the Company's current Report on Form 8-K dated November 2, 2009.
 - (5) Incorporated by reference to the Company's current Report on Form 8-K dated June 24, 2009.
 - (6) Incorporated by reference to the Company's current Report on Form 8-K dated May 20, 2013.
 - (7) Incorporated by reference to the Company's current Report on Form 8-K dated December 21, 2016.

- (8) Incorporated by reference to the Company's Form 10-K for the period ended December 31, 2016.
- (9) Incorporated by reference to the Company's current Report on Form 8-K dated April 3, 2017.
- (10) Incorporated by reference to the Company's current Report on Form 8-K dated April 5, 2017.
- (11) Incorporated by reference to the Company's current Report on Form 8-K dated April 12, 2017.
- (12) Incorporated by reference to the Company's current Report on Form 8-K dated June 30, 2017.
- (13) Incorporated by reference to the Company's current Report on Form 8-K dated July 21, 2017.
- (14) Incorporated by reference to the Company's current Report on Form 8-K dated July 21, 2017.
- (15) Incorporated by reference to the Company's current Report on Form 8-K dated July 27, 2017.

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(16) Filed herewith.

*Submitted electronically herewith. Attached as Exhibit 101 are the following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in eXtensible Business Reporting Language (XBRL) and tagged as blocks of text: (i) Interim Consolidated Balance Sheets at June 30, 2017 and December 31, 2016; (ii) Interim Consolidated Statements of Operations for the Six Months Ended June 30, 2017 and 2016; (iii) Interim Consolidated Statements of Comprehensive Loss for the Six Months Ended June 30, 2017 and 2016; (iv) Interim Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2017; (v) Interim Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016; and (vi) related notes, tagged as blocks of text.

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Signatures

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

PLUG POWER INC.

Date: August 8, 2017 By: /s/ Andrew Marsh
Andrew Marsh
President, Chief Executive
Officer and Director (Principal
Executive Officer)

Date: August 8, 2017 By: /s/ Paul B. Middleton
Paul B. Middleton
Chief Financial Officer (Principal
Financial Officer)