PLUG POWER INC
Form 10-Q
November 09, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

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: 0-27527

PLUG POWER INC.

(Exact name of registrant as specified in its charter)

968 ALBANY-SHAKER ROAD, LATHAM, NEW YORK 12110

(Address of registrant s principal executive office)

(518) 782-7700

(Registrant s telephone number, including area code)

Delaware	**22-3672377**
(State or other jurisdiction	**(I.R.S. Employer**
of Incorporation)	**Identification Number)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act). Yes ¨ No x

The number of shares of common stock, par value of $.01 per share, outstanding as of November 5, 2007 was 87,833,538

Table of Contents

PLUG POWER INC.

INDEX to FORM 10-Q

	Page
PART I. FINANCIAL INFORMATION	
Item 1 Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets September 30, 2007 and December 31, 2006	3
Condensed Consolidated Statements of Operations Three month and nine month periods ended September 30, 2007 and September 30, 2006 and Cumulative Amounts from Inception	4
Condensed Consolidated Statements of Cash Flows Nine month periods ended September 30, 2007 and September 30, 2006 and Cumulative Amounts from Inception	5
Notes to Condensed Consolidated Financial Statements	6
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3 Quantitative and Qualitative Disclosures About Market Risk	23
Item 4 Controls and Procedures	23
PART II. OTHER INFORMATION	
Item 1A Risk Factors	24
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 6 Exhibits	25
Signatures	25

Table of Contents

Plug Power Inc. and Subsidiaries

(A Development Stage Enterprise)

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 18,171,364	$ 26,899,866
Available-for-sale securities	162,237,679	242,223,202
Accounts receivable, less allowance of $35,670 at September 30, 2007 and December 31, 2006	3,280,303	892,641
Inventory	7,390,834	5,558,710
Government assistance receivable	292,566	
Prepaid expenses and other current assets	2,237,888	3,706,400
Total current assets	193,610,634	279,280,819
Property, plant and equipment, net	20,980,537	18,048,254
Goodwill	49,424,406	10,388,980
Intangible assets, net	17,809,312	
Other assets	263,090	201,859
Total assets	$ 282,087,979	$ 307,919,912
Liabilities and Stockholders Equity		
Current liabilities:		
Due to broker for security purchase	$	$ 5,000,000
Accounts payable	4,333,322	1,989,983
Accrued expenses	4,166,127	2,596,990
Deferred revenue	4,166,864	2,692,320
Other current liabilities	402,496	
Total current liabilities	13,068,809	12,279,293
Repayable government assistance	4,363,233	
Other liabilities	1,349,492	1,112,427
Total liabilities	18,781,534	13,391,720
Stockholders equity:		
Class B Capital stock, a class of preferred stock, $0.01 par value per share; 5,000,000 shares authorized; 395,000 shares issued and outstanding at September 30, 2007 and December 31, 2006	3,950	3,950
Common stock, $0.01 par value per share; 245,000,000 shares authorized; 87,801,200 shares issued and outstanding at September 30, 2007 and 86,794,915 shares issued and outstanding at December 31, 2006	878,012	867,952
Additional paid-in capital	755,356,784	751,118,315
Accumulated other comprehensive income (loss)	7,545,207	(70,480)
Deficit accumulated during the development stage	(500,477,508)	(457,391,545)
Total stockholders equity	263,306,445	294,528,192
Total liabilities and stockholders equity	$ 282,087,979	$ 307,919,912

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

Table of Contents

Plug Power Inc. and Subsidiaries

(A Development Stage Enterprise)

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,		Cumulative Amounts from Inception
	2007	2006	2007	2006	
Revenue					
Product and service revenue	$ 1,199,490	$ 676,378	$ 2,337,302	$ 2,275,958	$ 34,697,227
Research and development contract revenue	3,335,541	1,079,161	8,835,009	4,519,446	71,113,575
Total revenue	4,535,031	1,755,539	11,172,311	6,795,404	105,810,802
Cost of revenue and expenses					
Cost of product and service revenue	1,963,490	761,453	8,030,052	3,318,813	42,160,489
Cost of research and development contract revenue	5,198,167	1,335,963	12,574,524	6,223,503	101,364,162
In-process research and development					12,026,640
Research and development expense:					
Noncash stock-based compensation	928,305	712,851	2,656,975	2,093,126	14,282,519
Other research and development	8,433,526	10,855,776	24,789,707	28,496,477	359,566,367
General and administrative expense:					
Noncash stock-based compensation	484,135	319,595	1,428,318	1,085,715	19,275,645
Other general and administrative	4,682,351	3,123,729	12,773,906	7,800,212	75,701,461
Amortization of intangible assets	571,914		1,028,164		1,028,164
Operating loss	(17,726,857)	(15,353,828)	(52,109,335)	(42,222,442)	(519,594,645)
Interest income and net realized gains/(losses) from the sale of available-for-sale securities	2,760,053	3,532,965	9,277,386	5,353,011	39,297,036
Interest expense	(114,061)	(55,932)	(220,591)	(158,286)	(1,568,726)
Other income (loss)	(95,381)		(33,423)		(33,423)
Loss before equity in losses of affiliates	(15,176,246)	(11,876,795)	(43,085,963)	(37,027,717)	(481,899,758)
Equity in losses of affiliates					(18,577,750)
Net loss	$ (15,176,246)	$ (11,876,795)	$ (43,085,963)	$ (37,027,717)	$ (500,477,508)
Loss per share:					
Basic and diluted	$ (0.17)	$ (0.14)	$ (0.50)	$ (0.43)	
Weighted average number of common shares outstanding	86,894,954	86,184,390	86,668,121	86,045,202	

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

Table of Contents

Plug Power Inc. and Subsidiaries

(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended September 30,		Cumulative Amounts from Inception
	2007	2006	
Cash Flows From Operating Activities:			
Net loss	$ (43,085,963)	$ (37,027,717)	$ (500,477,508)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,817,040	2,411,277	33,000,591
Equity in losses of affiliates			18,577,750
Amortization of intangible assets	1,028,164		16,152,665
Noncash prepaid development costs			10,000,000
Amortization of deferred grant revenue			(1,000,000)
Stock-based compensation	4,085,293	3,838,936	33,380,406
Allowance for bad debts			35,670
Loss on disposal of property, plant and equipment			27,493
In-kind services			1,340,000
Interest on repayable government assistance	218,623		218,623
Amortization and write-off of deferred rent			2,000,000
In-process research and development			7,042,640
Changes in assets and liabilities, net of effects of acquired companies:			
Accounts receivable	(2,243,114)	288,384	(2,952,084)
Government assistance receivable	652,167		652,167
Inventory	(506,660)	(20,807)	(5,710,797)
Prepaid expenses and other current assets	435,782	(417,679)	(4,348,786)
Accounts payable, accrued expenses and other liabilities	(800,436)	(1,872,489)	2,617,274
Deferred revenue	1,470,758	13,072	5,163,078
Net cash used in operating activities	(35,928,346)	(32,787,023)	(384,280,818)
Cash Flows From Investing Activities:			
Cash paid for acquisitions, net	(47,228,232)		(17,762,491)
Increase in notes receivable			(1,000,000)
Purchase of property, plant and equipment	(2,117,270)	(1,114,794)	(36,096,445)
Proceeds from disposal of property, plant and equipment			315,666
Purchase of intangible asset			(9,624,500)
Investment in affiliate			(1,500,000)
Proceeds from maturities and sales of available-for-sale securities	511,469,449	675,017,890	2,284,254,159
Purchases of available-for-sale securities	(436,183,051)	(834,387,515)	(2,446,261,443)
Net cash provided by (used in) investing activities	25,940,896	(160,484,419)	(227,675,054)
Cash Flows From Financing Activities:			
Proceeds from issuance of common and preferred stock		217,311,820	428,529,602
Proceeds from public offerings, net			201,911,705
Stock issuance costs		(2,953,549)	(5,548,027)
Government assistance	238,983		238,983

Proceeds from shares issued for stock option exercises and employee stock purchase plan	217,287	220,995	10,978,893
Repayment of loans due to General Hydrogen shareholders	(400,000)		(400,000)
Principal payments on long-term debt and capital lease obligations		(141,806)	(6,786,687)
Net cash provided by financing activities	56,270	214,437,460	628,924,559
Effect of exchange rate changes on cash	1,202,678		1,202,677
(Decrease) increase in cash and cash equivalents	(8,728,502)	21,166,018	18,171,364

Table of Contents

	Nine months ended September 30,		Cumulative Amounts from Inception
	2007	2006	
Cash and cash equivalents, beginning of period	26,899,866	21,877,726	
Cash and cash equivalents, end of period	$ 18,171,364	$ 43,043,744	$ 18,171,364

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

Plug Power Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations

Description of Business

Plug Power Inc. and subsidiaries (Company) was originally formed as a joint venture between Edison Development Corporation (EDC) and Mechanical Technology Incorporated (MTI) in the State of Delaware on June 27, 1997 and succeeded by merger to all of the assets, liabilities and equity of Plug Power, L.L.C. on November 3, 1999.

The Company is a development stage enterprise involved in the design, development and manufacture of on-site energy systems for energy consumers worldwide. The Company s focus is on fuel cell and fuel processing technologies, from which multiple products are being offered or are under development. A fuel cell is an electrochemical device that combines hydrogen and oxygen to produce electric power without combustion. Hydrogen is derived from hydrocarbon fuels such as natural gas, propane, methanol or gasoline and can also be obtained from the electrolysis of water, stored hydrogen or a hydrogen pipeline.

The Company is currently pursuing commercialization of its GenCore® product. The GenCore® product is a back-up power product initially targeted for telecommunications, broadband, utility and industrial uninterruptible power supply (UPS) applications. Following the acquisition of Cellex Power Products, Inc. (Cellex) and General Hydrogen Corporation (General Hydrogen) in the second quarter of 2007, the Company is also pursuing development and commercialization of fuel cell power units known as GenDrive that provide power for electric lift trucks and other mobile industrial equipment for which lead-acid batteries are the incumbent technology. During the third quarter of 2007, the Company began to manufacture and deliver its GenDrive units to customers from its Latham, NY facility. The Company is developing additional products known as GenSys® for continuous run power applications, with optional combined heat and power capability for remote small commercial and remote residential applications.

Liquidity

The Company s cash requirements depend on numerous factors, including completion of our product development activities, our ability to commercialize our on-site energy products, market acceptance of our systems and other factors. The Company expects to continue to devote substantial capital resources to continue its development programs directed at commercializing on-site energy products for worldwide use, hiring and training production staff, developing and expanding manufacturing capacity, and continuing expansion of production and research and development activities. The Company will pursue the expansion of its operations through internal growth and strategic acquisitions and expects that such activities will be funded from existing cash and cash equivalents and available-for-sale securities and, to a lesser extent, issuance of additional equity or debt securities or additional borrowings subject to market and other conditions. The failure to raise the funds necessary to finance future cash requirements or consummate future acquisitions could adversely affect the Company s ability to pursue its strategy and could negatively affect its operations in future periods. The Company anticipates incurring additional losses over at least the next several years and believes that its current cash, cash equivalents and available-for-sale securities balances will provide sufficient liquidity to fund operations for at least the next twelve months. At September 30, 2007, the Company had cash, cash equivalents and available-for-sale securities in the amount of $180.4 million and working capital of $180.5 million.

2. Acquisitions

On April 3, 2007, the Company completed the acquisition of all of the outstanding shares of Cellex, a development stage enterprise, for an aggregate purchase price, including acquisition costs, of $46.1 million. The results of Cellex s operations have been included in the consolidated financial statements since that date. Cellex, based in Richmond, British Columbia, develops and commercializes fuel cell solutions that replace the industrial lead acid battery system used today in powering electric lift truck fleets in large-scale distribution centers. As a result of the acquisition, the Company is expected to be a leading provider of PEM fuel cell power units for electric lift trucks and is targeting the estimated $1.5 billion industrial

Table of Contents

motive battery market. The acquisition diversifies the Company s product portfolio and adds new revenue streams from a potentially significant market.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of finalizing third-party valuations of certain intangible assets, thus the allocation of the purchase price is subject to adjustment:

(Dollars in thousands)	
Current assets	$ 9,856
Property, plant and equipment	1,207
Identifiable intangible assets	10,000
Goodwill	27,547
Total assets acquired	48,610
Current liabilities	832
Long term liabilities	1,693
Total liabilities assumed	2,525
Net assets acquired	$ 46,085

The entire $10 million balance of intangible assets has been preliminarily assigned to acquired technology, which is being amortized over 8 years.

On May 4, 2007, the Company completed the acquisition of all of the outstanding shares of General Hydrogen, a development stage enterprise, for an aggregate purchase price, including acquisition costs, of $8.7 million plus the settlement of $3 million in senior secured loans previously made by Plug Power to General Hydrogen. In addition, the shareholders of General Hydrogen received warrants to purchase up to 571,429 shares of Plug Power Common Stock. The warrants become exercisable when Plug Power s Common Stock trades at a volume weighted average price of $7.00 or more for 10 consecutive trading days. The warrants carry an exercise price of $.01 per share and expire four years from the date of issuance. No value has been assigned to the warrants as part of the purchase price allocation. The results of General Hydrogen s operations have been included in the consolidated financial statements since May 4, 2007. General Hydrogen is located in Richmond, British Columbia, Canada within close proximity to Cellex. During October 2007, Plug Power successfully integrated the operations of both companies into one organization.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of finalizing third-party valuations of certain intangible assets, thus the allocation of the purchase price is subject to adjustment:

(Dollars in thousands)	
Current assets	$ 2,002
Property, plant and equipment	2,352
Identifiable intangible assets	6,900
Goodwill	6,793
Total assets acquired	18,047
Current liabilities	3,466
Long term liabilities	2,881
Total liabilities assumed	6,347
Net assets acquired	$ 11,700

Of the $6.9 million of intangible assets, $5.9 million has been preliminarily assigned to acquired technology and $1.0 million has been preliminarily assigned to customer relationships, both of which are being amortized over 8 years.

By acquiring both General Hydrogen and Cellex, leaders in their industry, the Company expects to realize significant technological and operational synergies while pursuing high-value applications in the material handling market. Further, the Company anticipates that higher volume commercial product manufacturing activities will be established in Plug Power s Latham, N.Y. facility. The Company intends to leverage Plug Power s existing commercial infrastructure and expects to avoid some of the expenditures typically associated with the transition to a manufacturing enterprise.

Table of Contents

The gross carrying amount and accumulated amortization of the Company s acquired identifiable intangible assets as of September 30, 2007 are as follows:

(Dollars in thousands)	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Effect of Foreign Exchange	Total
Acquired Technology	8 years	$ 15,900	$ (976)	1,937	16,861
Customer Relationships	8 years	1,000	(52)		948
		$ 16,900	$ (1,028)	1,937	17,809

Amortization expense for acquired identifiable intangible assets for the quarter and nine months ended September 30, 2007, was $572,000 and $1.0 million, respectively. Estimated amortization expense for the remainder of 2007 and subsequent years is as follows:

(Dollars in thousands)	
2007	$ 587
2008	2,348
2009	2,348
2010	2,348
2011	2,348
Thereafter	7,830
Total	$ 17,809

The following unaudited pro forma financial information for the quarter ended September 30, 2007 and the nine months ended September 30, 2007 and 2006 present the consolidated operations of the Company as if the Cellex and General Hydrogen acquisitions had been made on January 1, 2006. The unaudited pro forma financial information is provided for informational purposes only and does not project the Company s results of operations for any future period:

(Dollars in thousands, except per share)	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Revenue	$ 2,383	$ 11,431	$ 7,873
Net loss	(14,461)	(44,449)	(46,619)
Basic and diluted loss per share	$ (0.17)	$ (0.51)	$ (0.54)

3. Basis of Presentation

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

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

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006.

The information presented in the accompanying condensed consolidated balance sheet as of December 31, 2006 has been derived from the Company s December 31, 2006 audited consolidated financial statements. All other information has been derived from the Company s unaudited condensed consolidated financial statements for the periods as of and ending September 30, 2007 and 2006.

Table of Contents

Cash Equivalents: Cash equivalents consist of money market accounts, overnight repurchase agreements, certificates of deposit, and debt securities with an initial term of less than three months. For purposes of the condensed 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.

Available-for-Sale Securities: Management determines the appropriate classification of its investments in available-for-sale securities at the time of purchase and reevaluates such determinations at each balance sheet date. Available-for-sale securities include debt obligations and asset-backed securities, which are carried at estimated fair value. These investments are considered available-for-sale, and the difference between the amortized cost and the estimated fair value of these securities is reflected in accumulated other comprehensive income (loss) as a separate component of stockholders equity. The Company has had no investments that qualify as trading or held-to-maturity. The cost of securities sold is based on the specific identification method. Security transactions are recognized on a trade date basis. Premiums and discounts on securities are amortized and accreted over the term of the security using the interest method. When a decline in fair value of a security is considered other-than-temporary, the cost basis of the individual security is written down to estimated fair value as the new cost basis and the loss is charged to interest income and net realized/unrealized gains (losses) from the sale of available-for-sale securities in the consolidated statement of operations. At September 30, 2007, the difference between the amortized cost and the fair value of these securities result in an unrealized gain in the amount of $159,101. At December 31, 2006, there was an unrealized loss of $70,480. At September 30, 2007, none of the Company s available-for-sale securities had contractual maturities exceeding thirty months.

Inventory: Inventory is stated at the lower of average cost or market and generally consists of raw materials. At September 30, 2007, inventory included 10 completed units shipped on a consignment basis, valued at approximately $198,000 in the aggregate. At December 31, 2006, inventory included 43 completed units shipped on a consignment basis, valued at approximately $573,000 in the aggregate.

Repayable Government Assistance: The Company accounts for contracts with the National Research Council of Canada and the Technology Partnership Canada in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 68, Research and Development Arrangements, and Emerging Issues Task Force (EITF) Issue No. 88-18, Sales of Future Revenues . Accordingly, funding received under these government assistance arrangements is recorded as a liability when received and interest is imputed at the applicable rates.

Goodwill and Intangible Assets: The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets as of January 1, 2002. Pursuant to SFAS No. 142, goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually, on December 31, or upon the occurrence of triggering events in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets.

Goodwill represents the excess of costs over fair value of the Cellex, General Hydrogen, and H Power Corp. net assets acquired. Amortized intangible assets, including purchased technology and other intangible assets, are carried at cost less accumulated amortization. The Company amortizes these intangible assets on a straight-line basis over their estimated useful lives. The range of estimated useful lives on the Company s identifiable intangible assets is eight years.

Impairment of Long-Lived Assets: Long-lived assets, such as property, plant, and equipment and amortizing intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Product and Service Revenue: The Company applies the guidance within SEC Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB 104) in the evaluation of its contracts to determine when to properly recognize revenue. Under SAB 104, revenue is recognized when title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collectibility is reasonably assured.

Table of Contents

The Company s initial sales of GenSys®, GenCore®, and GenDrive products contain multiple obligations that may include a combination of fuel cell systems, continued service, maintenance and other support. While contract terms require payment shortly after delivery or installation (with respect to certain consignment sales) of the fuel cell system and are not contingent on the achievement of specific milestones or other substantive performance, the multiple obligations within contractual arrangements are not accounted for separately based on the Company s limited commercial experience and available evidence of fair value of the different components. As a result, the Company defers recognition of product and service revenue and recognizes revenue on a straight-line basis over the stated contractual term, or over the expected term if it is probable that the contractual term will be extended, as the continued service, maintenance and other support obligations expire, which are generally for periods of twelve to thirty months. Cost of product and service revenue includes the direct material cost incurred in the manufacture of the products the company sells, which is generally recognized when units are shipped, as well as the labor and material costs incurred for product maintenance, replacement parts and service under our contractual obligations, which are recognized as incurred. At September 30, 2007 and December 31, 2006, the Company had deferred product and service revenue in the amount of $3.5 million and $2.2 million, respectively.

As the Company gains commercial experience, including field experience relative to service and warranty based on the sales of initial products, the fair values for the multiple elements within future contracts may become determinable, and the Company may, in future periods, recognize revenue upon shipment of the product or may continue to defer recognition, based on application of appropriate guidance within EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables .

Research and Development Contract Revenue: Research and development contract revenue primarily relates to cost reimbursement research and development contracts associated with the development of PEM fuel cell technology. The Company generally shares in the cost of these programs with cost sharing percentages between 20% and 51%. Revenue from time and material contracts is recognized on the basis of hours utilized, plus other reimbursable contract costs incurred during the period. The Company also has fixed fee contracts in 2007. Revenue under these contracts is generally recognized on the basis of percentage of completion. At September 30, 2007 and December 31, 2006, the Company had deferred contract revenue of approximately $700,000 and $461,000, respectively.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized. We did not report a benefit for federal and state income taxes in the consolidated financial statements as the deferred tax asset generated from our net operating loss has been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carryforward will not be realized.

Effective January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 establishes threshold and measurement attributes for financial statement measurement and recognition of tax positions taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a significant impact on our financial results and did not result in a cumulative effect adjustment to the January 1, 2007 balance of retained earnings.

Stock Based Compensation: Under Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R), the Company is required to recognize, as compensation expense, the estimated fair value of all share-based payments to employees on a straight-line basis (net of estimated forfeitures) over the requisite service period for all share-based payments to employees and directors based on the grant date estimate of fair value for those awards.

The Company estimates the fair value of stock-based awards using a Black-Scholes valuation model. Stock-based compensation expense is recorded in Research and development expense Noncash stock-based compensation and General and administrative expense Noncash stock-based compensation in the consolidated statements of operations based on the employees respective function or an estimated allocation between functions for certain employees.

The Company records deferred tax assets for awards that result in deductions on the Company s income tax returns, unless the Company cannot recognize the deduction (i.e. the Company is in a net operating loss (NOL) position), based on the amount of compensation cost recognized and the Company s statutory tax rate. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company s income tax return

10

Table of Contents

are recorded in additional paid-in capital if the tax deduction exceeds the deferred tax asset or in the consolidated statements of operations if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards. No tax benefit or expense for stock-based compensation has been recorded during the three and nine months ended September 30, 2007 and 2006, since the Company remains in a NOL position.

For the three and nine months ended September 30, 2007 and 2006, the Company recorded expense of approximately $1.4, $4.1, $1.0, and $3.2 million, respectively, in connection with its share-based payment awards.

Foreign Currency Translation: Assets and liabilities of the Company s foreign subsidiary, Cellex, are translated into U.S. dollars at current exchange rates. Income and expenses of Cellex are translated into U.S. dollars at the approximate average exchange rates that prevailed during the periods presented. The functional currency of all subsidiaries is considered to be the local currency; consequently, adjustments resulting from the translation of the subsidiary s financial statements are reflected in accumulated other comprehensive income (loss) in stockholders equity and not as a part of the results of operations.

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

4. Loss Per Share

Loss per share for the Company is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net loss	$ (15,176,246)	$ (11,876,795)	$ (43,085,963)	$ (37,027,717)
Denominator:				
Weighted average number of common shares	86,894,954	86,184,390	86,668,121	86,045,202
Loss per share:				
Basic and diluted	(0.17)	(0.14)	(0.50)	(0.43)

No options, warrants, securities convertible into common stock (such as the Company s preferred stock), or unvested restricted stock outstanding were included in the calculation of diluted loss per share because their impact would have been anti-dilutive. These dilutive potential common shares for the nine month periods ended September 30, 2007 and 2006 are summarized as follows:

	Shares	
	2007	2006
Stock options	6,695,824	6,373,905
Unvested restricted stock	821,212	383,423
Preferred stock[(1)]	39,500,000	39,500,000
Warrants[(2)]	571,429	
	47,588,465	46,257,328

(1) The preferred stock amount represents the dilutive potential common shares of the 395,000 shares of Class B capital stock issued on June 29, 2006.

(2) The warrants were granted to the shareholders of General Hydrogen (see note 2).

Table of Contents

5. Stockholders Equity

Changes in stockholders equity for the nine months ended September 30, 2007 are as follows:

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders Equity	Comprehensive Loss
December 31, 2006	$ 3,950	$ 867,952	$ 751,118,315	$ (70,480)	$ (457,391,545)	$ 294,528,192	
Net loss					(43,085,963)	(43,085,963)	$ (43,085,963)
Net change in unrealized gain/loss on available-for-sale securities				229,581		229,581	229,581
Foreign currency translation gain				7,386,106		7,386,106	7,386,106
Stock-based transactions		10,060	4,238,469			4,248,529	
September 30, 2007	$ 3,950	$ 878,012	$ 755,356,784	$ 7,545,207	$ (500,477,508)	$ 263,306,445	$ (35,470,276)

Common stock issued during the nine months ended September 30, 2007 consisted of approximately 1,006,000 shares issued as stock-based compensation for employee benefit plans, shares issued under the Employee Stock Purchase Plan and shares issued pursuant to the exercise of stock options.

6. Supplemental Disclosures of Cash Flows Information

The following represents required supplemental disclosures of cash flows information and noncash financing and investing activities which occurred during the nine months ended September 30, 2007 and 2006:

	September 30, 2007	September 30, 2006
Cash paid for interest	$	$ 144,427
Stock-based compensation accrual impact		660,095
Change in unrealized gain/loss on available-for-sale securities	229,581	366,387
Reduction of due to broker for security purchase	(5,000,000)	
Estimated fair value of net assets acquired and liabilities assumed	57,785,000	
Effect of foreign currency translation	7,386,106	

7. Repayable Government Assistance

During the year ended December 31, 2000, Cellex entered into an Industrial Research Assistance Program Repayable Contribution Agreement with the National Research Council of Canada (NRC) under which it received contributions totaling Cdn$500,000 for certain development activities. The agreement with the NRC provides for payment of royalties of up to 170% of the contributions received subject to certain conditions, payable quarterly, calculated at 3.5% of gross revenues.

Cellex also entered into an agreement with Technology Partnerships Canada (TPC) during the year ended December 31, 2005 for the development of early market fuel cell applications.

Under the agreement, TPC will contribute the lesser of Cdn$9.5 million or 33% of eligible costs incurred during the period July 2004 to June 2009. Following the completion of the development project, TPC will be entitled to recover its investment through royalty payments of 2.06% of revenues during the period January 1, 2010 to December 31, 2017, or until a Cdn$42.2 million cap is reached, whichever occurs first. If, as of December 31, 2017, the cumulative royalty paid and owing has not reached Cdn$28.1 million, royalty payments will continue to be payable until Cdn$28.1 million is reached or until December 31, 2027, whichever occurs first.

General Hydrogen entered into an agreement with TPC during the year ended December 31, 2005 for the development of early market fuel cell applications.

Under the agreement, TPC will contribute the lesser of Cdn$9.0 million and 32% of eligible costs incurred though June 2008. Following the completion of the development project, TPC will be entitled to recover its investment through royalty payments of 1.98% of revenues during the period January 1, 2009 to December 31,

Table of Contents

2016. If, as of December 31, 2016, the cumulative royalty paid and owing has not reached Cdn$22.9 million, royalty payments will continue to be payable until Cdn$22.9 million is reached or until December 31, 2026, whichever occurs first.

The Company has recorded the estimate of amounts owed under these arrangements as a debt and accrued interest based on imputed interest rates. Royalty payments are recorded as a reduction of the debt. Accordingly, liabilities in the amount of $4.4 million and $312,000 have been recorded as repayable government assistance and current portion of repayable government assistance, respectively, in the condensed consolidated balance sheet as of September 30, 2007.

Plug Power has entered into discussions with the TPC to discuss possible modifications and/or amendments to either or both of the TPC agreements that might be advisable or required as a result of the combined companies current structures and business strategies.

8. Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This Interpretation is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted this statement on January 1, 2007. No adjustment of opening balances was required and the adoption of this Interpretation did not have an impact on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). This new standard establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company s use of fair value measurements, including the effect of such measures on earnings. This standard is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the provisions of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 (SFAS No. 159). This new standard permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. This standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the provisions of SFAS No. 159.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our accompanying unaudited condensed consolidated financial statements and notes thereto included within this report, and our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006. In addition to historical information, this Form 10-Q and following discussion contain statements that are not historical facts and are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements contain projections of our future results of operations or of our financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, should, will and would or similar words. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Investors are cautioned not to rely on forward-looking statements because they involve risks and uncertainties, and actual results may differ materially from those discussed as a result of various factors, including, but not limited to: the risk that the anticipated synergies of the Cellex Power Products, Inc. and General Hydrogen Corporation acquisitions are not realized; the risk that possible strategic benefits of the investment by Smart Hydrogen do not materialize, that orders will not ship, be installed and/or convert to revenue; our ability to develop commercially viable on-site energy products; the cost and timing of developing our on-site energy products; market acceptance of our on-site energy products; our ability to manufacture on-site energy products on a large-scale commercial basis; competitive factors, such as price competition and competition from other traditional and alternative energy companies; the cost and availability of components and parts for our on-site energy products; the ability to raise and provide the necessary capital to develop, manufacture and market our on-site energy products; our ability to establish relationships with third parties with respect to product development, manufacturing, distribution and servicing and the supply of key product components; our ability to protect our intellectual property; our ability to lower the cost of our on-site energy products and demonstrate

their reliability; the cost of complying with current and future governmental regulations;

Table of Contents

the impact of deregulation and restructuring of the electric utility industry on demand for our on-site energy products; fluctuations in the trading price and volume of our common stock and other risks and uncertainties discussed, but are not limited to, those set forth under the caption Factors Affecting Future Results in our Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006 as updated by Part II, Item 1A of this Form 10-Q. 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

We design and develop on-site energy systems based on proton exchange membrane fuel cell technology for commercial and residential energy consumers worldwide. We are focused on fuel cell and fuel processing technologies, from which we are offering or developing multiple products. We are currently offering our GenCore® product for commercial sale. Our GenCore® product is a back-up power product for telecommunications, broadband, utility and industrial uninterruptible power supply, or UPS, applications. We are developing additional products known as GenSys® for continuous run power applications, with optional combined heat and power capability for remote small commercial and remote residential applications. Following the acquisition of Cellex Power Products, Inc. (Cellex) and General Hydrogen Corporation (General Hydrogen) in the second quarter of 2007, the Company is also pursuing development and commercialization of fuel cell power units known as GenDrive that provide power for electric lift trucks and other mobile industrial equipment for which lead-acid batteries are the incumbent technology. During the third quarter of 2007, the Company began to manufacture and deliver its GenDrive units to customers from its Latham, NY facility.

We are a development stage enterprise in the early period of field-testing and marketing our initial commercial products to a limited number of customers, including telecommunications companies, utilities, government entities and our distribution partners. See Product Development and Commercialization. The GenCore® is fueled by hydrogen and does not require a fuel processor.

Our sales and marketing strategy is to build a network of leading distributors who have established relationships, and sub-distributor networks, that can distribute and service our products in targeted geographic and/or market segments. We have distribution agreements in place with 20 distributors including Tyco Electronics Power Systems, Inc., or Tyco, our largest North American distribution partner and IST Holdings Ltd., or IST, our distribution partner in South Africa. We also form relationships with customers and enter into development and demonstration programs with telecommunications companies, electric utilities, government agencies and other energy providers. Many of our initial sales of GenSys® and GenCore® are contract-specific arrangements containing multiple obligations that may include a combination of fuel cell systems, continued service, maintenance and other support. The multiple obligations within our contractual arrangements are not accounted for separately based on our limited commercial experience and available evidence of fair value. As a result, we defer recognition of product and service revenue and recognize revenue on a straight-line basis over the contractual terms as the continued service, maintenance and other support obligations expire, which are generally for periods of twelve to thirty months. However, if the warranty or service period is expected to exceed the contractual warranty/service period, the deferred revenue would be recognized over that expected longer warranty/service period and may not begin until units are installed. See Basis of Presentation Product and Service Revenue.

As we gain commercial experience, including field experience relative to service and warranty of our initial products, the fair values for the multiple elements within our future contracts may become determinable and we may, in future periods, recognize product revenue upon delivery or installation of the product, or we may continue to defer recognition, based on application of appropriate guidance within EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, or changes in the manner in which we structure contractual agreements, including our agreements with distribution partners.

Our cash requirements depend on numerous factors, including completion of our product development activities, our ability to commercialize our fuel cell systems, market acceptance of our systems and other factors. We expect to pursue the expansion of our operations through internal growth and strategic acquisitions. As of September 30, 2007, we had cash and cash equivalents and available-for-sale securities totaling $180.4 million and working capital of $180.5 million.

During the nine months ended September 30, 2007, cash used by operating activities was $35.9 million, consisting primarily of a net loss of $43.1 million offset, in part, by non-cash expenses in the amount of $7.9 million, including $3.8 million for depreciation and amortization and $4.1 million for stock based compensation. Cash provided by investing activities for the nine months ended September 30, 2007 was $25.9 million, consisting of $75.2 million of net proceeds primarily from the maturing of available-for-sale securities offset by $2.1 million used to purchase property, plant and equipment, and $47.2 million related to the acquisitions of Cellex Power Products, Inc., or Cellex, and General Hydrogen Corporation.

14

Table of Contents

Recent Developments

Acquisitions

On April 3, 2007, the Company completed the acquisition of Cellex. The Company paid $46.1 million, including acquisition costs, in cash for all of Cellex s outstanding shares. Cellex has been developing PEM fuel cell power units for electric lift trucks and is targeting the estimated $1.5 billion industrial motive battery market. In November 2006, Cellex successfully completed beta testing of its zero-emission, hydrogen fuel cell power units in pallet trucks at two Ohio-based Wal-Mart distribution centers. Cellex has focused its initial product initiatives on class 3 electric lift trucks, often referred to as pallet trucks, that are the predominant equipment used to transport goods within large distribution centers. Cellex s product strategy is to develop a full product portfolio addressing all three classes of electric lift trucks, enabling complete conversion of distribution centers and maximizing customer benefit. Cellex s product delivers value to the customer via increased productivity and reduced fueling time, as well as the elimination of cost, environmental, and safety issues associated with traditional lead acid batteries.

On May 7, 2007, the Company announced the acquisition of General Hydrogen Corporation, or General Hydrogen, a leader in the development and commercialization of fuel cell power units that provide motive power for electric lift trucks and other mobile industrial equipment. The Company paid approximately $8.7 million, including acquisition costs, plus the settlement of $3.0 million in senior secured loans previously made by the Company to General Hydrogen, for all of the outstanding capital stock of General Hydrogen. In addition, the shareholders of General Hydrogen received warrants to purchase up to 571,429 shares of the Company s Common Stock. The warrants become exercisable when the Company s Common Stock trades at a volume weighted average price of $7.00 or more for 10 consecutive trading days. The warrants carry an exercise price of $.01 per share and expire four years from the date of issuance.

Coinciding with the acquisition of General Hydrogen, Plug Power entered into a two-year agreement with Ballard Power Systems Inc. for the purchase of fuel cell stacks for Plug Power s commercial needs with respect to electric lift truck applications, replacing the previous agreement between General Hydrogen and Ballard. The General Hydrogen and Cellex products were designed around the Ballard stack and have generated tens of thousands of operating hours to validate reliability and performance. Under the new agreement, Plug Power and Ballard will work together to develop reliable, low-cost solutions that are expected to significantly improve the outlook for fuel cell commercialization of material handling applications.

Product Development and Commercialization

We are focused on fuel cell technology from which we believe we can offer multiple products. We are currently advancing two product lines toward commercialization, which we continue to enhance and broaden:

GenCore® Direct-Current Back-up Power for Telecommunication, Broadband, Utility and UPS Applications Our GenCore® products are fueled by hydrogen and do not require a fuel processor. See Distribution, Marketing and Strategic Relationships for additional information regarding product development and commercialization.

GenDrive Through our recent acquisitions of Cellex and General Hydrogen, we are pursuing development and commercialization of fuel cell motive power units that provide power for electric lift trucks and other mobile light industrial equipment for which lead-acid batteries are the incumbent technology. Our fuel cell motive power units allow users to increase productivity and reduce operating costs through a quick hydrogen refueling process that eliminates the need to change batteries repeatedly throughout the day. They also eliminate the environmental and safety issues traditionally associated with lead-acid batteries.

Additionally, we continue to advance the development of our other technology platforms:

GenSys® Remote Continuous Power for Light Commercial and Residential Applications We plan to continue to develop GenSys® into a platform that is expected to support a number of products, including systems fueled by liquefied petroleum gas, or LPG, for remote applications and, eventually, both grid independent and grid-connected light commercial and residential applications fueled by LPG or natural gas. In connection with the development of our GenSys® platform, we are developing combined heat and power fuel cell systems for light commercial and residential applications that provide supplemental heat as electricity is produced. We began field-testing of the next generation GenSys®, our continuous run product, in the third quarter of 2005. See Distribution, Marketing and Strategic Relationships for additional information regarding product development and commercialization.

Home Energy Station We have been developing technology in support of the automotive fuel cell market under a series of agreements with Honda R&D Co Ltd. of Japan (Honda), a subsidiary of Honda Motor Co., Ltd., under which we have developed, on a joint and exclusive basis, and tested three phases of prototype fuel cell systems that provide electricity and heat to a home or business, while also providing hydrogen fuel

for a fuel cell vehicle (named the Home Energy Station). Since 2003, we have successfully demonstrated three successive prototype generations of the Home Energy Station at Honda R&D Americas facility in Torrance, California and at Plug Power s facility in Latham,

Table of Contents

NY. The companies are currently collaborating on the fourth generation prototype Home Energy Station pursuant to the latest agreement signed in early 2006. Across each generation of the Home Energy Station, we have significantly reduced size and weight, as well as improved performance. See Distribution, Marketing and Strategic Relationships for additional information regarding product development and commercialization.

Distribution, Marketing and Strategic Relationships

We have developed an extended enterprise by forming strategic relationships with well-established companies in key areas including distribution, marketing, supply, technology development and product development. As part of our sales and marketing strategy, we have built a network of leading distributors who have established relationships and sub-distributor networks that can distribute and service our products in specific geographic or market segments. We have 20 distribution agreements in place, including agreements with Tyco, our largest North American distribution partner, and IST, our distribution partner in South Africa.

We have continuing strategic partnerships and have established strong supply-chain relationships with several companies some of which are described in greater detail below.

Telecommunications Consultants India Ltd. (TCIL): In April 2007, the Company announced a non-exclusive agreement with TCIL to market, distribute and service Plug Power s GenCore® product line to government entities in India and specific TCIL projects outside of India. Consistent with the Company s sales and marketing strategy, TCIL will seek opportunities for the GenCore® product line to support existing projects it is developing globally as well as government-owned telecommunications providers in India, where the need for reliable, extended-run backup power is critical. The telecommunications market in India is growing at a rate of four million subscribers per month due largely to the rapid expansion of wireless networks. The growth of the market, combined with a relatively fragile utility grid, creates strong opportunities for Plug Power s clean, reliable backup and primary-power fuel cells to support the nation s telecommunications infrastructure.

General Electric Company (GE) Entities: In March 2006, the Company, GE MicroGen, Inc. (GE MicroGen), a wholly-owned subsidiary of GE, and GE restructured their service and equity relationships by terminating the joint venture GE Fuel Cell Systems (GEFCS) and the associated distributor and other agreements and entering into a new development collaboration agreement. Under the new agreement, the Company and GE (through its Global Research unit) have agreed to collaborate on programs including, but not limited to, development of tools, materials and components that can be applied to various types of fuel cell products. The specific programs to be undertaken under the agreement, and the detailed terms and conditions thereof, remain subject to agreement by both parties. It is anticipated that such programs could also include collaboration on sales and marketing opportunities for the Company s products. Under the terms of the new development collaboration agreement, the Company is obligated to purchase $1 million of services from GE prior to December 31, 2008. The development collaboration agreement is scheduled to terminate on the earlier of (i) December 31, 2014 or (ii) upon completion of a certain level of program activity.

Tyco: In September 2004, we completed an agreement with Tyco to market, promote and sell our GenCore® fuel cell systems for telecommunication backup applications under both the Tyco Electronics and Plug Power brands through its direct sales force. The Company is party to a nationwide service and installation agreement for GenCore® with Tyco Electronics Installation Services Inc.

Honda: We have an agreement with Honda to exclusively and jointly develop and test the Home Energy Station. We expect our current contract with Honda to continue throughout 2007 to fund our joint development of the fourth generation Home Energy Station. We also had an agreement with Honda to fund joint research and development of technology that may be utilized in future systems; we have completed our work under this agreement and are in the process of preparing a final report for Honda.

BASF: Our joint development agreement with BASF to develop, on an exclusive basis for certain applications, a high temperature membrane exchange unit, or MEU, for stationary fuel cell systems expired on June 30, 2006. We continue to work with BASF on a nonexclusive basis under a project funded by the European Commission. We also have an agreement with BASF for the development and supply of advanced catalysts to increase the overall performance and efficiency of our fuel processor. The supply agreement with BASF specifies the rights and obligations for BASF to supply products to us until 2013.

Vaillant: We are working with Vaillant GmbH, a major supplier of residential heating equipment in Europe, as part of a consortium to develop a residential combined heat and power system incorporating the MEU from BASF.

DTE Energy: We have an exclusive distribution agreement with DTE Energy for the states of Michigan, Ohio, Illinois, and Indiana. Under the agreement, we can sell directly or negotiate nonexclusive distribution rights to third parties for our

16

Table of Contents

GenCore® backup power product line. We have agreed to pay a 5% commission for sales of GenCore® based on sales price of units shipped to third parties in the above noted states. The distribution agreement expires on December 31, 2014.

Results of Operations

Comparison of the Three Months Ended September 30, 2007 and September 30, 2006.

Product and service revenue. Product and service revenue increased to $1.2 million for the three months ended September 30, 2007, from $676,000 for the three months ended September 30, 2006, primarily due to units shipped and installed during 2007 and revenue from sales of our GenDrive product totaling $355,000. We defer recognition of product and service revenue at the time of delivery and recognize revenue as the continued service, maintenance and other support obligations expire. However, if the warranty or service period is expected to exceed the contractual warranty/service period, the deferred revenue would be recognized over that expected longer warranty/service period.

Many of our initial sales of GenSys® and GenCore® products contain multiple obligations that may include a combination of fuel cell systems, continued service, maintenance and other support obligations. While contract terms generally require payment shortly after delivery or installation (with respect to certain consignment sales) of the fuel cell system and are not contingent on the achievement of specific milestones or other substantive performance, the multiple obligations within our contractual arrangements are not accounted for separately based on our limited commercial experience and available evidence of fair value of the different components. As a result, we defer recognition of product and service revenue and recognize revenue on a straight-line basis as the continued service, maintenance and other support obligations expire, which are generally for periods of twelve to thirty months. However, if the warranty or service period is expected to exceed the contractual warranty/service period the deferred revenue would be recognized over that expected longer warranty/service period.

During the three months ended September 30, 2007, we shipped 25 GenCore® systems and began recognizing product and service revenue for this current year activity in the amount of $298,000. We also recognized $547,000 of revenue deferred at December 31, 2006. This compares to 15 GenCore® systems shipped for the three months ended September 30, 2006, during which we recognized $266,000 of product and service revenue against 2006 deliveries and $410,000 of revenue deferred at December 31, 2005.

During the three months ended September 30, 2007 and 2006, we invoiced $683,000 and $398,000, respectively, for the shipment (or installation with respect to consignment sales) of fuel cell systems and the release of units that were on consignment and recognized revenue of $1.2 million and $676,000, respectively. Any differences between the amounts invoiced and the recognized revenue is a result of deferred revenue recognized in accordance with our revenue recognition policy as described above.

Research and development contract revenue. Research and development contract revenue increased to $3.3 million for the three months ended September 30, 2007, compared to $1.1 million during the same period last year. The change is the result of spending levels increasing for material purchases and subcontractor activity as the U.S. Department of Energy, the U.S. Department of Defense, and the New York State Energy Research and Development Authority have begun new programs as well as increased funding from Honda R&D Co., Ltd. of Japan. These increases were partially offset by decreased activity under our contracts with the National Institute of Standards and Technology. Research and development contract revenue primarily relates to cost reimbursement research and development contracts associated with the development of proton exchange membrane, or PEM, fuel cell technology. We generally share in the cost of these programs, with our cost-sharing percentages being between 20% and 51% 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 also have fixed fee contracts in 2007. Revenue under these contracts is generally recognized on the basis of the percentage of completion. We expect to continue certain research and development contract work that is directly related to our current product development efforts.

Cost of product and service revenue. Cost of product and service revenue increased to $2.0 million for the three months ended September 30, 2007, from $761,000 for the three months ended September 30, 2006. Cost of product and service revenue includes the direct material cost incurred in the manufacture of the products we sell, which costs are generally recognized when units are shipped, as well as the labor and material costs incurred for product maintenance, replacement parts and service under our contractual obligations, which are recognized as incurred. These costs consist primarily of production materials and fees paid to outside suppliers for subcontracted components and services. The increase in the cost of product and service revenue primarily resulted from $857,000 related to our GenDrive product sales. Also contributing to the increase was an increase in GenCore® shipments and servicing costs of the larger installed base. For the three months ended September 30, 2007 we installed 53 GenCore® systems as compared to 28 for the three months ended September 30, 2006.

Table of Contents

Cost of research and development contract revenue. Cost of research and development contract revenue increased to $5.2 million for the three months ended September 30, 2007, from $1.3 million for the three months ended September 30, 2006 as a result of the new contracts for 2007 partially offset by decreased work under existing agreements as described above. Cost of research and development contract revenue includes costs associated with research and development contracts including 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.

Noncash research and development expense. Noncash research and development expense for the three months ended September 30, 2007, increased to $928,000 from $713,000 during the same period last year as a result of increased equity compensation grants during 2007. Noncash research and development expense represents the recognition of the fair value of stock options and restricted stock awards to employees and others in exchange for services provided over the applicable vesting periods.

Other research and development expense. Other research and development expense was $8.4 million for the three months ended September 30, 2007, compared to $10.9 million for the three months ended September 30, 2006. These costs are associated with our efforts to advance the development of our next generation continuous run product combined with continued research and development activities related to future product initiatives. Other research and development expense includes materials to build development and prototype units, cash compensation and benefits for the engineering and related staff, expenses for contract engineers, fees paid to outside suppliers for subcontracted components and services, fees paid to consultants for services provided, materials and supplies consumed, facility related costs such as computer and network services and other general overhead costs. The decrease in other research and development expense primarily resulted from an increase in resources assigned to revenue-generating research and development contract programs, which more than offset the additional $2.3 million in other research and development expenses incurred by the acquired companies.

Noncash general and administrative expense. Noncash general and administrative expense for the three months ended September 30, 2007 increased to $484,000 from $320,000 for the three months ended September 30, 2006 as a result of equity compensation grants during 2007. Noncash general and administrative expense represents the recognition of the fair value of stock options and restricted stock awards to employees and others in exchange for services provided over the applicable vesting periods.

Other general and administrative expense. Other general and administrative expense increased to $4.7 million for the three months ended September 30, 2007, from $3.1 million for the three months ended September 30, 2006 primarily as a result of the general and administrative expenses of the acquired companies plus increased marketing and sales activities. Other general and administrative expense includes cash compensation, benefits and related costs in support of our general corporate functions, including general management, finance and accounting, human resources, marketing, information technology and legal services.

Amortization of intangible assets. Amortization of intangible assets was $572,000 for the three months ended September 30, 2007. This expense relates to the amortization of identifiable intangible assets acquired from Cellex and General Hydrogen during the quarter ended September 30, 2007.

Interest income and net realized gains/(losses) from available-for-sale securities. Interest income and net realized gains/(losses) from the sale of available-for-sale securities, consisting primarily of interest earned on our cash, cash equivalents and available-for-sale securities, decreased to $2.8 million for the three months ended September 30, 2007 from $3.5 million for the three months ended September 30, 2006. The decrease was the result of lower cash and available-for-sale security balances as cash was used for acquisitions and operating needs. Total net realized gains from the sale of available-for-sale securities was approximately $5,000 and $10,000 for the three months ended September 30, 2007 and 2006, respectively.

Interest expense. Interest expense increased to $114,000 for the three months ended September 30, 2007 from $56,000 for the three months ended September 30, 2006. Interest expense for 2007 consists of interest on repayable government assistance obligations related to the acquired companies and in 2006 consisted of interest on our long-term obligations related to the purchase of real estate and interest paid on capital lease obligations. As of December 31, 2006, all of the Company s previous debt and capital lease obligations were paid in full.

Income taxes. We did not report a benefit for federal and state income taxes in the consolidated financial statements as the deferred tax asset generated from our net operating loss has been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carryforward will not be realized.

Table of Contents

Comparison of the Nine Months Ended September 30, 2007 and September 30, 2006.

Product and service revenue. Product and service revenue was $2.3 million for both the nine months ended September 30, 2007 and 2006, reflecting the timing of revenue recognition for certain previously shipped systems where revenue became fully recognized prior to the nine months ended September 30, 2007 offset by revenue recognized on units shipped during 2007.

During the nine months ended September 30, 2007, we shipped 128 GenCore® systems and began recognizing product and service revenue for this current year activity in the amount of $557,000. We also recognized $1.4 million of revenue deferred at December 31, 2006. This compares to 67 GenCore® systems shipped for the nine months ended September 30, 2006, during which we recognized $600,000 of product and service revenue against 2006 deliveries and $1.7 million of revenue deferred at December 31, 2005. Revenue from sales of our GenDrive product was $384,000 for the nine months ended September 30, 2007.

During the nine months ended September 30, 2007 and 2006, we invoiced $2.7 million and $1.8 million, respectively, for the shipment of fuel cell systems and the release of units that were on consignment. Any differences between the amounts invoiced and the recognized revenue is a result of deferred revenue recognized in accordance with our revenue recognition policy as described above.

Research and development contract revenue. Research and development contract revenue increased to $8.8 million for the nine months ended September 30, 2007, compared to $4.5 million during the same period last year. The change is the result of spending levels increasing for material purchases and subcontractor activity as the U.S. Department of Energy, the U.S. Department of Defense, and the New York State Energy Research and Development Authority have begun new programs as well as increased funding from Honda R&D Co., Ltd. of Japan. These increases were partially offset by decreased activity under our contract with the National Institute of Standards and Technology. Research and development contract revenue primarily relates to cost reimbursement research and development contracts associated with the development of PEM fuel cell technology. We also have fixed fee contracts in 2007. We expect to continue certain research and development contract work that is directly related to our current product development efforts.

Cost of product and service revenue. Cost of product and service revenue increased to $8.0 million for the nine months ended September 30, 2007, from $3.3 million for the nine months ended September 30, 2006. The increase in the cost of product and service revenue primarily resulted from a $2.0 million charge incurred during the second quarter of 2007 for certain expected service and warranty costs for existing fuel cell units in the field and an increase in shipments and servicing costs of the larger installed base. For the nine months ended September 30, 2007 we installed 157 GenCore® units compared with 73 units for the nine months ended September 30, 2006. Cost of product and service revenue also increased $907,000 due to our GenDrive product sales.

Cost of research and development contract revenue. Cost of research and development contract revenue increased to $12.6 million for the nine months ended September 30, 2007, from $6.2 million for the nine months ended September 30, 2006 primarily as a result of the new contracts for 2007, partially offset by decreased work under existing agreements as described above.

Noncash research and development expense. Noncash research and development expense for the nine months ended September 30, 2007 increased to $2.7 million from $2.1 million during the same period last year as a result of equity compensation grants during 2007. Noncash research and development expense represents the recognition of the fair value of stock options and restricted stock awards to employees and others in exchange for services provided over the applicable vesting periods.

Other research and development expense. Other research and development expense was $24.8 million for the nine months ended September 30, 2007, compared to $28.5 million for the nine months ended September 30, 2006. These costs are associated with our efforts to advance the development of our next generation continuous run product combined with continued research and development activities related to future product initiatives. The decrease in other research and development expense primarily resulted from an increase in resources assigned to revenue-generating research and development contract programs, which more than offset the additional $3.7 million in other research and development expenses incurred by the acquired companies.

Noncash general and administrative expense. Noncash general and administrative expense for the nine months ended September 30, 2007, increased to $1.4 million from $1.1 million for the nine months ended September 30, 2006 as a result of increased equity compensation grants during 2007. Noncash general and administrative expense represents the recognition of the fair value of stock options and restricted awards to employees and others in exchange for services provided over the applicable vesting periods.

Table of Contents

Other general and administrative expense. Other general and administrative expense increased to $12.8 million for the nine months ended September 30, 2007, from $7.8 million for the nine months ended September 30, 2006 primarily as a result of the general and administrative expenses of the acquired companies plus increased marketing and sales activities and costs related to the corporate reorganization announced in February 2007.

Amortization of intangible assets. Amortization of intangible assets was $1.0 million for the nine months ended September 30, 2007. This expense relates to the amortization of identifiable intangible assets acquired from Cellex and General Hydrogen during the quarter ended June 30, 2007.

Interest income and net realized gains/(losses) from available-for-sale securities. Interest income and net realized gains/(losses) from the sale of available-for-sale securities, consisting primarily of interest earned on our cash, cash equivalents and available-for-sale securities, increased to $9.3 million for the nine months ended September 30, 2007 from $5.4 million for the nine months ended September 30, 2006. The increase was primarily the result of investment returns from higher cash and available-for-sale security balances due to the $217 million of cash proceeds received from Smart Hydrogen Inc. in the second quarter of 2006. Total net realized gains from the sale of available-for-sale securities was approximately $102,000 and $42,000 for the nine months ended September 30, 2007 and 2006, respectively.

Interest expense. Interest expense increased to $221,000 for the nine months ended September 30, 2007, from $158,000 for the nine months ended September 30, 2006. Interest expense for 2007 consists of interest on repayable government assistance obligations related to the acquired companies and for 2006 consisted of interest on our long-term obligation related to the purchase of real estate and interest paid on capital lease obligations. As of December 31, 2006, all of the Company s previous debt and capital lease obligations were paid in full.

Income taxes. We did not report a benefit for federal and state income taxes in the consolidated financial statements as the deferred tax asset generated from our net operating loss has been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carryforward will not be realized.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles and related disclosure requires management to make estimates and assumptions that affect:

- the amounts reported for assets and liabilities;
- the disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts reported for revenues and expenses during the reporting period.

Specifically, we must use estimates in determining the economic useful lives of assets, including identifiable intangibles, and various other recorded or disclosed amounts. Therefore, our financial statements and related disclosure are necessarily affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from estimates. To the extent that actual outcomes differ from estimates, or additional facts and circumstances cause management to revise estimates, our financial position or results of operations as reflected in our financial statements will be affected. Any effects on business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

We believe that the following are our most critical accounting policies affected by the estimates and assumptions the Company must make in the preparation of its financial statements and related disclosure:

Revenue recognition: We are a development stage enterprise in the stages of performing field testing and marketing our initial commercial product to a limited number of customers, including telecom, utilities, government entities and our distribution partners. This product is a limited edition fuel cell system that is intended to offer complementary, quality power while demonstrating the market value of fuel cells as a preferred form of alternative distributed power generation. Subsequent enhancements to our initial product are expected to expand the market opportunity for fuel cells by lowering the installed cost, decreasing operating and maintenance costs, increasing efficiency, improving reliability, and adding

features such as grid independence and co-generation and UPS applications.

We apply the guidance within Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB 104) to our initial sales contracts to determine when to properly recognize revenue. Our initial sales of products contain multiple obligations that may include a combination of fuel cell systems, continued service, maintenance and other support. While contract terms generally require payment shortly after delivery or installation in the case of consignment sales of the fuel cell system and are not contingent on the achievement of specific milestones or other substantive performance, the

Table of Contents

multiple obligations within our contractual arrangements are not accounted for separately based on our limited commercial experience and available evidence of fair value. As a result, we defer recognition of product and service revenue and recognize revenue on a straight-line basis over the contractual service period, which is generally for periods of twelve to thirty months, or over the anticipated service period if expected to exceed the contractual service period.

As we gain commercial experience, including field experience relative to service and warranty based on the sales of our initial products, the fair values for the multiple elements within our future contracts may become determinable and we may, in future periods, recognize revenue upon delivery of the product or we may continue to defer recognition, based on application of appropriate guidance within EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, or changes in the manner in which we structure contractual agreements, including our agreements with distribution partners.

Valuation of long-lived assets: We assess the impairment of long-lived assets, including identifiable intangible assets, and goodwill, if any, whenever events or changes in circumstances indicate that the carrying value may not be recoverable and, for goodwill, at least annually. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

When we determine that the carrying value of long-lived assets, including identifiable intangible assets, and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we would measure any impairment based upon the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , as appropriate. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Accounting for income taxes: As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves the estimation of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Included in this assessment is the determination of the net operating loss carryforward that has resulted from our cumulative net operating loss since inception. These differences, primarily net operating loss carryforwards, result in a net deferred tax asset. We must assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense or forego a benefit within income taxes in the consolidated statement of operations.

Under Section 382 of the Internal Revenue Code (IRC), the use of loss carryforwards may be limited if a change in ownership of a company, as defined by the IRC, occurs. The Company has determined that due to transactions involving the Company s shares by significant shareholders, a change of ownership has occurred under the provisions of IRC Section 382. As a result of this change of ownership, the usage of a portion, which may be substantial, of the net operating loss amounts, has become limited. The Company is in the process of determining the impact of this limitation. Once determined, the deferred tax asset related to the net operating loss and an equivalent amount of valuation allowance will be adjusted accordingly.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of $211.7 million as of December 31, 2006 due to uncertainties related to our ability to utilize the net deferred tax assets, primarily consisting of net operating losses and credits which

may be carried forward, before they expire. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to adjust the recorded valuation allowance, which could materially impact our financial position and results of operations. At September 30, 2007 and 2006, our net deferred tax assets have been offset in full by a valuation allowance. As a result, the net provision for income taxes is zero for the nine month periods ended September 30, 2007 and 2006. The Company adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions on January 1, 2007. No adjustment of opening balances was required and the adoption of this Interpretation had no impact on the Company s consolidated financial statements.

Table of Contents

Stock Based Compensation: Our adoption of SFAS No. 123 (revised 2004), Share-Based Payment , or SFAS 123(R), in the first quarter of 2006 required that we recognize stock-based compensation expense associated with the vesting of share based instruments in the statement of operations. Determining the amount of stock-based compensation to be recorded requires us to develop estimates to be used in calculating the grant-date fair value of stock options. We calculate the grant-date fair values using the Black-Scholes valuation model. The Black-Scholes model requires us to make estimates of the following assumptions:

Expected volatility The estimated stock price volatility was derived based upon a blend of implied volatility (i.e. management s expectation of volatility) and the Company s actual historical stock prices over the expected life of the options, which represents the Company s best estimate of expected volatility.

Expected option life The Company s estimate of an expected option life was calculated in accordance with the Staff Accounting Bulletin No. 107 (SAB 107) simplified method for calculating the expected term assumption. The simplified method is a calculation based on the contractual life of the associated options. The Company will be required to utilize actual historical data to determine the expected option life beginning in 2008.

Risk-free interest rate We used the yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected life assumption as the risk-free interest rate.

The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term forfeitures is distinct from cancellations or expirations and represents only the unvested portion of the surrendered option. We reviewed historical forfeiture data and determined the appropriate forfeiture rate based on that data. We will re-evaluate this analysis periodically and adjust the forfeiture rate as necessary. Ultimately, we will recognize the actual expense over the vesting period only for the shares that vest.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). This new standard establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company s use of fair value measurements, including the effect of such measures on earnings. This standard is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the provisions of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 (SFAS No. 159). This new standard permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. This standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the provisions of SFAS No. 159.

Liquidity and Capital Resources

Our cash requirements depend on numerous factors, including completion of our product development activities, our ability to commercialize our on-site energy products, market acceptance of our systems and other factors. We expect to devote substantial capital resources to continue our development programs directed at commercializing our energy products for worldwide use, hiring and training our production staff, develop and expand our manufacturing capacity and continue expanding our production and our research and development activities. We expect to pursue the expansion of our operations through internal growth and strategic acquisitions and expect that such activities will be funded from existing cash, cash equivalents and available-for-sale securities, issuance of additional equity or debt securities or additional borrowings subject to market and other conditions. The failure to raise the funds necessary to finance our future cash requirements or consummate future acquisitions could adversely affect our ability to pursue our strategy and could negatively affect our operations in future periods. We anticipate incurring substantial additional losses over at least the next several years and believe that our current cash, cash equivalents and available-for-sale securities balances will provide sufficient liquidity to fund operations for at least the next twelve months.

Table of Contents

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

(in thousands)	Nine months ended September 30, 2007	Year ended December 31, 2006	Nine months ended September 30, 2006
Unrestricted cash, cash equivalents and available-for-sale securities at end of period	$ 180,409	$ 269,123	$ 278,465
Working capital at end of period	180,542	267,002	278,561
Net loss	43,086	50,310	37,028
Net cash used in operating activities	35,928	46,107	32,787
Purchases of property, plant and equipment	2,117	1,275	1,115

During the nine months ended September 30, 2007, cash used by operating activities was $35.9 million, consisting primarily of a net loss of $43.1 million offset, in part, by noncash expenses in the amount of $7.9 million, including $3.8 million for depreciation and amortization and $4.1 million for stock-based compensation awards. Cash provided by investing activities for the nine months ended September 30, 2007 was $25.9 million, consisting of $75.2 million of net proceeds from the sale of available-for-sale securities offset by $2.1 million used to purchase property, plant and equipment, and $47.2 million related to the acquisitions of Cellex and General Hydrogen.

We have financed our operations through September 30, 2007 primarily from the sale of equity, which has provided cash in the amount of $635.9 million. Since inception, net cash used in operating activities has been $384.3 million, and cash used in investing activities has been $227.7 million, including our purchase of property, plant and equipment of $36.1 million, our investments in available-for-sale securities in the amount of $162.0 million, and net cash used for acquisitions of $17.8 million.

On April 3, 2007, we purchased all of the outstanding capital stock of Cellex from its equity holders for an aggregate cash purchase price of $46.1 million, including acquisition costs.

On May 4, 2007, the Company acquired General Hydrogen. The Company paid approximately $8.7 million, including acquisition costs, plus the settlement of $3.0 million in senior secured loans previously made by the Company to General Hydrogen, for all of the outstanding capital stock of General Hydrogen. In addition, the shareholders of General Hydrogen received warrants to purchase up to 571,429 shares of the Company s Common Stock. The warrants become exercisable when the Company s Common Stock trades at a volume weighted average price of $7.00 or more for 10 consecutive trading days. The warrants carry an exercise price of $.01 per share and expire four years from the date of issuance.

From inception through September 30, 2007, we have incurred losses of $500.5 million and expect to continue to incur losses as we continue our product development and commercialization programs and expand our manufacturing capacity. We expect that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial as a result of, among other factors, the number of systems we produce, deliver, and install, the cost and sales price of such systems, the related service requirements necessary to maintain those systems and potential design changes required as a result of field testing.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

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

report.

(b) Changes in internal controls over financial reporting

Table of Contents

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

PART II OTHER INFORMATION

ITEM 1A RISK FACTORS

The following risk factor is in addition to those included in our Annual Report on Form 10-K filed for the year ended December 31, 2006:

We may not successfully integrate our acquisitions of Cellex Power Products, Inc. and General Hydrogen Corporation.

We must be able to successfully manage and integrate our acquisitions of Cellex Power Products, Inc. and General Hydrogen Corporation. Specifically, we must be able to integrate these acquisitions without any significant disruption to our ability to manage and execute our business plan. In addition, our financial results could be adversely impacted if we are not able to deliver the expected cost and growth synergies associated with these acquisitions.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the nine months ended September 30, 2007, we issued 233,865 shares of our common stock in connection with matching contributions under our 401(k) Savings & Retirement Plan. The issuance of these shares is exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended.

Table of Contents

ITEM 6 EXHIBITS

3.1	Amended and Restated Certificate of Incorporation of Plug Power Inc. (1)
3.2	Certificate of Designations of Class B Capital Stock, a series of preferred stock, of Plug Power Inc. (2)
3.3	Amended and restated By-laws of Plug Power Inc. (2)
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Plug Power Inc. (3)
31.1 and 31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (4)
32.1 and 32.2	Certifications pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (4)

(1) Incorporated by reference to the Company s Form 10-K for the period ending December 31, 1999
(2) Incorporated by reference to the Company s current Report on Form 8-K dated June 29, 2006
(3) Incorporated by reference to the Company s Form 10-K for the period ending December 31, 2000
(4) Furnished herewith

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.

Date: November 9, 2007

PLUG POWER INC.

by: /s/ Roger B. Saillant
Roger B. Saillant
Chief Executive Officer

by: /s/ Gerard A. Anderson
Gerard A. Anderson
Chief Financial Officer