AZZ INC
Form 10-Q
January 07, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2010

OR

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

Commission file number 1-12777
AZZ incorporated
(Exact name of registrant as specified in its charter)

TEXAS	75-0948250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Museum Place, Suite 500 3100 West 7th Street Fort Worth, Texas	76107
(Address of principal executive offices)	(Zip Code)

(817) 810-0095
Registrant's telephone number, including area code:

NONE
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes £ No £

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
£	T	£	£

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class:	Outstanding at November 30, 2010:
Common Stock, $1.00 par value per share	12,498,054

AZZ incorporated
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

	11/30/10 (Unaudited)	02/28/10
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 6,652,973	$ 110,607,029
Accounts Receivable (Net of Allowance for Doubtful Accounts of $669,000 at November 30, 2010 and $720,000 at February 28, 2010)	52,478,486	39,431,918
Inventories:		
Raw Material	38,528,532	23,356,416
Work-In-Process	13,779,766	11,541,710
Finished Goods	3,623,155	5,226,455
Costs and Estimated Earnings In Excess of Billings On Uncompleted Contracts	14,504,599	10,782,424
Deferred Income Taxes	7,656,522	5,225,379
Income Tax Receivable	6,949,465	-
Insurance Receivable	6,600,000	-
Prepaid Expenses and Other	2,344,572	1,281,605
Total Current Assets	153,118,070	207,452,936
Property, Plant and Equipment, Net	124,940,924	87,364,502
Goodwill	112,592,460	69,420,256
Intangibles and Other Assets	43,383,354	17,723,464
	$ 434,034,808	$ 381,961,158
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts Payable	$ 21,759,848	$ 12,116,783
Income Tax Payable	918,396	246,602
Accrued Salaries and Wages	6,361,986	4,978,522
Other Accrued Liabilities	17,128,807	17,609,729
Customer Advance Payment	7,822,634	7,454,650
Billings In Excess of Costs and Estimated Earnings On Uncompleted Contracts	495,007	1,221,902
Total Current Liabilities	54,486,678	43,628,188
Long-Term Debt Due After One Year	100,000,000	100,000,000
Deferred Income Taxes	30,654,773	10,466,932
Shareholders' Equity:		
Common Stock, $1 Par Value, Shares Authorized -50,000,000, Shares Issued 12,609,160	12,609,160	12,609,160
Capital In Excess of Par Value	23,820,030	20,783,366
Accumulated Other Comprehensive Income (Loss)	222,986	(672,858)
Retained Earnings	212,789,947	196,394,134
	(548,766)	(1,247,764)

Less Common Stock Held In Treasury, At Cost (111,106 Shares at November 30, 2010 and 252,638 Shares at February 28, 2010)		
Total Shareholders' Equity	249,893,357	227,866,038
	$ 434,034,808	$ 381,961,158

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENTS

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	11/30/10	11/30/09	11/30/10	11/30/09
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Net Sales	$102,897,545	$ 81,518,198	$279,963,160	$ 272,167,391
Costs And Expenses				
Cost Of Sales	75,252,872	55,804,749	199,702,328	186,151,862
Selling, General and Administrative	10,918,206	10,238,451	35,422,991	33,751,428
Interest Expense	1,787,161	1,728,621	5,246,405	5,146,184
Net (Gain) Loss On Sale of Property, Plant and Equipment, and Insurance Proceeds	6,505	(47,688)	(50,613)	(118,171)
Other Income	(256,803)	(82,108)	(1,017,215)	(463,439)
	87,707,941	67,642,025	239,303,896	224,467,864
Income Before Income Taxes	15,189,604	13,876,173	40,659,264	47,699,527
Income Tax Expense	5,472,062	5,133,442	14,921,478	17,937,736
Net Income	$9,717,542	$ 8,742,731	$25,737,786	$ 29,761,791
Earnings Per Common Share				
Basic Earnings Per Share	$0.78	$ 0.71	$2.07	$ 2.43
Diluted Earnings Per Share	$0.77	$ 0.70	$2.04	$ 2.39

See Accompanying Notes to Condensed Consolidated Financial Statements

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED	
	11/30/10	11/30/09
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net Income	$25,737,786	$29,761,791
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Provision for Doubtful Accounts	102,146	65,932
Amortization and Depreciation	16,163,780	12,985,567
Deferred Income Tax Expense	(574,701)	(464,849)
Net Gain on Sale or Insurance Settlement of Property, Plant & Equipment	(50,613)	(118,171)
Amortization of Deferred Borrowing Costs	245,712	229,046
Share-Based Compensation Expense	2,801,435	2,060,335
Effects of Changes In Assets & Liabilities:		
Accounts Receivable	(5,241,586)	16,809,276
Inventories	(7,764,627)	9,809,027
Prepaid Expenses And Other	(646,750)	(923,974)
Other Assets	(113,604)	21,064
Net Change In Billings Related to Costs and Estimated Earnings on Uncompleted Contracts	(4,449,069)	4,133,108
Accounts Payable	2,749,274	(2,766,720)
Other Accrued Liabilities and Income Taxes	(3,430,660)	(6,105,709)
Net Cash Provided By Operating Activities	25,528,523	65,495,723
Cash Flows From Investing Activities:		
Proceeds From Sale or Insurance Settlement of Property, Plant, and Equipment	195,617	410,445
Purchase of Property, Plant and Equipment	(10,986,924)	(10,226,133)
Acquisition of Subsidiaries, Net of Cash Acquired	(104,091,416)	(6,899,561)
Net Cash Used In Investing Activities	(114,882,723)	(16,715,249)
Cash Flows From Financing Activities:		
Proceeds From Exercise of Stock Options and Stock Appreciation Rights	379,955	466,117
Excess Tax Benefits From Stock Options and Stock Appreciation Rights	875,224	1,677,418
Proceeds from Revolving Loan	12,000,000	-
Payments on Revolving Loan	(12,000,000)	-
Payments on Long Term Debt	(7,300,000)	-
Proceeds From Settlement of Financial Derivative	834,416	-
Dividends Paid	(9,341,973)	-
Net Cash Provided By (Used In) Financing Activities	(14,552,378)	2,143,535

Effect Of Exchange Rate Changes on Cash	(47,478)	(48,226)
Net (Decrease) Increase In Cash & Cash Equivalents	(103,954,056)	50,875,783
Cash & Cash Equivalents at Beginning of Period	110,607,029	47,557,711
Cash & Cash Equivalents at End of Period	$6,652,973	$98,433,494
Supplemental Disclosures		
Cash Paid For Interest	$6,560,693	$6,477,139
Cash Paid For Income Taxes	$14,098,568	$15,952,943

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(unaudited)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance at February 28, 2010	12,609,160	$ 12,609,160	$ 20,783,366	$ 196,394,134	$ (672,858)	$ (1,247,764)	$ 227,866,038
Exercise of Stock Options			146,241			233,714	379,955
Stock Compensation			2,766,863			34,572	2,801,435
Stock Issued for SARs			(1,272,757)			303,914	(968,843)
Employee Stock Purchase Plan			521,093			126,798	647,891
Federal Income Tax Deducted on Stock Options and SARs			875,224				875,224
Cash Dividend Paid				(9,341,973)			(9,341,973)
Comprehensive Income:							
Net Income				25,737,786			25,737,786
Foreign Currency Translation					356,624		356,624
Interest Rate Swap, net of tax					539,220		539,220
Comprehensive Income							26,633,630
Balance at November 30, 2010	12,609,160	$ 12,609,160	$ 23,820,030	$ 212,789,947	$ 222,986	$ (548,766)	$ 248,893,357

AZZ incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

1. Basis of presentation.

These interim unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC rules and regulations referred to above. Accordingly, these financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 28, 2010, included in the Company's Annual Report on Form 10-K covering such period. For purposes of this report, "AZZ", the "Company", "we", "our", "us" or similar reference mea AZZ incorporated and our consolidated subsidiaries.

Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year that ended February 28, 2010 is referred to as fiscal 2010.

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company as of November 30, 2010, and the results of its operations for the three-month and nine-month periods ended November 30, 2010 and 2009, respectively, and cash flows for the nine-month periods ended November 30, 2010 and 2009.

2. Earnings per share.

Earnings per share is based on the weighted average number of shares outstanding during each period, adjusted for the dilutive effect of stock awards.

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended November 30,		Nine months ended November 30,	
	2010	2009	2010	2009
	(Unaudited)			
	(In thousands except share and per share data)			
Numerator:				
Net income for basic and diluted earnings per common share	$ 9,718	$ 8,743	$ 25,738	$ 29,762
Denominator:				
Denominator for basic earnings per common share –weighted average shares	12,495,182	12,333,472	12,448,949	12,258,716
Effect of dilutive securities:				
Employee and Director stock awards	126,921	187,762	141,117	210,026
Denominator for diluted earnings per common share	12,622,103	12,521,234	12,590,066	12,468,742
Earnings per share basic and diluted:				
Basic earnings per common share	$ .78	$ .71	$ 2.07	$ 2.43
Diluted earnings per common share	$ .77	$ .70	$ 2.04	$ 2.39

3. Stock-based Compensation.

During fiscal 2006, the Company adopted the AZZ incorporated 2005 Long-Term Incentive Plan (as amended, the “2005 Plan”) and amended the Plan in fiscal 2009. The purpose of the 2005 Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees and directors restricted stock, performance awards, stock appreciation rights (“SARs” or “Stock Appreciation Rights”) and options to purchase common stock of the Company. The 2005 Plan was amended on July 8, 2008. A maximum number of 1,000,000 shares may be issued under the 2005 Plan. Unless otherwise indicated herein in the description of specific grants or awards, awards under the 2005 Plan provide for a three-year cliff vesting schedule but may vest early if accelerated vesting provisions in the Plan apply and the awards qualify for equity treatment.

On June 1, 2006, we awarded 234,160 SARs under the 2005 Plan with an exercise price of $11.55. As of November 30, 2010, all of these SARs were vested and exercised. These awards qualified for equity treatment. The weighted average fair value of SARs granted on June 1, 2006 was determined to be $2.92 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 27.81% and expected life of 3 years. Compensation expenses related to the June 1, 2006 grants of $0 and $19,000 were recognized during the nine month periods ended November 30, 2010 and 2009, respectively. As of November 30, 2010, we had no unrecognized cost related to the June 1, 2006 SAR grants.

On March 1, 2007, we awarded 147,740 Stock Appreciation Rights under the 2005 Plan with an exercise price of $19.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met. They also qualify for equity treatment. The weighted average fair value of SARs granted on March 1, 2007, was determined to be $5.54 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 29.52% and expected life of 3 years. As of November 30, 2010, no SARs were outstanding due to the exercise and vesting of 129,780 SARs and the forfeiture of 17,960 SARs. Compensation expense related to the March 1, 2007 grants of $0 and $78,000 were recognized during the nine month periods ended November 30, 2010 and 2009, respectively. As of November 30, 2010, we had no unrecognized costs related to the March 1, 2007 SAR grants.

On March 1, 2008, we awarded 131,690 Stock Appreciation Rights under the 2005 Plan with an exercise price of $35.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met. They also qualify for equity treatment. The weighted average fair value of SARs awarded on March 1, 2008, was determined to be $11.80 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 41.81% and expected life of 3 years. As of November 30, 2010, 123,060 of these SARs were outstanding after giving effect to the forfeiture of 6,740 SARs and the exercise of 1,890 SARs that were invested when an employee retired. Compensation expense related to the March 1, 2008 grants of $176,000 and $176,000 were recognized during the nine month periods ended November 30, 2010 and 2009 respectively. As of November 30, 2010, we had unrecognized cost of $60,000 related to the March 1, 2009 SAR grants.

On March 1, 2009, we issued 31,666 shares of Restricted Stock to our key employees under the 2005 Plan. The Restricted Stock awards have a three year cliff vesting schedule, but may vest early under accelerated vesting provisions in the 2005 Plan. The market value of a share of our stock was $18.12 on the date of grant. Compensation expense in the amount of $56,000 and $400,000 was recognized during the nine month periods ended November 30, 2010 and November 30, 2009, respectively. The amount of unrecognized cost at November 30, 2010 was $94,000.

On March 1, 2009, we awarded 163,233 Stock Appreciation Rights under the 2005 Plan with an exercise price of $18.12. The weighted average fair value of SARs awarded on March 1, 2009, was determined to be $8.08 based on the following assumptions: risk-free interest rate of 3%, dividend yield of 0.0%, expected volatility of 46.89% and expected life of 5 years. As of November 30, 2010, 123,542 SARs were outstanding after giving effect to the forfeiture of 1,661 SARs and the exercise of 38,030 SARs. Compensation expense in the amount of $131,000 and $917,000 was recognized during the nine month periods ended November 30, 2010 and November 30, 2009, respectively. As of November 30, 2010, we had unrecognized cost of $218,000 related to the March 1, 2009 SAR grants.

On March 1, 2010, 150,382 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of $31.67. The weighted average fair value of SARs awarded on March 1, 2010, was determined to be $12.31 based on the following assumptions: risk-free interest rate of 3.61%, dividend yield of 3.16%, expected volatility of 53.31% and expected life of 5 years. Compensation expense in the amount of $1,299,000 was recognized during the nine month period ended November 30, 2010. As of November 30, 2010, we had unrecognized cost of $552,000 related to the March 1, 2010 SAR grants.

On March 1, 2010, we issued 22,906 shares of Restricted Stock to our key employees under the 2005 Plan. The market value of a share of our stock was $31.67 on the date of grant. Compensation expense in the amount of $511,000 was recognized during the nine month period ended November 30, 2010. The amount of unrecognized cost at November 30, 2010 was $214,000.

On June 1, 2010, we issued 1,887 shares of Restricted Stock to a key employee under the 2005 Plan. The market value of a share of our stock was $40.01 on the date of grant. Compensation expense in the amount of $13,000 was recognized during the nine month period ended November 30, 2010. The amount of unrecognized cost at November 30, 2010 was $63,000.

On June 1, 2010, we awarded 11,014 Stock Appreciation Rights to a key employee under the 2005 Plan with an exercise price of $40.01. The weighted average fair value of SARs awarded on June 1, 2010, was determined to be $15.70 based on the following assumptions: risk-free interest rate of 2.20%, dividend yield of 2.50%, expected volatility of 53.32% and expected life of 5 years. Compensation expense in the amount of $29,000 was recognized during the nine month period ended November 30, 2010. As of November 30, 2010, we had unrecognized cost of

$144,000 related to the June 1, 2010 SARs grant.

On September 1, 2008, we implemented the AZZ incorporated Employee Stock Purchase Plan (the "Plan"). The purpose of the Plan is to allow employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under the Plan have a duration of 24 months. On the first day of an offering period (the "Enrollment Date"), the participant is granted the option to purchase shares on each exercise date during the offering period up to 10% of the participant's compensation at the lower of 85% of the fair market value of a share of stock on the Enrollment Date or 85% of the fair market value of a share of stock on the exercise date. The participant's right to purchase stock in the Plan is restricted to no more than $25,000 per calendar year and to no more than 5,000 shares per 24 month offering period. Participants may terminate their interest in a given offering, or a given exercise period, by withdrawing all, but not less than all, of the accumulated payroll deductions of the account at any time prior to the end of the offering period.

We estimated the shares to be issued on the first enrollment at September 1, 2008 to be 36,100 shares after forfeitures. The weighted average fair value of these shares was determined to be $14.69 based on the following assumptions: risk-free interest rate of 2%, dividend yield of 0.0%, expected volatility of 50.40% and expected life of 2 years. Compensation expenses in the amount of $133,000 and $199,000 were recognized during the nine month periods ended November 30, 2010, and 2009, respectively. As of November 30, 2010, we had no unrecognized costs related to the Plan. In accordance with the Plan, we issued 20,822, 9,097, 7,245 and 7,584 shares on March 1, 2009, September 1, 2009, March 1, 2010 and September 1, 2010, respectively, to the enrolled employees.

On March 1, 2009, the date of the second offering, the estimated shares to be issued were 14,019 after forfeitures. The weighted average fair value of these shares was determined to be $7.33 based on the following assumptions: risk-free interest rate of 3%, dividend yield of 0.0%, expected volatility of 50.40% and expected life of 2 years. Compensation expenses in the amount of $39,000 and $39,000 were recognized during the nine month period ended November 30, 2010, and 2009, respectively. In accordance with the Plan, we issued 5,943, 4,175 and 4,139 shares on September 1, 2009, March 1, 2010 and September 1, 2010, respectively. As of November 30, 2010, we had unrecognized costs of $13,000 related to the second issuance under the Plan.

On September 1, 2009, the date of the third offering, the estimated shares to be issued were 3,523 after estimated forfeitures. The weighted average fair value of these shares was determined to be $15.31 based on the following assumptions: risk-free interest rate of 3.25%, dividend yield of 0.0%, expected volatility of 54.52% and expected life of 2 years. Compensation expense in the amount of $20,000 and $7,000 was recognized during the nine month periods ended November 30, 2010 and 2009, respectively. As of November 30, 2010, we had unrecognized costs of $20,000 related to the third issuance under the Plan. In accordance with the Plan, 991 and 793 shares were issued on March 1, 2010 and September 1, 2010, respectively, to the enrolled employees.

On March 1, 2010, the date of the fourth offering, the estimated shares to be issued were 2,715 after estimated forfeitures. The weighted average fair value of these shares was determined to be $15.19 based on the following assumptions: risk-free interest rate of 3.87%, dividend yield of 2.96%, expected volatility of 67.65% and expected life of 2 years. Compensation expense in the amount of $15,000 was recognized during the nine month period ended November 30, 2010. In accordance with the Plan we issued 747 shares on September 1, 2010, to the enrolled employees. As of November 30, 2010, we had unrecognized costs of $26,000 related to the fourth issuance under of the Plan.

On September 1, 2010, the date of the fifth offering, the estimated shares to be issued were 47,078 after estimated forfeitures. The weighted average fair value of these shares was determined to be $15.76 based on the following assumptions: risk-free interest rate of 2.59%, dividend yield of 2.43%, expected volatility of 52.11% and expected life of 2 years. Compensation expense in the amount of $93,000 was recognized during the nine month period ended November 30, 2010. As of November 30, 2010, we had unrecognized costs of $649,000 related to the fifth issuance

under the Plan.

The Company granted its directors 7,000 shares of the Company's common stock during each of fiscal 2011 and 2010. Stock compensation expense was recognized with regard to these grants in the amount of $286,000 and $226,000 for the nine month periods ended November 30, 2010 and 2009, respectively.

4. Segments.

We have two operating segments as described in our Annual Report on Form 10-K for the year ended February 28, 2010. Information regarding operations and assets by segment is as follows:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2010	2009	2010	2009
		(Unaudited)		
		($ In thousands)		
Net Sales:				
Electrical and Industrial Products	$ 41,051	$ 43,622	$ 118,980	$ 154,576
Galvanizing Services	61,847	37,896	160,983	117,591
	102,898	81,518	279,963	272,167
Operating Income (a):				
Electrical and Industrial Products	6,185	9,109	20,333	31,715
Galvanizing Services	15,421	10,537	42,135	35,634
	21,606	19,646	62,468	67,349
General Corporate Expense (b)	4,630	4,033	16,597	14,535
Interest Expense	1,787	1,728	5,246	5,146
Other (Income) Expense, Net (c)	(1)	9	(34)	(32)
	6,416	5,770	21,809	19,649
Income Before Income Taxes	$ 15,190	$ 13,876	$ 40,659	$ 47,700
Total Assets:				
Electrical and Industrial Products	$ 126,376	$ 133,724	$ 126,376	$ 133,724
Galvanizing Services	273,180	139,255	273,180	139,255
Corporate	34,479	111,444	34,479	111,444
	$ 434,035	$ 384,423	$ 434,035	$ 384,423

(a) Segment operating income consists of net sales, less cost of sales, specifically identifiable selling, general and administrative expenses, and other income and expense items that are specifically identifiable to a segment.

(b) General Corporate Expense consists of selling, general and administrative expenses that are not specifically identifiable to a segment.

(c) Other (income) expense, net includes gains and losses on sale of property, plant and equipment and other (income) expenses not specifically identifiable to a segment.

5. Warranty reserves.

A reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products for our Electrical and Industrial Segment and is classified within accrued liabilities on the consolidated balance sheet. Management periodically reviews the reserves and makes adjustments accordingly. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The following table shows changes in the warranty reserves since the end of fiscal 2008:

	Warranty Reserve (unaudited) (In thousands)
Balance at February 29, 2008	$ 1,732
Warranty costs incurred	(1,454)
Additions charged to income	1,737
Balance at February 28, 2009	$ 2,015
Warranty costs incurred	(2,130)
Additions charged to income	2,912
Balance at February 28, 2010	$ 2,797
Warranty costs incurred	(2,035)
Additions charged to income	1,288
Balance at November 30, 2010	$ 2,050

6. Acquisition

On June 14, 2010 AZZ completed the merger of NGA with our subsidiary, resulting in NGA becoming a subsidiary of AZZ. The total cash purchase price for NGA was $132 million, ($104 million net of cash acquired on hand at NGA of $28 million). The acquisition was funded from our cash on hand and our existing credit facility. As of November 30, 2010, we have expensed $1.8 million in acquisition costs related to the NGA acquisition.

The following pro forma information is based on the assumption the acquisition of NGA took place on March 1, 2009 for the income statement for the three month and nine month period ended November 30, 2010 and 2009.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2010	2009	2010	2009
	(In thousands, except for per share amounts)			
Net Sales	$102,898	$101,569	$298,876	$330,970
Net Income	$9,718	$11,857	$29,123	$39,861
Earnings Per Common Share				
Basic Earnings Per Share	$.78	$.96	$2.34	$3.25
	$.77	$.95	$2.32	$3.20

Diluted Earnings
Per Share

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Under the acquisition method of accounting, the total purchase price was allocated to NGA's net tangible and intangible assets based on their estimated fair values as of June 14, 2010, the date on which AZZ acquired control of NGA. The excess of the purchase price over the net tangible and intangible assets will be recorded as goodwill. AZZ has made an allocation of the estimated purchase price as follows (in thousands):

Purchase Price Allocation:

Current Assets	$58,229
Property and Equipment	40,552
Intangible Assets	28,000
Goodwill	42,876
Other Assets	3,089
Total Assets Required	172,746
Current Liabilities	(11,629)
Long Term Liabilities	(28,673)
Net Assets Acquired	$132,444

7. Other Comprehensive Income

We expect to incur fixed rate, long-term indebtedness of $125 million in January 2011 through the anticipated 2011 Note Offering (as defined below). Please see the discussion contained in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—LIQUIDITY AND CAPITAL RESOURCES" below for a more detailed description of the 2011 Note Offering. In anticipation of the 2011 Note Offering, we entered into a treasury lock hedging transaction with Bank of America Merrill Lynch ("BOAML") in order to eliminate the variability of cash flows on the forecasted fixed rate coupon of the debt during the pre-issuance period. The hedging transaction settled during the Company's third fiscal quarter and the Company received a payment from BOAML in the amount of $834,416 resulting therefrom. The notional value of the hedge was for $75 million and qualified for hedge accounting as a cash flow hedge. The gain on settlement has been recorded as a component of Accumulated Other Comprehensive Income and will be amortized to interest expense over the life of the loan of 10 years.

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

FORWARD LOOKING STATEMENTS

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as, “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “esti “predicts,” “potential,” “continue,” or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management’s views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Quarterly Report on Form 10-Q may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the electrical power generation markets, electrical transmission and distribution markets, the industrial markets, and the hot dip galvanizing markets; prices and raw material cost, including zinc and natural gas which are used in the hot dip galvanizing process; changes in the economic conditions of the various markets that AZZ serves, foreign and domestic, customer requested delays of shipments, acquisition opportunities, currency exchange rates, adequacy of financing, and availability of experienced management employees to implement AZZ’s growth strategy. AZZ has provided additional information regarding risks associated with the business in AZZ’s Annual Report on Form 10-K for the fiscal year ended February 28, 2010 and other filings with the SEC, available for viewing on AZZ’s website at www.azz.com and on the SEC’s website at www.sec.gov.

You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. These statements are based on information as of the date hereof and AZZ assumes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

The following discussion should be read in conjunction with management’s discussion and analysis contained in our Annual Report on Form 10-K for the year ended February 28, 2010, as well as with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

We have two operating segments as described in our Annual Report on Form 10-K for the year ended February 28, 2010. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue by segment and segment operating income to evaluate our segments. Segment operating income consists of net sales less cost of sales, specifically identifiable selling, general and administrative expenses, and other (income) expense items that are specifically identifiable to a segment. The other (income) expense items included in segment operating income are generally insignificant. For a reconciliation of segment operating income to pretax income, see Note 4 to our quarterly consolidated financial statements included in this report.

Orders and Backlog

Our backlog was $101.7 million as of November 30, 2010, a decrease of $8.2 million or 7%, as compared to $109.9 million at February 28, 2010. Our entire backlog relates to our Electrical and Industrial Products Segment. Our book-to-ship ratio was .95 to 1 for the third quarter ended November 30, 2010, as compared to .91 to 1 for the same period in the prior year. Incoming orders for the three and nine month periods ended November 30, 2010 increased 33% and 19%, respectively, over the same periods a year ago. The markets for our Electrical and Industrial Products have not shown the level of stability or the recovery that we had anticipated. Based upon our quotation activity and conversations with our customers, we do not believe that our backlog will show appreciable increases in the current fiscal year. While it is difficult to forecast timing of order releases in this market, we anticipate that it will be the first half of our fiscal 2012 before we start seeing a rebuilding of our backlog. Orders included in the backlog are represented by contracts and purchase orders that we believe to be firm. The following table reflects our bookings and shipments on a quarterly basis for the period ended November 30, 2010, as compared to the same period in the prior fiscal year.

Backlog Table
(In thousands)(Unaudited)

	Period Ended			Period Ended		
Backlog	2/28/10	$	109,918	2/28/09	$	174,831
Bookings			78,603			70,719
Shipments			77,475			95,492
Backlog	5/31/10	$	111,046	5/31/09	$	150,058
Book to Ship Ratio			1.01			.74
Bookings			95,033			84,458
Shipments			99,591			95,157
Backlog	8/31/10	$	106,488	8/31/09	$	139,359
Book to Ship Ratio			.95			.89
Bookings			98,096			73,993
Shipments			102,897			81,518
Backlog	11/30/10	$	101,687	11/30/09	$	131,834
Book to Ship Ratio			.95			.91

Segment Revenues

The following table reflects the breakdown of revenue by segment:

	Three Months Ended		Nine Months Ended	
	11/30/2010	11/30/2009	11/30/2010	11/30/2009
	(In thousands)(Unaudited)			
Revenue:				
Electrical and Industrial Products	$ 41,051	$ 43,622	$ 118,980	$ 154,576
Galvanizing Services	61,847	37,896	160,983	117,591
Total Revenue	$ 102,898	$ 81,518	$ 279,963	$ 272,167

For the three and nine-month periods ended November 30, 2010, consolidated revenues were $102.9 million and $280.0 million, a 26% and 3% increase, respectively, as compared to the same periods in fiscal 2010. The Electrical and Industrial Products Segment contributed 40% and 42% of the Company's revenues, respectively, and the Galvanizing Services Segment accounted for the remaining 60% and 58% of the combined revenues, respectively, for the three and nine-month periods ended November 30, 2010.

Revenues for the Electrical and Industrial Products Segment decreased $2.6 million, or 6%, for the three-month period ended November 30, 2010, and decreased $35.6 million, or 23%, for the nine-month period ended November 30, 2010, as compared to the same periods in fiscal 2010. The decreased revenues for the three month and nine month periods ended November 30, 2010, resulted from lower demand from the petrochemical and electrical transmission and distribution markets as compared to the same periods last year. We do not anticipate an increase in the electrical transmission and distribution market until overall electrical demand increases and utilities are able to get regulatory rate increases.

Revenues in the Galvanizing Services Segment increased $24.0 million, or 63%, for the three-month period ended November 30, 2010, as compared to the same period in fiscal 2010 and increased $43.4 million, or 37%, for the nine-month period ended November 30, 2010, as compared to the same periods in fiscal 2010. The volume of steel processed increased 58% and 36% for the three and nine months periods ended November 30, 2010, respectively, as compared to the same periods in the prior year. The average selling price for the three and nine month periods ended November 30, 2010, increased 2% and decreased 1% respectively, as compared to the same periods in the prior year. The revenues from the acquisition of NGA accounted for 76% and 77% of the increase in revenues for the three and nine month periods ended November 30, 2010, respectively. Revenues from the NGA acquisition were $–––18.3 million and $33.3 million for the three and nine month periods ended November 30, 2010. Historically, revenues for this segment have closely followed the condition of the industrial sector of the general economy.

Segment Operating Income

The following table reflects the breakdown of total operating income by segment:

	Three Months Ended		Nine Months Ended	
	11/30/2010	11/30/2009	11/30/2010	11/30/2009
	(In thousands)(Unaudited)			
Segment Operating Income:				

Electrical and Industrial Products	$	6,185	$	9,109	$	20,333	$	31,715
Galvanizing Services		15,421		10,537		42,135		35,634
Total Segment Operating Income	$	21,606	$	19,646	$	62,468	$	67,349

Our total segment operating income increased 10% for the quarter ended November 30, 2010 to $21.6 million as compared to $19.6 million for the same period in fiscal 2010. For the nine-month period ended

November 30, 2010, our total segment operating income decreased 7% to $62.5 million, as compared to $67.3 million for the same period ended November 30, 2009.

Segment operating income in the Electrical and Industrial Products Segment decreased 32% and 36% for the three and nine-month periods ended November 30, 2010, to $6.2 million and $20.3 million, respectively, as compared to $9.1 million and $31.7 million, respectively, for the same periods in fiscal 2010. Operating margins were 15% and 17% for the three and nine-month periods ended November 30, 2010, as compared to 21% for both the comparable periods in fiscal 2010. Decreased operating margins for the three and nine months resulted from the loss of leverage and operational efficiencies due to reduced plant utilization combined with less favorable pricing due to more competitive market conditions for the compared periods.

In the Galvanizing Services Segment, operating income increased 46% and 18% for the three and nine-month periods ended November 30, 2010, to $15.4 million and $42.1 million, respectively, as compared to $10.5 million and $35.6 million, respectively, for the same periods in fiscal 2010. Operating profit from NGA was $4.5 million and $8.0 million for the three and nine month periods ended November 30, 2010. Operating margins were 25% and 26%, respectively, for the three and nine-month periods ended November 30, 2010, as compared to 28% and 30%, respectively, for the comparable periods in fiscal 2010. Lower operating margins were the result of higher zinc costs for the current periods.

General Corporate Expenses

General corporate expenses, (see Note 4 to consolidated financial statements) not specifically identifiable to a segment, for the three-month period ended November 30, 2010, were $4.6 million compared to $4.0 million for the same period in fiscal 2010. For the nine-month period ended November 30, 2010, general corporate expenses were $16.6 million as compared to $14.5 million for the comparable period last year. The majority of the increase in general and corporate expenses was due to the $1.8 million of expensed acquisition cost during the nine month period ended November 30, 2010. As a percentage of sales, general corporate expenses were 4% and 6%, respectively, for the three and nine-month periods ended November 30, 2010, as compared to 5% for the same periods in fiscal 2010.

Interest

Net interest expense for the three and nine-month periods ended November 30, 2010 increased 3% and 2%, respectively, as compared to the same periods in fiscal 2010 to $1.8 million for the three months and $5.2 million for the nine months ended November 30, 2010. Increased interest expense for the compared periods was the result of an increase in short term borrowing against our revolving line of credit required to fund the acquisition of NGA. We repaid the amounts borrowed to fund this acquisition, which totaled $12.0 million, at the end of November 2010. We had outstanding long term debt of $100 million as of November 30, 2010 and November 30, 2009. Our long-term debt to equity ratio was .40 to 1 as of November 30, 2010, as compared to .45 to 1 at the same date in fiscal 2010.

Other (Income) Expense

For the three-month and nine-month periods ended November 30, 2010, the amounts in other (income) expense not specifically identifiable with a segment (see Note 4 to consolidated financial statements) were insignificant.

Income Taxes

The provision for income taxes reflects an effective tax rate of 36% and 37% for the three and nine month periods ended November 30, 2010, respectively, and 37% and 38%, respectively, for the three and nine-month periods ended November 30, 2009.

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LIQUIDITY AND CAPITAL RESOURCES

We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings. Our cash requirements are generally for operating activities, capital improvements, debt repayment, letters of credit, cash dividends and acquisitions. We believe that working capital, funds available under our Credit Agreement (as defined below), and funds generated from operations should be sufficient to finance anticipated operational activities, capital improvements, cash dividends, payment of debt and possible future acquisitions for the next twelve month period.

Our operating activities generated cash flows of approximately $25.5 million for the nine-month period ended November 30, 2010, and $65.5 million during the same period in the prior fiscal year. Increased working capital requirement, primarily in our Galvanizing Services Segment, for the nine month period ended November 30, 2010, accounted for the decrease in cash flow from operations as compared to the same period in the prior year. Cash flow from operations for the nine months ended November 30, 2010 included net income in the amount of $25.7 million, depreciation and amortization in the amount of $16.2 million, and other adjustments to reconcile net income to net cash in the amount of a $2.5 million. Included in other adjustments were provisions for bad debt, deferred income taxes, gain or loss on the sale of assets and non-cash adjustments. Positive cash flow was recognized due to increased accounts payable in the amount of $2.7 million. These positive cash flow items were offset by increased accounts receivable, inventories, prepaids and revenue in excess of billings of $5.2 million, $7.8 million, $.6 million and $4.4 million, respectively and a decrease in accrued liability of $3.4 million. The significant decrease in accrued liabilities was due to the payment of the fiscal 2010 profit sharing payment to our employees in the amount of $6.1 million. Accounts receivable average days outstanding were 48 days and 53 days, respectively, as of November 30, 2010 and February 28, 2010.

Cash used in investing activities during the nine months ended November 30, 2010, was approximately $11.0 million related to capital improvements. The purchase of NGA was completed during the second quarter of fiscal 2011 for a purchase price of $132 million, net of cash acquired of $28 million, resulted in a net cash outlay of $104 million.

A cash dividend was declared and paid for the three month period ended November 30, 2010 in the amount of $3.1 million. For the nine month period ended November 30, 2010 cash dividends were declared and paid in the amount of $9.3 million.

Our working capital was $98.6 million at November 30, 2010, as compared to $156.2 million at November 30, 2009.

On April 29, 2010, we amended our current credit agreement with Bank of America, N.A. (“Bank of America”) (as amended, the “Credit Agreement”). The Credit Agreement provides for an $80 million unsecured revolving line of credit maturing on May 25, 2014,which we use to provide for working capital needs, capital improvements, future cash dividend payments, future acquisitions, and letter of credit needs. At November 30, 2010, we had no outstanding borrowing under the revolving credit facility. Also, we had letters of credit outstanding in the amount of $11.7 million, which left approximately $68.3 million of additional credit available under the revolving credit facility.

The Credit Agreement provides for various financial covenants, including maintaining a) a Minimum Consolidated Net Worth equal to at least the sum of $182.3 million as of April 29, 2010 plus 50% of future net income after May 1, 2010; b) a Maximum Ratio of Consolidated Indebtedness to Consolidated EBITDA not to exceed 3.25:1.00; and c) a Fixed Charge Coverage Ratio of at least 1.75:1.0. All capitalized terms are as defined in the Credit Agreement. The Credit Agreement maintains a maximum expenditure for fixed assets of $30 million per fiscal year. We were in compliance at November 30, 2010 with all of our debt covenants under the Credit Agreement.

The Credit Agreement provides for an applicable margin ranging from 1% to 1.75% over the Eurodollar Rate and Commitment Fees ranging from .20% to .30% depending on our Leverage Ratio (as defined in the Credit Agreement).

On March 31, 2008, the Company entered into a Note Purchase Agreement (the "Note Purchase Agreement") pursuant to which the Company issued $100 million aggregate principal amount of its 6.24% unsecured Senior Notes (the "Notes") due March 31, 2018 through a private placement (the "Note Offering"). Pursuant to the Note Purchase Agreement, the Company's payment obligations with respect to the Notes may be accelerated upon any Event of Default, as defined in the Note Purchase Agreement.

In connection with the Note Offering, we entered into an amendment to our Credit Agreement. The Amendment contains the consent of Bank of America to the Note Offering and amends the Credit Agreement to provide that the Note Offering will not constitute a default under the Credit Agreement.

The Notes provide for various financial covenants including maintaining a) a Minimum Consolidated Net Worth equal to at least the sum of $116.9 million plus 50% of future net income; b) a Maximum Ratio of Consolidated Indebtedness to Consolidated EBITDA not to exceed 3.25:1.00; c) a Fixed Charge Coverage Ratio of at least 2.0:1.0; and d) maintaining a Priority Indebtedness not to exceed 10% of Consolidated Net Worth. All capitalized terms are as defined in the Note Purchase Agreement. We were in compliance at November 30, 2010 with all of our debt covenants.

Our current ratio (current assets/current liabilities) was 2.81 to 1 at November 30, 2010, as compared to 4.06 to 1 at November 30, 2009. The long-term debt to shareholders' equity ratio was .40 to 1 at November 30, 2010, as compared to .45 to 1 at November 30, 2009.

The Company anticipates entering into an additional Note Purchase Agreement in January of 2011 (the "2011 Agreement"), pursuant to which the Company would issue $125 million aggregate principal amount of its 5.42% unsecured Senior Notes (the "2011 Notes"), due in January of 2021, through a private placement (the "2011 Note Offering"). Pursuant to the 2011 Agreement, the Company's payment obligations with respect to the 2011 Notes could be accelerated under certain circumstances. The Company anticipates using the proceeds from the 2011 Note Offering for possible future acquisitions, working capital needs, capital improvements and future cash dividend payments. The 2011 Notes will not be registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

We have not experienced a significant impact on our operations from increases in general inflation. We have exposure to commodity price increases in both segments of our business, primarily copper, aluminum and steel in the Electrical and Industrial Products Segment, and zinc and natural gas in the Galvanizing Services Segment. We attempt to minimize these increases through escalation clauses in customer contracts for copper, aluminum and steel, when market conditions allow, and protective caps and fixed contract purchases on zinc. In addition to these measures, we attempt to recover other cost increases through improvements to our manufacturing process and through increases in prices where competitively feasible. Many economists predict increased inflation in coming years due to U.S. and international monetary policy, and there is no assurance that inflation will not impact our business in the future.

OFF BALANCE SHEET TRANSACTIONS AND RELATED MATTERS

Other than operating leases discussed below, there are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on financial condition, changes in financial condition, revenues or expenses, results of

operations, liquidity, capital expenditures or capital resources of the Company.

CONTRACTUAL COMMITMENTS

Leases

We lease various facilities under non-cancelable operating leases with an initial term in excess of one year. The future minimum payments required under these operating leases as of November 30, 2010, are summarized in the following table.

Summary of Commitments

The following summarizes our operating leases, long-term debt and interest expense for the next five years.

Fiscal Year	Operating Leases	Long-Term Debt	Interest on Long-Term Debt	Total
	(In thousands) (Unaudited)			
2011	$ 1,030	$ -	$ -	$ 1,030
2012	4,171	-	6,240	10,411
2013	3,514	14,286	5,794	23,594
2014	3,027	14,286	4,903	22,216
2015	Cost of revenue – sales of fuel cell systems and related infrastructure. Cost of revenue from sales of fuel cell systems and related infrastructure includes direct materials, labor costs, and allocated overhead costs related to the manufacture of our fuel cells such as GenDrive units and GenSure stationary backup power units, as well as			

hydrogen fueling infrastructure referred to at the site level as hydrogen installations.

Cost of revenue from sales of fuel cell systems and related infrastructure for the year ended December 31, 2016 decreased $38.2 million, or (56.4%), to $29.5 million from $67.7 million for the year ended December 31, 2015. Gross margin generated from sales of fuel cell systems and related infrastructure was 26.1% in 2016 and 13.2% in 2015. Gross margin on GenDrive sales in 2016 was 34.5%, an improvement from 21.3% in 2015. Costs per unit have increased due to product mix, however revenue and gross margin

have benefited from the more favorable pricing mix. Gross margin on hydrogen infrastructure sales in 2016 was 7.5%, an improvement from (4.4%) in 2015 due to project cost downs and more favorable pricing. Gross margin on GenSure revenues improved to 23.8% in 2016, from 5.7% in 2015, due to better leverage of fixed costs incurred at the Spokane facility.

Cost of revenue from sales of fuel cell systems and related infrastructure for the year ended December 31, 2015 increased $24.3 million, or 56.1%, to $67.7 million from $43.4 million for the year ended December 31, 2014. Gross

margin generated from sales of fuel cell systems and related infrastructure was 13.2% in 2015 and 10.2% in 2014. Gross margin on GenDrive sales in 2015 was 21.3%, an improvement from 13.7% in 2014. Total costs have increased due to higher volume, however gross margin has improved from better leverage on the fixed cost base, supply chain and product design cost down programs, as well as manufacturing process improvements. Gross margin on hydrogen infrastructure sales in 2015 was (4.4%), an improvement from (7.3%) in 2014. Approximately $2.5 million of the overall increase in costs is also due to the inclusion of ReliOn for a

full year as compared to nine months in 2014, which was the year the Company completed the acquisition. Gross margin on ReliOn revenues were consistent at 5.7% in 2015, compared to 8.3% in 2014.

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Cost of revenue – services performed on fuel cell systems and related infrastructure. Cost of revenue from services performed on fuel cell systems and related infrastructure includes the labor, material costs and allocated overhead costs incurred for our product service and hydrogen site maintenance contracts and spare parts. At December 31, 2016, there were 8,950 fuel cell units and 30 hydrogen installations under extended maintenance contracts, compared to 8,655 and 23 at December 31, 2015 and 5,163 and eight at December 2014, respectively.

Cost of revenue from services performed on fuel cell systems and related infrastructure for the year ended December 31, 2016 decreased $0.3 million, or (1.3%), to $22.6 million from $22.9 million for the year ended December 31, 2015. The decrease in the cost is attributed to increasing reliability of new units and replacement parts in the field offset by a growing installed base of GenDrive units and serviceable infrastructure sites. Gross margin improved to (10.7%) in 2016 from (63.7%) in 2015 to also due better reliability of new units and replacement parts. Not impacting gross margin is approximately $8.2 million of parts, labor and overhead costs that was absorbed by the accrual for loss contracts related to service.

Cost of revenue from services performed on fuel cell systems and related infrastructure for the year ended December 31, 2015 increased $3.7 million, or 19.1%, to $22.9 million from $19.3 million for the year ended December 31, 2014. The increase in the cost is attributed to increasing costs of replacement parts, as well as labor and overhead for service personnel necessary to support these service and hydrogen site maintenance contracts. These increases are a direct result of a growing installed base of GenDrive units, and the number of associated customers that have GenCare and GenFuel service contracts. At December 31, 2015 there were 8,655 GenDrive units under GenCare contracts and 22 customer sites under GenFuel contracts, as compared to 5,163 GenDrive units under GenCare contracts and 7 customer sites under GenFuel contracts at December 31, 2014. Gross margin improved to (63.7%) in 2015 from (94.3%) in 2014 due to better leverage with the growing installed base and improved model design.

Cost of revenue—provision for loss contracts related to service. During 2015, the Company recognized a $10.1 million provision for loss contracts related to service. This provision represents extended maintenance contracts that have projected costs over the remaining life of the contracts that exceed contractual revenues. During the year ended December 31, 2016, the Company renegotiated one of its service contracts and replaced 96 of the older fuel cell systems in service at that particular customer. As a result, the projected costs over the remaining life of the amended contract were estimated to be reduced as compared to the previous estimate, resulting in a lower necessary accrual. The change in estimate was recorded as a gain within cost of revenue where the original charge was recorded.

Cost of revenue – Power Purchase Agreements. Cost of revenue from PPAs includes payments made to financial institutions for leased equipment and service used to fulfill the PPAs, and depreciation of leased property. Leased units are primarily associated with sale/leaseback transactions in which the Company sells fuel cell systems and related infrastructure to a third-party, leases them back, and operates them at customers' locations who are parties to PPAs with the Company. Alternatively, the Company can hold the equipment for investment and recognize the depreciation and service cost of the assets as cost of revenue from PPAs. At December 31, 2016, there were 25 GenKey sites associated with PPAs, as compared to 14 at December 31, 2015 and four at December 31, 2014.

Cost of revenue from PPAs for the year ended December 31, 2016 increased $10.9 million, or 207.1%, to $16.1 million from $5.3 million for the year ended December 31, 2015. The increase was a result of the increase in the

number of customer sites covered by these agreements. Gross margin declined to (17.9)% in 2016 from 8.1% in 2015, due primarily to changes in financing pricing, depreciation of capitalized leased asset costs related to sites constructed in 2016 associated with capital leases, as well as costs to maintain them.

Cost of revenue from PPAs for the year ended December 31, 2015 increased $4.2 million, or 399.3%, to $5.3 million from $1.1 million for the year ended December 31, 2014. The increase was a result of the increase in the number of customer sites in which the Company completed sale/leaseback transactions. Gross margin declined to 8.1% in 2015 from 50.8% in 2014, due to changes in financing pricing, as well as decreases in the timing difference between when systems were deployed at customer sites (beginning of the revenue stream) and when agreements with financial institutions were reached (beginning expense recognition of lease payments). We began entering into PPAs in the second half of 2014.

Cost of revenue – fuel delivered to customers. Cost of revenue from fuel delivered to customers represents the purchase of hydrogen from suppliers that ultimately is sold to customers. As part of the GenKey solution, the Company contracts with fuel suppliers to purchase liquid hydrogen and separately sells to its customers upon delivery. At December 31, 2016, there were 40 sites associated with fuel contracts, as compared to 22 at December 31, 2015 and seven at

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December 31, 2014. The sites generally are the same as those which had purchased hydrogen installations within the GenKey solution.

Cost of revenue from fuel delivered to customers for the year ended December 31, 2016 increased $7.2 million, or 107.1%, to $13.9 million from $6.7 million for the year ended December 31, 2015. The increase is due to higher cost of fuel per kilogram in 2016, as compared to 2015, and a greater volume delivered to customer sites, as a result of an increase in the number of hydrogen installations completed under GenKey agreements. Gross margin improved to (27.0%) in 2016 from (31.9%) in 2015, due primarily to a settlement of a claim with a gas supplier, and improved efficiencies in fuel usage.

Cost of revenue from fuel delivered to customers for the year ended December 31, 2015 increased $4.5 million, or 203.8%, to $6.7 million from $2.2 million for the year ended December 31, 2014. The increase is due to higher volume of liquid hydrogen delivered to customer sites, as a result of an increase in the number of hydrogen installations completed under GenKey agreements. The Company began selling hydrogen fuel to customers during the second half of 2014. Gross margin declined to (31.9%) in 2015 from (12.5%) in 2014, due to inefficiencies related to new product design causing differences between the volume of fuel delivered (purchased) and dispensed (sold).

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

Cost of other revenue for the year ended December 31, 2016 increased $0.3 million, or 60.2%, to $0.9 million from $0.5 million for the year ended December 31, 2015. The Company has been working on a U.S. government related research and development project, as it did in prior years, and had research & development activities in a European Union related contract.

Cost of other revenue for the year ended December 31, 2015 decreased $2.7 million, or 83.1%, to $0.5 million from $3.2 million for the year ended December 31, 2014. The Company had been working on a U.S. government related research and development contract primarily in 2014, which was close to completion and had less activity in 2015.

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

Research and development expense for the year ended December 31, 2016 increased $6.2 million, or 41.7%, to $21.2 million from $14.9 million for the year ended December 31, 2015. This increase was primarily related to an increase in personnel related expenses from higher headcount, focused on refinement of hydrogen infrastructure design, multiple product cost-down programs and prototyping for stack performance enhancement. Additional

increases are due to higher levels of fuel and materials consumed on hydrogen infrastructure development.

Research and development expense for the year ended December 31, 2015 increased $8.5 million, or 131.1%, to $14.9 million from $6.5 million for the year ended December 31, 2014. This increase was primarily related to an increase in personnel related expenses, materials and fuel consumed on refinement of hydrogen infrastructure design, and $0.4 million of incremental costs due to the impact of research and development associated with ReliOn for an entire year. The increases in personnel and materials were a result of increased efforts on multiple product cost down programs and prototyping for stack performance enhancement.

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

Selling, general and administrative expenses for the year ended December 31, 2016, was $34.3 million, consistent with $34.2 million for the year ended December 31, 2015. There was a $1.4 million increase in stock-based compensation

expense, impacted by the increases in the fair value of stock options granted in recent years and rising headcount, offset by approximately a $2.4 million decrease in performance-based bonuses.

Selling, general and administrative expenses for the year ended December 31, 2015 increased $7.6 million, or 28.4%, to $34.2 million from $26.6 million for the year ended December 31, 2014. Approximately $7.8 million of this increase was primarily related to an increase in personnel related expenses (for example salary, benefits, travel and stock based compensation) resulting from continued investment in professional staff to support the additional growth in the business. The stock based compensation expense component of the increase is also impacted by increases in the fair value of stock options granted in recent years. The overall increase also can be attributed to $1.2 million of HyPulsion acquisition and European startup costs (compared to zero in 2014). Offsetting these increases is a decrease in amortization of intangible assets of $1.4 million in 2015 compared to 2014 due primarily to certain intangible assets becoming fully amortized.

Interest and other expense (income), net. Interest and other expense, net consists of interest and other expenses related to interest on our short-term borrowing, long-term debt, obligations under capital lease and our finance obligations, as well as foreign currency exchange gain (loss), offset by interest and other income consisting primarily of interest earned on our cash and cash equivalents, note receivable, and other income. The short-term borrowing originated on March 2, 2016, when the Company entered into a loan agreement with Generate Lending LLC., which was converted to project financing in June 2016. The long-term debt originated on June 27, 2016, when the Company entered into a loan and security agreement with Hercules Capital, Inc. On December 22, 2016, the Company, prepaid (in full) its obligations under this agreement. On December 23, 2016, the Company entered into a loan and security agreement with NY Green Bank.

Net interest and other expense, net for the year ended December 31, 2016, increased $10.4 million as compared to the year ended December 31, 2015. The increase is primarily attributed to $5.0 million in accelerated interest, early termination fees, and accelerated amortization of debt issuance costs related to the Hercules Capital, Inc. loan and security agreement, $3.6 million of interest on the Hercules Capital, Inc. loan and security agreement, and $2.1 million of interest expense related to the Generate Lending LLC loan agreement, offset by interest and other income which remained relatively insignificant for the year ended December 31, 2016, as compared to December 31, 2015.

Net interest and other expense (income), net for the year ended December 31, 2015, changed $1.7 million as compared to the year ended December 31, 2014. The change is attributed to interest on the various financing structures described above, offset by interest and other income which decreased to $157 thousand for the year ended December 31, 2015 from $752 thousand for the year ended December 31, 2014. This decrease is primarily related to the settlement of a license arrangement at ReliOn in 2014, which did not repeat in 2015, as well as a decrease in the overall interest bearing cash balances at the Company in 2015, as compared to 2014.

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

The change in fair value of common stock warrant liability for the year ended December 31, 2016 resulted in a decrease (gain) in the associated warrant liability of $4.3 million, as compared to a decrease (gain) of $3.7 million for the year ended December 31, 2015, and an increase (loss) of $52.3 million for the year ended December 31, 2014. These variances from year to year are primarily due to changes in the Company's common stock share price, and changes in volatility of our common stock, which are significant inputs to the Black Scholes valuation model. Also, as a result of additional public offerings, the exercise price of previously issued warrants was reduced due to anti-dilution provisions that had been in place, resulting in a $1.6 million increase in the common stock warrant liability.

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

During the year ended December 31, 2016, the Company released its liability for unrecognized tax benefits of $392 thousand, as the related statute of limitations has expired. No other tax expense or benefit was recognized in the years ended December 31, 2016 or 2015. Income tax benefit for the year ended December 31, 2014 was $325 thousand,

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due to reductions in accrued interest and penalties on uncertain tax positions as a result of expirations of the associated statute of limitations.

Liquidity and Capital Resources

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

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

During the year ended December 31, 2016, cash used in operating activities was $29.6 million, consisting primarily of a net loss attributable to the Company of $57.5 million, offset by the impact of noncash charges/gains of $10.9 million and net inflows from fluctuations in working capital and other assets and liabilities of $16.9 million. The changes in working capital primarily were related to collections of accounts receivable and managing of accounts payable, offset by consumption against the accrual for loss contracts related to service. As of December 31, 2016, we had cash and cash equivalents of $46.0 million and net working capital of $44.4 million. By comparison, at December 31, 2015, we had cash and cash equivalents of $64.0 million and net working capital of $88.5 million.

Net cash used in investing activities for the year ended December 31, 2016, totaled $58.1 million and included purchases of property, plant and equipment and outflows associated with materials, labor, and overhead necessary to construct new leased property. Cash outflows related to equipment that we sell and equipment we lease directly to customers are included in net cash used in operating activities and net cash used in investing activities, respectively.

During the year ended December 31, 2016, we generated $69.9 million in cash flows from financing activities, primarily comprised of increases in finance obligations, borrowings against short and long-term loan agreements and proceeds from the issuance of common and preferred stock and warrants, offset by an increase in restricted cash and payments on short-term borrowing and long-term debt.

Prior to 2016, the Company signed sale/leaseback agreements with various financial institutions to facilitate the Company's commercial transactions with key customers. The Company had sold certain fuel cell systems and hydrogen infrastructure to the financial institutions, and leased the equipment back to support certain customer locations and to fulfill its varied PPAs. In connection with these operating leases, the financial institutions require the Company to maintain cash balances in restricted accounts securing the Company's lease obligations. Cash received from customers under the PPAs is used to make lease payments. As the Company performs under these agreements, the required restricted cash balances are released, according to a set schedule. The total remaining lease payments to financial institutions under these agreements was $53.6 million which has been fully secured with restricted cash and pledged service escrows.

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The master lease agreement with one of the financial institutions required the Company to maintain a minimum balance of unrestricted cash. This requirement was removed in October 2016, when the Company elected to pledge additional cash collateral of $12.0 million. The Company's remaining contractual lease payments to this financial institution are fully secured through a combination of restricted cash and pledges on funds escrowed for future service by the Company.

During the year ended December 31, 2016, cash flows from financing activities included short-term borrowings and long-term debt, which are described more fully below. On March 2, 2016, the Company entered into a loan agreement with Generate Lending, LLC., pursuant to which $25.0 million was borrowed upon closing and issuance costs of $1.3 million were incurred. On June 27, 2016, this borrowing was converted to long-term project financing from the same lender. On June 27, 2016, the Company borrowed $25.0 million under a loan agreement with Hercules Capital Inc., and incurred related issuance costs of $1.4 million. On December 22, 2016 the Company repaid the loan in full. On December 23, 2016, the Company, entered into a loan and security agreement with NY Green Bank, borrowing $25.0 million under a loan agreement on the date of closing and issuance costs of $1.2 million were incurred.

During 2016, we received gross proceeds of $30.0 million from underwritten public offerings of our common stock and preferred stock as well as warrants to purchase additional shares of common stock. Net proceeds after underwriting discounts and commissions and other fees and expenses were $27.5 million. During 2014, we received gross proceeds of $176.7 million from three underwritten public offerings. Net proceeds after underwriting discounts and commissions and other fees and expenses were $165.7 million. In addition, during 2014, we received $18.3 million from the exercise of previously issued common stock warrants.

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

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

	2016	2015	2014
Cash and cash equivalents at end of period	$ 46,014	$ 63,961	$ 146,205
Restricted cash at end of period	54,622	47,835	500
Working capital at end of period	44,448	88,524	167,039

Net loss attributable to common shareholders	57,591	55,795	88,644
Net cash used in operating activities	29,636	47,274	40,780
Purchases of property, plant and equipment and leased property	58,075	3,520	1,413
Net cash provided by (used in) financing activities	69,885	(32,923)	182,923

NY Green Bank Loan

On December 23, 2016, the Company, and its subsidiaries Emerging Power Inc. and Emergent Power Inc. entered into a loan and security agreement with NY Green Bank, a Division of the New York State Energy Research & Development Authority, (NY Green Bank), pursuant to which NY Green Bank made available to the Company a secured term loan facility in the amount of $25.0 million (Term Loan Facility), subject to certain terms and conditions. The Company borrowed $25.0 million upon closing and incurred costs of $1.2 million. At December 31, 2016, the outstanding principal balance under the Term Loan Facility was $25.0 million.

Advances under the Term Loan Facility bear interest at a rate equal to the sum of (i) the LIBOR rate for the applicable interest period, plus (ii) the credit default swap index coupon for the applicable interest period, plus (iii) 6.00% per annum. The interest rate at December 31, 2016 was approximately 11.3%. The term of the loan is three years, with a maturity date of December 23, 2019. Estimated principal payments will approximately be $3.0 million, $8.4 million, $13.6 million during the years ended December 31, 2017, 2018, and 2019, respectively. These payments will be funded by restricted cash released.

Interest and a varying portion of the principal amount is payable on a quarterly basis and the entire then outstanding principal balance of the Term Loan Facility, together with all accrued and unpaid interest, is due and payable on the maturity date. On the maturity date, the Company may also be required to pay additional fees of up to $1.0 million if the Company is unable to meet certain goals related to the deployment of fuel cell systems in the State of New York and increasing the Company's number of full-time employees in the State of New York.

The Term Loan Facility is secured by substantially all of the Company's and the guarantor subsidiaries' assets, including, among other assets, all intellectual property, all securities in domestic subsidiaries and 65% of the securities in foreign subsidiaries, subject to certain exceptions and exclusions.

The Term Loan Facility contains covenants, including, among others, (i) the provision of annual and quarterly financial statements, management rights and insurance policies and (ii) restrictions on incurring debt, granting liens, making acquisitions, making loans, paying dividends, dissolving, and entering into leases and asset sales. The Term Loan Facility also provides for events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control, judgment and material adverse effect defaults at the discretion of the lender.

The Term Loan Facility provides that if there is an event of default due to the Company's insolvency or if the Company fails to perform, in any material respect, the servicing requirements for fuel cell systems under certain customer agreements, which failure would entitle the customer to terminate such customer agreement, replace the Company or withhold the payment of any material amount to the Company under such customer agreement, then the NY Green Bank has the right to cause a wholly owned subsidiary of the Company to replace the Company in performing the maintenance services under such customer agreement.

Hercules Capital, Inc. Loan

On June 27, 2016, Plug Power Inc. and its subsidiaries Emerging Power Inc. and Emergent Power Inc. entered into a loan and security agreement with Hercules Capital, Inc. (Hercules) pursuant to which Hercules agreed to make available to the Company a secured term loan facility in the amount of up to $40.0 million (the Hercules Term Loan Facility), subject to certain terms and conditions. The Company borrowed $25.0 million on the date of closing and incurred transaction costs of $1.4 million.

On December 22, 2016, the Company prepaid in full its obligations under the Hercules Loan and Security Agreement and the Hercules Term Loan Facility was terminated. The Company used the net proceeds of preferred and common stock public offerings, together with existing cash, to repay the principal amount outstanding under the Hercules Term

Loan Facility of $25.0 million and pay the interest, fees and expenses related to such repayment of $4.0 million. In addition, the Company recorded accelerated amortization of debt issuance costs of $1.1 million. The interest, fees, expenses and amortization has been included within interest and other (expense) income, net on the consolidated statements of operations.

Issuance of Redeemable Preferred Stock, Common Stock, and Warrants

In December 2016, the Company completed an offering of an aggregate of 10,400,000 shares of common stock, and warrants to purchase 3,120,000 shares of common stock. The net proceeds to the Company were approximately $11.9 million, after deducting underwriting discounts and commissions and expenses payable by the Company. Each full warrant entitles the holder thereof to purchase one share of common stock at an exercise price equal to $1.50 per share. The warrants will be exercisable during the period commencing on the six-month anniversary of the date of original issuance and ending on June 21, 2022.

In December 2016, the Company completed an offering of an aggregate of 18,500 shares of the Company's Series D Redeemable Preferred Stock, par value $0.01 per share and warrants to purchase 7,381,500 shares of common stock. The net proceeds to the Company were approximately $15.6 million, after deducting underwriting discounts and commissions and estimated expenses payable by the Company. The terms and conditions of the warrants issued pursuant to the preferred share offering are identical to the warrants issued pursuant to the common share offering. The Company is required to redeem the Series D Redeemable Preferred Stock in ten monthly installments in the amount of $1.9 million each from January 2017 through October 2017.

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Income Taxes

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

Based on studies of the changes in ownership of the Company, it has been determined that IRC Section 382 ownership changes have occurred which significantly reduces that amount of pre change net operating losses that can be used in future years to $13.5 million. In addition, net operating losses of $92.8 million incurred after the most recent ownership change are not subject to IRC Section 382 and are available for use in future years. Accordingly, the Company’s deferred tax assets include $106.3 million of net operating loss carryforwards. The net operating loss carryforwards available at December 31, 2016, if unused will expire at various dates from 2017 through 2036.

The ownership changes also resulted in net unrealized built in losses per IRS Notice 2003 65 which should result in recognized built in losses during the five year recognition period. These recognized built in losses will translate into unfavorable book to tax add backs in the Company’s 2017 to 2018 U.S. corporate income tax returns of approximately $7.6 million that resulted in a gross deferred tax liability of $2.9 million at December 31, 2016. This gross deferred tax liability offsets existing gross deferred tax assets effectively reducing the valuation allowance. This has no impact on the Company’s current financial position, results of operations, or cash flows because of the full valuation allowance.

Contractual Obligations

Contractual obligations as of December 31, 2016, under agreements with non cancelable terms are as follows (in thousands):

	Total	<1 year	1 - 3 Years	3 - 5 Years	> 5 Years
Operating lease obligations(A)	$ 51,507	$ 12,350	$ 23,061	$ 15,337	$ 759
Purchase obligations(B)	10,884	7,852	3,016	16	—
Finance obligations(C)	44,554	14,787	15,920	10,620	3,227
Long-term debt(D)	23,793	2,964	20,829	—	—
	$ 130,738	$ 37,953	$ 62,826	$ 25,973	$ 3,986

(A) The Company has several non cancelable operating leases that generally expire over the next six years, primarily associated with sale/leaseback transactions and are secured with restricted cash. In addition, under a limited number of arrangements, the Company provides its products and services to customers in the form of a PPA that generally have six year terms. The Company accounts for these non cancelable sale/leaseback transactions as operating leases in accordance with Accounting Standards Codification (ASC) Subtopic 840 40, Leases—Sale/Leaseback Transactions. See Note 17, Commitments and Contingencies, of the Consolidated Financial Statements for more detail.

(B) The Company has purchase obligations related to inventory build to meet its sales plan, stack and stack components for new units and servicing existing ones, and the maintenance of its building and storage of documents.

(C) During the year ended December 31, 2015, the Company received cash for future services to be performed associated with certain sale/leaseback transactions, which was treated as a finance obligation. In addition, the Company has a finance obligation related to a sale/leaseback transaction involving its building. These obligations are secured with restricted cash.

(D) During the year ended December 31, 2016, the Company entered into a long-term debt agreement with NY Green Bank. Principal and interest payments will be made using the proceeds from the release of restricted cash.

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Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles and related disclosures requires management to make estimates and assumptions.

We believe that the following are our most critical accounting estimates and assumptions the Company must make in the preparation of its Consolidated Financial Statements and related disclosures:

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

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

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

Once relative selling prices are determined, the Company proportionately allocates the sale consideration to each element of the arrangement. The allocated sales consideration related to fuel cell systems and infrastructure, spare parts, and hydrogen infrastructure is recognized as revenue at shipment if title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable, collection of the

related receivable is reasonably assured, and customer acceptance criteria, if any, have been successfully demonstrated. The allocated sales consideration related to service and maintenance is generally recognized as revenue on a straight-line basis over the term of the contract, as appropriate.

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

In a vast majority of its commercial transactions, the Company sells extended maintenance contracts that generally provide for a five to ten year warranty from the date of product installation. These types of contracts are accounted for as a separate deliverable, and accordingly, revenue generated from these transactions is deferred and recognized in income over the warranty period, generally on a straight-line basis. Additionally, the Company may enter into annual service and extended maintenance contracts that are billed monthly. Revenue generated from these transactions is recognized in income on a straight-line basis over the term of the contract. Costs are recognized as incurred over the term of the contract. When costs are projected to exceed revenues on the life of the contract, an accrual for loss contracts is recorded. Costs are estimated based upon historical experience, contractual agreements and the estimated impact of the Company’s cost reduction initiatives. The actual results may differ from these estimates.

When fuel cell systems and related infrastructure are provided to customers through a PPA, revenues associated with these agreements are treated as rental income and recognized on a straight-line basis over the life of the agreements.

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In conjunction with entering into a PPA with a customer, the Company may enter into sale/leaseback transactions with third-party financial institutions, whereby the fuel cells, related infrastructure, and service are sold to the third-party financial institution and leased back to the Company through either an operating or capital lease.

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

One of the critical estimates that management makes is the projection of service costs related to GenDrive units under extended maintenance contracts. This estimate is important in management’s determination of whether a loss contract exists, as well as the amount of any loss. When projected costs to be incurred over the remaining life of the extended maintenance contracts is estimated to exceed contractual revenues, a provision for loss contracts related to service is recorded. An analysis of projected expenses and revenues is performed on each extended maintenance contract. Cost of expected maintenance contracts consist of replacement parts, labor and overhead. A variety of assumptions are included in the estimates of future service costs, including the life of parts, failure rates of parts, and future costs of parts.

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

Valuation of long lived assets: We assess the potential impairment of long lived assets, including identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that 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, 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 Financial Accounting Standards Board (FASB) ASC No. 350 35 30 14, Intangibles—Goodwill and Other, and FASB ASC No. 360 10 35 15, 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.

Stock based Compensation: We recognize stock based compensation expense associated with the vesting of share based instruments in the consolidated statements 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 the Company's actual stock prices over an historical period equal to the expected life of the options, which represents the Company's best estimate of expected volatility.

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Expected option life—The Company's estimate of an expected option life was calculated in accordance with the simplified method for calculating the expected term assumption. The simplified method is a calculation based on the contractual life and vesting terms of the associated options.

Risk free interest rate—We use the yield on zero coupon U.S. Treasury securities having a maturity date 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. Forfeitures are required 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 review historical forfeiture data and determine the appropriate forfeiture rate based on that data. We 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.

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

The Company used the following assumptions for its common stock warrants issued on December 22, 2016. The risk free interest rate for both December 22, 2016 (issuance date) and December 31, 2016 was 1.96%. The volatility of the market price of the Company's common stock for December 22, 2016 and December 31, 2016 was 103.4%. The expected average term of the warrants used for both December 22, 2016 and December 31, 2016 was 5.5 years.

The Company used the following assumptions for its common stock warrants issued on January 20, 2014. The risk free interest rate for January 20, 2014 (issuance date), December 31, 2014, December 31, 2015 and December 31, 2016 was 1.65%, 1.35%, 1.28%, and 1.20% respectively. The volatility of the market price of the Company's common stock for January 20, 2014, December 31, 2014, December 31, 2015, and December 31, 2016 was 107.6%, 119.2%, 128.4% and 56.36% respectively. The expected average term of the warrants used for January 20, 2014, December 31, 2014, December 31, 2015, and December 31, 2016 was 5.0 years, 4.0 years, 3.0 years, and 2.0 years respectively.

The Company used the following assumptions for its common stock warrants issued on February 20, 2013. The risk free interest rate for December 31, 2014, December 31, 2015, and December 31, 2016 was 1.06%, 0.98% and

0.87%, respectively. The volatility of the market price of the Company's common stock for December 31, 2014, December 31, 2015, and December 31, 2016 was 126.2%, 111.9% and 49.0%, respectively. The expected average term of the warrants used for December 31, 2014, December 31, 2015, and December 31, 2016 was 3.1 years, 2.1 years and 1.1 years, respectively.

The Company used the following assumptions for its common stock warrants issued on May 31, 2011. The risk free interest rate at December 31, 2014 and December 31, 2015 was 0.21% and .50%, respectively. The volatility of the market price of the Company's common stock at December 31, 2014 and December 31, 2015 was 136.6% and 79.8%, respectively. The expected average term of the warrants used at December 31, 2014 and December 31, 2015 was 1.4 years and 0.4 years, respectively.

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

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Recent Accounting Pronouncements

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

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

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

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

In March 2016, an accounting update was issued to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This accounting update is effective for annual periods beginning after December 15, 2016, and interim periods within those periods. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements.

In March 2016, an accounting update was issued to simplify various aspects related to how share-based payments are accounted for and presented. This accounting update is effective for annual periods beginning after December 15, 2016 and interim periods within those years. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements.

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

In July 2015, an accounting update was issued that changes inventory measurement from lower of cost or market to lower of cost and net realizable value. The new standard applies to inventory measured at first-in, first-out (FIFO). This accounting update is effective for the reporting periods beginning after December 15, 2016, and interim periods within those years. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements.

In August 2014, an accounting update was issued relating to how management assesses conditions and events that could raise substantial doubt about an entity's ability to continue as a going concern. This accounting update was adopted as of December 31, 2016 and did not have a significant effect on the consolidated financial statements.

In June 2014, an accounting update was issued that replaces the existing revenue recognition framework regarding contracts with customers. In July 2015, the FASB announced a one year delay in the required adoption date from January

1, 2017 to January 1, 2018. The Company has established an internal implementation team to oversee the adoption of the new standard. To date the Company has identified relevant arrangements and performance obligations and is assessing the impact of the new guidance. Evaluation is ongoing and it is too early to provide an assessment of the impact. The Company anticipates providing information about the impacts of adoption in the coming quarters. The Company is also evaluating whether to adopt the guidance using the full or modified retrospective basis, and will likely make that determination during the first half of 2017.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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

Item 8. Financial Statements and Supplementary Data

The Company's Consolidated Financial Statements included in this report beginning at page F 1 are incorporated in this Item 8 by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by rule 13a 15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Annual Report on Form 10 K, the Company’s management conducted an evaluation under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer regarding the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e) under the Exchange Act). Based upon that evaluation the Company’s management has concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2016.

(b) Management’s Annual Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a 15(f) and 15d 15(f) under the Exchange Act. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

· pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

· provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and, that receipts and

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expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and

· provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, assessed as of December 31, 2016 the effectiveness of the Company's internal control over financial reporting. In making this assessment, management used the criteria set forth in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this evaluation, management has concluded that the Company's internal control over financial reporting as of December 31, 2016 was effective.

The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, which is included in Item 8 of this Annual Report on Form 10 K and incorporated herein by reference.

(c) Changes in Internal Control Over Financial Reporting

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

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

(a)Directors

Incorporated herein by reference is the information appearing under the captions “Information about our Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

(b)Executive Officers

Incorporated herein by reference is the information appearing under the captions “Information about our Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

(c)Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all officers, directors, employees and consultants of the Company. The Code of Business Conduct and Ethics is intended to comply with Item 406 of Regulation S K of the Securities Exchange Act of 1934 and with applicable rules of The NASDAQ Stock Market, Inc. Our Code of Business Conduct and Ethics is posted on our Internet website under the “Investor” page. Our Internet website address is www.plugpower.com. To the extent required or permitted by the rules of the SEC and NASDAQ, we will disclose amendments and waivers relating to our Code of Business Conduct and Ethics in the same place as our website.

Item 11. Executive Compensation

Incorporated herein by reference is the information appearing under the caption “Executive Compensation” in the Company’s definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference is the information appearing under the caption “Principal Stockholders” in the Company’s definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table gives information as of December 31, 2016, about the shares of Common Stock that may be issued upon the exercise of options and restricted stock under the Company’s 1999 Stock Option and Incentive Plan, as amended (1999 Stock Option Plan), and the Company’s 2011 Stock Option and Incentive Plan (2011 Stock Option Plan).

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Equity Compensation Plan Information

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)	
Equity compensation plans approved by security holders	13,213,387	(1)	$ 2.94	997,841	(2)
Equity compensation plans not approved by security holders	1,560,000	(3)	$ 2.60	—	
Total	14,773,387			997,841	

(1) Represents 470,614 outstanding options issued under the 1999 Stock Option Plan, 12,729,440 outstanding options issued under the 2011 Stock option Plan and 13,333 shares of restricted stock issued under the 2011 Stock Option Plan.

(2) Includes shares available for future issuance under the 2011 Stock Option Plan.

(3) Included in Equity compensation plans not approved by shareholders are shares granted to new employees for key positions within the Company. No specific shares have been allocated for this purpose, but rather equity awards are approved by the Company's Board of Directors in specific circumstances.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference is the information appearing under the caption "Principal Stockholders" in the Company's definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

Item 14. Principal Accounting Fees and Services

Incorporated herein by reference is the information appearing under the caption “Independent Auditors Fees” in the Company’s definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

15(a)(1) Financial Statements

The financial statements and notes are listed in the Index to Consolidated Financial Statements on page F 1 of this Report.

15(a)(2) Financial Statement Schedules

The financial statement schedules are listed in the Index to Consolidated Financial Statements on page F 1 of this Report.

All other schedules not filed herein have been omitted as they are not applicable or the required information or equivalent information has been included in the Consolidated Financial Statements or the notes thereto.

15(a)(3) Exhibits

Exhibits are as set forth in the “List of Exhibits” which immediately precedes the Index to Consolidated Financial Statements on page F 1 of this Report.

Item 16. Form 10-K Summary

Not Applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLUG POWER INC.

By: /s/ ANDREW MARSH
Andrew Marsh
President, Chief Executive Officer and Director

Date: March 10, 2017

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints each of Andrew Marsh, Paul B. Middleton and Gerard L. Conway, Jr. such person's true and lawful attorney in fact and agent with full power of substitution, for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10 K, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney in fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that any said attorney in fact and agent, or any substitute or substitutes of any of them, may lawfully do or cause to be done by virtue hereof.

Date: March 10, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ ANDREW MARSH Andrew Marsh	President, Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2017
/s/ PAUL B. MIDDLETON Paul B. Middleton	Chief Financial Officer (Principal Financial Officer)	March 10, 2017
/s/ MARTIN D. HULL Martin D. Hull	Controller & Chief Accounting Officer (Principal Accounting Officer)	March 10, 2017
/s/ LARRY G. GARBERDING Larry G. Garberding	Director	March 10, 2017
/s/ MAUREEN O. HELMER Maureen O. Helmer	Director	March 10, 2017
/s/ DOUGLAS T. HICKEY Douglas T. Hickey	Director	March 10, 2017

/s/ GREGORY L. KENAUSIS Gregory L. Kenausis	Director	March 10, 2017
/s/ GEORGE C. MCNAMEE George C. McNamee	Director	March 10, 2017
/s/ XAVIER PONTONE Xavier Pontone	Director	March 10, 2017
/s/ JOHANNES MINHO ROTH Johannes Minho Roth	Director	March 10, 2017
/s/ GARY K. WILLIS Gary K. Willis	Director	March 10, 2017

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Certain exhibits indicated below are incorporated by reference to documents of Plug Power on file with the Commission. Exhibits nos. 10.1, 10.5 through 10.9 and 10.13 through 10.19 represent the management contracts and compensation plans and arrangements required to be filed as exhibits to this Annual Report on Form 10 K.

Exhibit No.
and Description

3.1 Amended and Restated Certificate of Incorporation of Plug Power Inc.(1)

3.2 Certificate of Amendment to Amended and Restated Certificate of Incorporation of Plug Power Inc.(1)

3.3 Second Certificate of Amendment of Amended and Restated Certificate of Incorporation of Plug Power Inc.(2)

3.4 Third Certificate of Amendment to Amended and Restated Certificate of Incorporation of Plug Power Inc.(3)

3.5 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Plug Power Inc. classifying and designating the Series A Junior Participating Cumulative Preferred Stock.(4)

3.6 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Plug Power Inc. classifying and designating the Series C Redeemable Convertible Preferred Stock.(5)

3.7 Third Amended and Restated By-laws of Plug Power Inc.(6)

3.8 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Plug Power Inc. classifying and designating the Series D Redeemable Convertible Preferred Stock.(7)

3.9 Certificate of Correction to Third Certificate of Amendment of Amended and Restated Certificate of Incorporation of Plug Power Inc., dated as of December 21, 2016.(27)

4.1 Specimen certificate for shares of common stock, $.01 par value, of Plug Power.(8)

4.2 Shareholder Rights Agreement, dated as of June 23, 2009, between Plug Power Inc. and Registrar and American Stock Transfer & Trust Company, LLC, as Rights Agent.(4)

4.3 Amendment No. 1 To Shareholder Rights Agreement.(9)

4.4 Amendment No. 2 To Shareholder Rights Agreement.(10)

4.5 Amendment No. 3 To Shareholder Rights Agreement.(11)

4.6 Amendment No. 4 To Shareholder Rights Agreement.(12)

4.7 Amendment No. 5 To Shareholder Rights Agreement.(13)

4.8 Amendment No. 6 To Shareholder Rights Agreement.(7)

4.9	Form of Warrant.(14)
4.10	Form of Warrant.(15)
4.11	Form of Warrant.(5)
4.12	Form of Warrant.(11)
10.1	Employee Stock Purchase Plan.(8)

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10.2 Master Equipment Lease, dated as of June 30, 2014, between the Registrant and Manufacturers and Traders Trust Company.(30)

10.3 Form of Director Indemnification Agreement.(16)

10.4 Form of Director Indemnification Agreement.(17)

10.5 Plug Power Executive Incentive Plan.(18)

10.6 Employment Agreement, dated as of April 7, 2008, by and between Andrew Marsh and Plug Power Inc.(19)

10.7 Executive Employment Agreement, dated as of May 5, 2008, by and between Gerard L. Conway, Jr. and Plug Power Inc.(20)

10.8 Executive Employment Agreement, dated as of October 23. 2013, by and between Keith C. Schmid and Plug Power Inc.(17)

10.9 Executive Employment Agreement, dated as of November 6, 2014, by and between Paul B. Middleton and Plug Power Inc.(21)

10.10 First Amendment to Master Equipment Lease, dated as of December 19, 2014, between the Registrant and Manufacturers and Traders Trust Company.(30)

10.11 License Agreement dated as of February 29, 2012, by and between HyPulsion, S.A.S. and Plug Power Inc.(23)

10.12 2011 Stock Option and Incentive Plan.(22)

10.13 Amendment No. 1 to the Plug Power Inc. 2011 Stock Option and Incentive Plan.(24)

10.14 Amended and Restated 2011 Stock Option and Incentive Plan.(3)

10.15 Form of Incentive Stock Option Agreement.(25)

10.16 Form of Non Qualified Stock Option Agreement for Employees.(25)

10.17 Form of Non Qualified Stock Option Agreement for Independent Directors.(25)

10.18 Form of Restricted Stock Award Agreement.(26)

10.19 Purchase and Sale Agreement dated as of January 24, 2013, by Plug Power Inc. and 968 Albany Shaker Road Associates, LLC.(26)

10.20 Amendment to Purchase and Sale Agreement dated as of March 13, 2013 by Plug Power Inc. and 968 Albany Shaker Road Associates, LLC.(26)

10.21

	Securities Purchase Agreement, dated as of May 8, 2013, by and between Plug Power Inc. and Air Liquide Investissements d'Avenir et de Demonstration.(13)
10.22	Registration Rights Agreement, dated as of May 16, 2013, by and between Plug Power Inc. and Air Liquide Investissements d'Avenir et de Demonstration.(5)

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10.23	Second Amendment to Master Equipment Lease, dated as of December 30, 2015, between the Registrant and Manufacturers and Traders Trust Company.(30)
10.24	Loan and Security Agreement dated as of June 27, 2016 by and among Plug Power Inc., Emerging Power Inc., Emergent Power Inc. and Hercules Capital, Inc.(28)
10.25	Loan and Security Agreement dated as of December 23, 2016 by and among Plug Power Inc., Emerging Power Inc., Emergent Power Inc. and NY Green Bank, a Division of the New York State Energy Research & Development Authority.(29)
10.26	Waiver and Third Amendment to Master Equipment Lease, dated as of June 7, 2016, between the Registrant and Manufacturers and Traders Trust Company.(30)
10.27	Master Lease Agreement, dated as of June 3, 2016, between the Registrant and Generate Capital, Inc.(30)
23.1	Consent of KPMG LLP.(27)
31.1 and 31.2	Certifications pursuant to Section 302 of the Sarbanes Oxley Act of 2002.(27)
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.(27)
101.INS	XBRL Instance Document.(27)
101.SCH	XBRL Taxonomy Extension Schema Document.(27)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.(27)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.(27)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.(27)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.(27)

(1) Incorporated by reference to the Company's Form 10 K for the period ended December 31, 2008, filed with the SEC on March 16, 2009.

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

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

(4) Incorporated by reference to the Company's Registration Statement on Form 8 A dated June 24, 2009.

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

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

(7) Incorporated by reference to the Company's current Report on Form 8-K dated December 21, 2016.

(8) Incorporated by reference to the Company's Registration Statement on Form S 1/A (File Number 333 86089).

(9) Incorporated by reference to the Company's current Report on Form 8 K dated May 6, 2011.

(10) Incorporated by reference to the Company's current Report on Form 8 K dated March 19, 2012.

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(11) Incorporated by reference to the Company's current Report on Form 8 K dated March 26, 2012.

(12) Incorporated by reference to the Company's current Report on Form 8 K dated February 13, 2013.

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

(14) Incorporated by reference to the Company's current Report on Form 8 K dated May 24, 2011.

(15) Incorporated by reference to the Company's current Report on Form 8 K dated February 14, 2013.

(16) Incorporated by reference to the Company's current Report on Form 8 K dated June 29, 2006.

(17) Incorporated by reference to the Company's current Report on Form 8 K dated October 29, 2013.

(18) Incorporated by reference to the Company's current Report on Form 8 K dated February 15, 2007.

(19) Incorporated by reference to the Company's current Report on Form 8 K dated April 2, 2008.

(20) Incorporated by reference to the Company's Form 10 Q for the period ended June 30, 2008, filed with the SEC on August 7, 2008.

(21) Incorporated by reference to the Company's current Report on Form 8 K dated November 11, 2014.

(22) Incorporated by reference to the Company's current Report on Form 8 K dated May 12, 2011.

(23) Incorporated by reference to the Company's current Report on Form 8 K dated March 21, 2012.

(24) Incorporated by reference to the Company's current Report on Form 8 K dated May 18, 2012.

(25) Incorporated by reference to the Company's Form 10 Q for the period ended June 30, 2011, filed with the SEC on August 11, 2011.

(26) Incorporated by reference to the Company's current Report on Form 8 K dated April 1, 2013.

(27) Filed herewith.

(28) Incorporated by reference to the Company's current Report on Form 8 K dated June 30, 2016.

(29) Incorporated by reference to the Company's current Report on Form 8-K dated December 23, 2016.

(30) Incorporated by reference to the Company's Registration Statement on Form S-3 (File Number 333-214737).

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Plug Power Inc.:

We have audited the accompanying consolidated balance sheets of Plug Power Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting (Item 9A). Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Plug Power Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity

with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

Albany, New York
March 10, 2017

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PLUG POWER INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2016 and 2015

(In thousands, except share and per share amounts)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 46,014	$ 63,961
Restricted cash	11,219	4,012
Accounts receivable	11,923	22,650
Inventory	29,940	32,752
Prepaid expenses and other current assets	11,837	7,855
Total current assets	110,933	131,230
Restricted cash	43,403	43,823
Property, plant, and equipment, net	8,246	7,255
Leased property, net	54,060	1,667
Goodwill	8,291	8,478
Intangible assets, net	3,933	4,644
Other assets	11,966	12,359
Total assets	$ 240,832	$ 209,456
Liabilities, Redeemable Preferred Stock, and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 32,112	$ 20,455
Accrued expenses	8,519	9,852
Accrual for loss contracts related to service	752	4,100
Deferred revenue	5,736	4,468
Finance obligations	14,787	2,671
Current portion of long-term debt	2,964	—
Other current liabilities	1,615	1,160
Total current liabilities	66,485	42,706
Accrual for loss contracts related to service	—	5,950
Deferred revenue	17,413	13,997
Common stock warrant liability	11,387	5,735

Finance obligations	29,767	14,809
Long-term debt	20,829	—
Other liabilities	241	370
Total liabilities	146,122	83,567
Redeemable preferred stock		
Series C redeemable convertible preferred stock, $0.01 par value per share (aggregate involuntary liquidation preference $16,664); 10,431 shares authorized; Issued and outstanding: 5,231 at December 31, 2016 and December 31, 2015	1,153	1,153
Series D redeemable convertible preferred stock, $0.01 par value per share (aggregate involuntary liquidation preference $18,500); 5,000,000 shares authorized; Issued and outstanding: 18,500 at December 31, 2016 and none at December 31, 2015	8,469	—
Stockholders' equity:		
Common stock, $0.01 par value per share; 450,000,000 shares authorized; Issued (including shares in treasury): 191,723,974 at December 31, 2016 and 180,567,444 at December 31, 2015	1,917	1,806
Additional paid-in capital	1,137,482	1,118,917
Accumulated other comprehensive income	247	798
Accumulated deficit	(1,051,467)	(993,876)
Less common stock in treasury: 582,328 at December 31, 2016 and 479,953 at December 31, 2015	(3,091)	(2,909)
Total stockholders' equity	85,088	124,736
Total liabilities, redeemable preferred stock, and stockholders' equity	$ 240,832	$ 209,456

See accompanying notes to consolidated financial statements.

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PLUG POWER INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2016, 2015 and 2014

(In thousands, except share and per share amounts)

	2016	2015	2014
Revenue:			
Sales of fuel cell systems and related infrastructure	$ 39,985	$ 78,002	$ 48,306
Services performed on fuel cell systems and related infrastructure	20,456	14,012	9,909
Power Purchase Agreements	13,687	5,718	2,137
Fuel delivered to customers	10,916	5,075	1,959
Other	884	481	1,919
Total revenue	85,928	103,288	64,230
Cost of revenue:			
Sales of fuel cell systems and related infrastructure	29,543	67,703	43,378
Services performed on fuel cell systems and related infrastructure	22,649	22,937	19,256
Provision for loss contracts related to service	(1,071)	10,050	—
Power Purchase Agreements	16,132	5,253	1,052
Fuel delivered to customers	13,864	6,695	2,204
Other	865	540	3,202
Total cost of revenue	81,982	113,178	69,092
Gross profit (loss)	3,946	(9,890)	(4,862)
Operating expenses:			
Research and development	21,177	14,948	6,469
Selling, general and administrative	34,288	34,164	26,601
Total operating expenses	55,465	49,112	33,070
Operating loss	(51,519)	(59,002)	(37,932)

Interest and other (expense) income, net	(10,704)	(349)	1,379
Change in fair value of common stock warrant liability	4,344	3,661	(52,260)
Loss before income taxes	$ (57,879)	$ (55,690)	$ (88,813)
Income tax benefit	392	—	325
Net loss attributable to the Company	$ (57,487)	$ (55,690)	$ (88,488)
Preferred stock dividends declared	(104)	(105)	(156)
Net loss attributable to common shareholders	$ (57,591)	$ (55,795)	$ (88,644)
Net loss per share:			
Basic and diluted	$ (0.32)	$ (0.32)	$ (0.56)
Weighted average number of common shares outstanding	180,619,860	176,067,231	159,228,815

See accompanying notes to consolidated financial statements.

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PLUG POWER INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31, 2016, 2015 and 2014

(In thousands)

	2016	2015	2014
Net loss attributable to the Company	$ (57,487)	$ (55,690)	$ (88,488)
Other comprehensive loss - foreign currency translation adjustment	(551)	(100)	—
Comprehensive loss	$ (58,038)	$ (55,790)	$ (88,488)

See accompanying notes to consolidated financial statements.

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PLUG POWER INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY (DEFICIT)

For the years ended December 31, 2016, 2015 and 2014

(In thousands, except share amounts)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Treasury Stock		Accumulated	Total Stockholde Equity (Deficit)
	Shares	Amount	Capital	Income	Shares	Amount	Deficit	
ecember 31, 013	106,356,558	$ 1,064	$ 831,156	$ 898	165,906	$ (1,552)	$ (849,437)	$ (17,871)
et loss ttributable to ne Company	—	—	—	—	—	—	(88,488)	(88,488)
tock-based ompensation	146,174	2	4,051	—	—	—	—	4,053
tock dividend	34,232	—	156	—	—	—	(156)	—
ublic fferings, ommon stock, et	36,502,440	365	153,584	—	—	—	—	153,949
tock option xercises	634,519	6	401	—	125,819	(770)	—	(363)
xercise of varrants	23,918,429	239	101,886	—	86,391	(340)	—	101,785
hares issued or acquisition	530,504	5	3,995	—	—	—	—	4,000
onversion of referred stock	5,521,676	55	1,163	—	—	—	—	1,218
ecember 31, 014	173,644,532	1,736	1,096,392	898	378,116	(2,662)	(938,081)	158,283
et loss ttributable to ne Company	—	—	—	—	—	—	(55,690)	(55,690)
ther omprehensive	—	—	—	(100)	—	—	—	(100)

oss								
tock-based ompensation	89,490	1	7,816	—	—	—	—	7,817
tock dividend	47,553	1	104	—	—	—	(105)	—
tock option xercises	364,448	4	163	—	101,837	(247)		(80)
xercise of varrants	26,882	—	47	—	—	—	—	47
hares issued or acquisition	6,394,539	64	14,395	—	—	—	—	14,459
ecember 31, 015	180,567,444	1,806	1,118,917	798	479,953	(2,909)	(993,876)	124,736
let loss ttributable to ne Company	—	—	—	—	—	—	(57,487)	(57,487)
ther omprehensive oss	—	—	—	(551)	—	—	—	(551)
tock-based ompensation	105,479	1	9,289	—	—	—	—	9,290
tock dividend	66,061	1	103	—	—	—	(104)	—
ublic fferings, ommon stock, et	10,400,000	104	8,824	—	—	—	—	8,928
tock option xercises	465,111	4	98	—	102,375	(182)	—	(80)
xercise of varrants	119,879	1	251	—	—	—	—	252
ecember 31, 016	191,723,974	$ 1,917	$ 1,137,482	$ 247	582,328	$ (3,091)	$ (1,051,467)	$ 85,088

See accompanying notes to consolidated financial statements.

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PLUG POWER INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016, 2015 and 2014

(In thousands)

	2016	2015	2014
Cash Flows From Operating Activities:			
Net loss attributable to the Company	$ (57,487)	$ (55,690)	$ (88,488)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation of property, plant and equipment, and leased property	4,650	2,006	1,946
Amortization of intangible assets	590	981	2,391
Stock-based compensation	9,290	7,817	4,157
Loss on acquisition activity, net	—	116	(1,014)
Amortization and accelerated recognition of debt issuance costs	1,760	—	—
Loss on disposal of leased property	41	—	78
Provision for loss contracts related to service	(1,071)	10,050	—
Change in fair value of common stock warrant liability	(4,344)	(3,661)	52,260
Changes in operating assets and liabilities that provide (use) cash:			
Accounts receivable	10,727	(5,638)	(9,350)
Inventory	2,812	(7,251)	(9,168)
Prepaid expenses and other assets	(3,833)	(11,592)	(7,156)
Accounts payable, accrued expenses, and other liabilities	10,772	7,214	10,818
Accrual for loss contracts related to service	(8,227)	—	—
Deferred revenue	4,684	8,374	2,746
Net cash used in operating activities	(29,636)	(47,274)	(40,780)
Cash Flows From Investing Activities:			
Purchases of property, plant and equipment	(2,743)	(3,520)	(1,413)
Purchases for construction of leased property	(55,332)	—	—
Net cash acquired in purchase acquisitions	—	1,496	414
Proceeds from disposal of property, plant and equipment and leased property	—	—	34
Net cash used in investing activities	(58,075)	(2,024)	(965)
Cash Flows From Financing Activities:			

Change in restricted cash	(6,787)	(47,335)	—
Proceeds from exercise of warrants	111	25	18,340
Proceeds from issuance of preferred stock and warrants	17,020	—	—
Preferred stock issuance costs	(1,426)	—	—
Purchase of treasury stock	(182)	(247)	(603)
Proceeds from issuance of common stock and warrants	13,000	—	176,700
Common stock issuance costs	(1,060)	—	(10,977)
Proceeds from exercise of stock options	102	167	240
Proceeds from short-term borrowing, net of transaction costs	23,673	—	—
Principal payments on short-term borrowing	(25,000)	—	—
Proceeds from borrowing of long-term debt, net of transaction costs	47,400	—	—
Principal payments on long-term debt	(25,000)	—	—
Increase in finance obligations	28,034	14,467	(777)
Net cash provided by (used in) financing activities	69,885	(32,923)	182,923
Effect of exchange rate changes on cash	(121)	(23)	—
Decrease in cash and cash equivalents	(17,947)	(82,244)	141,178
Cash and cash equivalents, beginning of period	63,961	146,205	5,027
Cash and cash equivalents, end of period	$ 46,014	$ 63,961	$ 146,205
Other Supplemental Cash Flow Information:			
Cash paid for interest	$ 8,263	$ 553	$ 433
Noncash investing activity-issuance of common stock for acquisitions	$ —	$ 14,459	$ 4,000

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

1. Nature of Operations

Description of Business

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

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

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

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

GenFuel: GenFuel is our hydrogen fueling delivery system;

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

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

utility sectors;

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

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

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

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

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

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

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Notes to Consolidated Financial Statements (Continued)

Liquidity

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

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

During the year ended December 31, 2016, cash used in operating activities was $29.6 million, consisting primarily of a net loss attributable to the Company of $57.5 million, offset by the impact of noncash charges/gains of $10.9 million and net inflows from fluctuations in working capital and other assets and liabilities of $16.9 million. The changes in working capital primarily were related to collections of accounts receivable and managing of accounts payable, offset by consumption against the accrual for loss contracts related to service. As of December 31, 2016, we had cash and cash equivalents of $46.0 million and net working capital of $44.4 million. By comparison, at December 31, 2015, we had cash and cash equivalents of $64.0 million and net working capital of $88.5 million.

Net cash used in investing activities for the year ended December 31, 2016, totaled $58.1 million and included purchases of property, plant and equipment and outflows associated with materials, labor, and overhead necessary to construct new leased property. Cash outflows related to equipment that we sell and equipment we lease directly to customers are included in net cash used in operating activities and net cash used in investing activities, respectively.

During the year ended December 31, 2016, we generated $69.9 million in cash flows from financing activities, primarily comprised of increases in finance obligations, borrowings against short and long-term loan agreements, as described in Notes 9 and 10, Short-Term Borrowing and Long-Term Debt, and proceeds from the issuance of common and preferred stock and warrants, as described in Notes 12 and 13, Stockholders' Equity and Redeemable Preferred Stock, offset by an increase in restricted cash and payments on short-term borrowing and long-term debt.

Prior to 2016, the Company signed sale/leaseback agreements with various financial institutions to facilitate the Company's commercial transactions with key customers. The Company had sold certain fuel cell systems and hydrogen infrastructure to the financial institutions, and leased the equipment back to support certain customer locations and to fulfill its varied PPAs. In connection with these operating leases, the financial institutions require the Company to maintain cash balances in restricted accounts securing the Company's lease obligations. Cash received from customers under the PPAs is used to make lease payments. As the Company performs under these agreements, the required restricted cash balances are released, according to a set schedule. The total remaining lease payments to financial institutions under these agreements was $53.6 million which has been fully secured with restricted cash and pledged service escrows.

Notes to Consolidated Financial Statements (Continued)

The master lease agreement with one of the financial institutions required the Company to maintain a minimum balance of unrestricted cash. This requirement was removed in October 2016, when the Company elected to pledge additional cash collateral of $12.0 million. The Company's remaining contractual lease payments to this financial institution are fully secured through a combination of restricted cash and pledges on funds escrowed for future service by the Company.

During the year ended December 31, 2016, cash flows from financing activities included short-term borrowings and long-term debt, which are described more fully in Notes 9 and 10, Short-Term Borrowing and Long-Term Debt, respectively. On March 2, 2016, the Company entered into a loan agreement with Generate Lending, LLC., pursuant to which $25.0 million was borrowed upon closing and issuance costs of $1.3 million were incurred. On June 27, 2016, this borrowing was converted to long-term project financing from the same lender. On June 27, 2016, the Company borrowed $25.0 million under a loan agreement with Hercules Capital, Inc., and incurred related issuance costs of $1.4 million. On December 22, 2016 the Company repaid the loan in full. On December 23, 2016, the Company, entered into a loan and security agreement with NY Green Bank, borrowing $25.0 million under a loan agreement on the date of closing and issuance costs of $1.2 million were incurred.

During 2016, we received gross proceeds of $30.0 million from underwritten public offerings of our common stock and preferred stock as well as warrants to purchase additional shares of common stock. Net proceeds after underwriting discounts and commissions and other fees and expenses were $27.5 million. During 2014, we received gross proceeds of $176.7 million from three underwritten public offerings. Net proceeds after underwriting discounts and commissions and other fees and expenses were $165.7 million. In addition, during 2014, we received $18.3 million from the exercise of previously issued common stock warrants.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Revenue Recognition

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

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

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

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

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

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

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

In a vast majority of its commercial transactions, the Company sells extended maintenance contracts that generally provide for a five to ten year warranty from the date of product installation. These types of contracts are accounted for as a separate deliverable, and accordingly, revenue generated from these transactions is deferred and recognized in income over the warranty period, generally on a straight-line basis. Additionally, the Company may enter into annual service and extended maintenance contracts that are billed monthly. Revenue generated from these transactions is recognized in income on a straight-line basis over the term of the contract. Costs are recognized as incurred over the term of the contract. When costs are projected to exceed revenues on the life of the contract, an accrual for loss contracts is recorded. Costs are estimated based upon historical experience, contractual agreements and the estimated impact of the Company's cost reduction initiatives. The actual results may differ from these estimates.

Power Purchase Agreements

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

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

All PPAs entered into through December 31, 2015 had corresponding sale-leaseback transactions with third-party financial institutions which were required to be accounted for as operating leases in accordance with ASC Subtopic 840-40. The Company has rental expense associated with sale/leaseback agreements with financial institutions that were

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Notes to Consolidated Financial Statements (Continued)

entered into commensurate with the PPAs. Rental expense is recognized on a straight-line basis over the life of the agreements and is characterized as cost of PPA revenue on the accompanying consolidated statement of operations.

Fuel Delivered to Customers

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

Research and Development Contracts

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

Cash Equivalents

Cash equivalents consist of money market accounts with an initial term of less than three months. At December 31, 2016, 2015 and 2014, cash equivalents consist of money market accounts. For purposes of the consolidated statements of cash flows, the Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company’s cash and cash equivalents are deposited with financial institutions located in the U.S. and may at times exceed insured limits.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers and are ordinarily due between 30 and 60 days after the issuance of the invoice. Receivables are reserved or written off based on individual credit evaluation and specific circumstances of the customer. The allowance for doubtful accounts and related receivable are reduced when the amount is deemed uncollectible. As of December 31, 2016 and 2015, the allowance for doubtful accounts was zero.

Inventory

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or market. All inventory, including spare parts inventory held at service locations, is not relieved until the customer has received the product, at which time the risks and rewards of ownership have transferred.

Property, Plant and Equipment

Property, plant and equipment are originally recorded at cost or, if acquired as part of business combination, at fair value. Maintenance and repairs are expensed as costs are incurred. Depreciation on plant and equipment, which includes depreciation on the Company’s facility that is accounted for as a financing obligation, is calculated on the straight-line method over the estimated useful lives of the assets. The Company records depreciation and amortization over the following estimated useful lives:

Buildings	20 years
Building improvements	5 20 years
Software, machinery and equipment	1 15 years

Gains and losses resulting from the sale of property and equipment are recorded in current operations.

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Leased Property

Leased property primarily consists of the cost of assets deployed related to capital leases. Depreciation expense is recorded on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset, generally six years, and is included in cost of revenue for PPAs in the accompanying consolidated statements of operations.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, leased property and purchased intangibles subject to amortization, are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary. Assets to be disposed of and considered held for sale would be separately presented in the consolidated 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 consolidated balance sheet.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually.

The Company has the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required.

The Company performs its annual impairment review of goodwill at December 1, and when a triggering event is determined to have occurred between annual impairment tests. For the year ended December 31, 2016, the Company performed a qualitative assessment of goodwill for its single reporting unit based on market capitalization, and determined that it is not more likely than not that the fair value of its reporting unit is less than the carrying amount. Accordingly, no impairment loss was recorded in 2016.

Intangible Assets

Intangible assets consist of acquired technology, customer relationships and trademarks, and are amortized using a straight-line method over their useful lives of 5 - 10 years. Additionally, the intangible assets are reviewed for impairment when certain triggering events occur.

Product Warranty Reserve

Aside from when included in the sale of an extended maintenance contract, the Company provides a one to two year standard product warranty to customers from date of installation of GenDrive units, and the GenSure sales generally include a two year standard product warranty. We currently estimate the costs of satisfying warranty claims based on an analysis of past experience and provide for future claims in the period the revenue is recognized. Factors that affect our warranty liability include the number of installed units, estimated material costs, estimated travel, and labor costs. The warranty reserve is included within the other current liabilities on the accompanying consolidated balance sheet.

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Notes to Consolidated Financial Statements (Continued)

Common Stock Warrant Accounting

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

Redeemable Preferred Stock

We account for redeemable preferred stock as temporary equity in accordance with applicable accounting guidance in FASB ASC Topic 480, Distinguishing Liabilities from Equity. Dividends on the redeemable preferred stock are accounted for as an increase in the net loss attributable to common shareholders.

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 basis 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 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.

The Company accounts for uncertain tax positions in accordance with FASB ASC No. 740-10-25, Income Taxes-Overall-Recognition. The Company recognizes in its consolidated financial statements the impact of a tax position only if that position is more likely than not to be sustained on audit, based on the technical merits of the position.

Foreign Currency Translation

Foreign currency translation adjustments arising from conversion of the Company's foreign subsidiary's financial statements to U.S. dollars for reporting purposes are included in accumulated other comprehensive income in stockholders' equity on the accompanying consolidated balance sheets. Transaction gains and losses resulting from the effect of exchange rate changes on transactions denominated in currencies other than the functional currency of the Company's operations give rise to realized foreign currency transaction gains and losses, and are included in interest and other income and interest and other expense, respectively, in the accompanying consolidated statements of operations.

Research and Development

Costs related to research and development activities by the Company are expensed as incurred.

Stock-Based Compensation

The Company maintains employee stock-based compensation plans, which are described more fully in Note 14, Employee Benefit Plans.

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Notes to Consolidated Financial Statements (Continued)

Stock-based compensation represents the cost related to stock-based awards granted to employees and directors. The Company measures stock-based compensation cost at grant date, based on the fair value of the award, and recognizes the cost as expense on a straight-line basis over the option's requisite service period.

The Company estimates the fair value of stock-based awards using a Black-Scholes valuation model. Stock-based compensation expense is recorded in cost of revenue associated with sales of fuel cell systems and related infrastructure, cost of revenue for services performed on fuel cell systems and related infrastructure, research and development expense and selling, general and administrative expenses in the accompanying consolidated statements of operations based on the employees' respective function.

The Company records deferred tax assets for awards that result in deductions on the Company's income tax returns, based upon 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 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. Excess tax benefits are recognized in the period in which the tax deduction is realized through a reduction of taxes payable. No tax benefit or expense for stock-based compensation has been recorded during the years ended December 31, 2016, 2015 and 2014 since the Company remains in a net operating loss (NOL) position.

Per Share Amounts

Basic earnings per common share are computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options, unvested restricted stock, common stock warrants, and preferred stock) were exercised or converted into common stock or resulted in the issuance of common stock (net of any assumed repurchases) that then shared in the earnings of the Company, if any. This is computed by dividing net earnings by the combination of dilutive common share equivalents, which is comprised of shares issuable under outstanding warrants, the conversion of preferred stock, and the Company's share-based compensation plans, and the weighted average number of common shares outstanding during the reporting period. Since the Company is in a net loss position, all common stock equivalents would be considered to be anti-dilutive and are, therefore, not included in the determination of diluted earnings per share. Accordingly, basic and diluted loss per share are the same.

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

	Year ended December 31,		
	2016	2015	2014
Numerator:			
Net loss attributable to common shareholders	$ (57,591)	$ (55,795)	$ (88,644)
Denominator:			
Weighted average number of common shares outstanding	180,619,860	176,067,231	159,228,815

The dilutive potential common shares are summarized as follows:

	At December 31,		
	2016	2015	2014
Stock options outstanding (1)	14,760,054	11,700,786	8,367,271
Restricted stock outstanding	13,333	204,444	473,336
Common stock warrants (2)	14,501,600	4,192,567	4,219,449
Preferred stock (3)	17,490,078	5,554,594	5,554,594
Number of dilutive potential common shares	46,765,065	21,652,391	18,614,650

(1) During the years ended December 31, 2016, 2015, and 2014 the Company granted 3,702,500, 3,960,000 and 4,245,000 stock options, respectively.

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Notes to Consolidated Financial Statements (Continued)

(2) In May 2011, the Company issued 7,128,563 warrants as part of an underwritten public offering with an exercise price of $0.93 per warrant. As a result of additional public offerings, and pursuant to the effect of the anti-dilution provisions of these warrants, the number of warrants increased to 22,995,365. Of these warrants issued in May 2011, zero, 192,467, and 219,349 were unexercised as of December 31, 2016, 2015, and 2014 respectively.

In February 2013, the Company issued 23,637,500 warrants as part of an underwritten public offering with an exercise price of $0.15 per warrant. Of these warrants issued in February 2013, 100 were unexercised as of December 31, 2016, 2015 and 2014.

In January 2014, the Company issued 4,000,000 warrants as part of an underwritten public offering with an exercise price of $4.00 per warrant. In December 2016, as a result of additional public offerings, and pursuant to the effect of the anti-dilution provisions of these warrants, the exercise price of the $4.00 warrants was reduced to $1.025. Of these warrants issued in January 2014, none have been exercised as of December 31, 2016, 2015 and 2014.

In December 2016, the Company issued 10,501,500 warrants as part of two concurrent underwritten public offerings with an exercise price of $1.50 per warrant. Of these warrants issued in December 2016, none have been exercised as of December 31, 2016. All warrants have anti-dilution provisions.

(3) The preferred stock amount represents the dilutive potential common shares of the Series C and D redeemable preferred stock, based on the conversion price of the preferred stock as of December 31, 2016, 2015 and 2014, respectively. Of the 10,431 Series C redeemable preferred stock issued on May 16, 2013, 5,200 had been converted to common stock during the year ended December 31, 2013 with the remainder still outstanding. Of the 18,500 Series D redeemable preferred stock issued on December 22, 2016, zero have been converted to common stock as of December 31, 2016.

Use of Estimates

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

The determination of whether loss contracts exist is a significant estimate. During 2015, the Company recorded a provision for loss contracts related to service, as discussed in Note 11, Warranty Reserve and Accrual for Loss Contracts Related to Service.

Reclassifications

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

Subsequent Events

The Company evaluates subsequent events at the date of the balance sheet as well as conditions that arise after the balance sheet date but before the consolidated financial statements are issued. The effects of conditions that existed at the balance sheet date are recognized in the consolidated financial statements. Events and conditions arising after the balance sheet date but before the consolidated financial statements are issued are evaluated to determine if disclosure is required to keep the consolidated financial statements from being misleading. To the extent such events and conditions exist, if any, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions.

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Notes to Consolidated Financial Statements (Continued)

Recent Accounting Pronouncements

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

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

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

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

In March 2016, an accounting update was issued to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This accounting update is effective for annual periods beginning after December 15, 2016, and interim periods within those periods. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements

In March 2016, an accounting update was issued to simplify various aspects related to how share-based payments are accounted for and presented. This accounting update is effective for annual periods beginning after December 15, 2016 and interim periods within those years. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements.

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

In July 2015, an accounting update was issued that changes inventory measurement from lower of cost or market to lower of cost and net realizable value. The new standard applies to inventory measured at first-in, first-out (FIFO). This accounting update is effective for the reporting periods beginning after December 15, 2016, and interim periods within those years. The Company does not expect the adoption of this update to have a significant effect on the consolidated financial statements.

In August 2014, an accounting update was issued relating to how management assesses conditions and events that could raise substantial doubt about an entity's ability to continue as a going concern. This accounting update was adopted as of December 31, 2016 and did not have a significant effect on the consolidated financial statements.

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Notes to Consolidated Financial Statements (Continued)

In June 2014, an accounting update was issued that replaces the existing revenue recognition framework regarding contracts with customers. In July 2015, the FASB announced a one year delay in the required adoption date from January 1, 2017 to January 1, 2018. The Company has established an internal implementation team to oversee the adoption of the new standard. To date the Company has identified relevant arrangements and performance obligations and is assessing the impact of the new guidance. Evaluation is ongoing and it is too early to provide an assessment of the impact. The Company anticipates providing information about the impacts of adoption in the coming quarters. The Company is also evaluating whether to adopt the guidance using the full or modified retrospective basis, and will likely make that determination during the first half of 2017.

3. Acquisitions

HyPulsion

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

The Company acquired all of the net assets of HyPulsion, with the excess of the purchase price over net assets attributed to goodwill. Goodwill associated with the acquisition represents expanded access to the European markets related to the sale of fuel cell technology for material handling equipment. During the year ended December 31, 2016, changes in goodwill are attributed to foreign currency translation and, to a lesser extent, changes to estimated fair values of acquired assets and liabilities upon completion of purchase accounting. During the year ended December 31, 2015, changes in goodwill are attributed to foreign currency translation.

ReliOn, Inc.

On April 2, 2014, the Company completed the acquisition of ReliOn, Inc. ("ReliOn") for an aggregate purchase price of $4.0 million. The Company acquired substantially all of the assets of ReliOn, including patents, technology and other

intangible assets, equipment and other tangible assets. ReliOn is a developer of hydrogen fuel cell stack technology based in Spokane, Washington. As consideration, the Company issued 530,504 shares of common stock, and assumed certain specified liabilities of ReliOn. The total purchase price is based on the issuance of 530,504 shares of Plug Power common stock at the closing price of the Company's stock on April 1, 2014 of $7.54. Upon closing of the acquisition, the Company reported a gain on bargain purchase of $1.0 million and it has been included within interest and other (expense) income, net on the consolidated statements of operations.

4. Inventory

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

	December 31, 2016	December 31, 2015
Raw materials and supplies	$ 26,298	$ 23,705
Work-in-process	1,865	5,567
Finished goods	1,777	3,480
	$ 29,940	$ 32,752

Raw materials and supplies includes spare parts inventory held at service locations valued at approximately $3.3 million and $2.2 million as of December 31, 2016 and 2015, respectively.

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Notes to Consolidated Financial Statements (Continued)

5. Property, Plant and Equipment

Property, plant and equipment at December 31, 2016 and 2015 consist of the following (in thousands):

	December 31, 2016	December 31, 2015
Land	$ 90	$ 90
Buildings	15,332	15,332
Building improvements	5,221	5,169
Software, machinery and equipment	17,269	14,634
	37,912	35,225
Less: accumulated depreciation	(29,666)	(27,970)
Property, plant, and equipment, net	$ 8,246	$ 7,255

Depreciation expense related to property, plant and equipment was $1.8 million, $1.5 million, and $1.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

6. Leased Property

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

	December 31, 2016	December 31, 2015
Leased property	$ 58,604	$ 3,367
Less: accumulated depreciation	(4,544)	(1,700)
Leased property, net	$ 54,060	$ 1,667

Depreciation expense related to leased property was $2.9 million, $0.5 million, and $0.5 million the years ended December 31, 2016, 2015 and 2014, respectively.

7. Intangible Assets

The gross carrying amount and accumulated amortization of the Company's acquired identifiable intangible assets as of December 31, 2016 are as follows (in thousands):

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Total
Acquired technology	9 years	$ 4,645	(928)	3,717
Customer relationships	10 years	260	(71)	189
Trademark	5 years	60	(33)	27
		$ 4,965	$ (1,032)	$ 3,933

The gross carrying amount and accumulated amortization of the Company's acquired identifiable intangible assets as of December 31, 2015 are as follows (in thousands):

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Total
Acquired technology	9 years	$ 4,793	$ (403)	$ 4,390
Customer relationships	10 years	260	(45)	215
Trademark	5 years	60	(21)	39
		$ 5,113	$ (469)	$ 4,644

The change in the gross carrying amount of the acquired technology from December 31, 2015 to December 31, 2016 is due to changes attributed to foreign currency translation.

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Notes to Consolidated Financial Statements (Continued)

Amortization expense for acquired identifiable intangible assets for the years ended December 31, 2016, 2015, and 2014 was $0.6 million, $1.0 million, and $2.4 million, respectively. Estimated amortization expense for subsequent years is as follows (in thousands):

2017	$ 568
2018	568
2019	461
2020	425
2021	425
Thereafter	1,486
Total	$ 3,933

8. Accrued Expenses

Accrued expenses at December 31, 2016 and 2015 consist of (in thousands):

	2016	2015
Accrued payroll and compensation related costs	$ 1,924	$ 3,896
Accrued accounts payable	2,044	2,444
Accrued sales and other taxes	2,508	1,490
Accrued litigation	1,008	1,077
Accrued other	1,035	945
Total	$ 8,519	$ 9,852

9. Short-Term Borrowing

On March 2, 2016, the Company entered into a loan agreement with Generate Lending, LLC (the Generate Lending Loan Agreement). The Generate Lending Loan Agreement, among other things, provided for a $30 million secured term loan facility (the Short-Term Loan Facility). Advances under the Short-Term Loan Facility bore interest at the rate of 12.0% per annum. The term of the Generate Lending Loan Agreement was one year, ending March 2, 2017. Pursuant to the Generate Lending Loan Agreement, $25.0 million of the Short-Term Loan Facility was drawn upon at closing. On June 27, 2016, the Short-Term Loan Facility was converted to long-term project financing from the same lender. That financing was accounted for as a series of capital leases, the obligation of which is now presented as part of finance obligations on the accompanying consolidated balance sheet, as discussed in Note 17, Commitments and Contingencies.

10. Long-Term Debt

NY Green Bank Loan

On December 23, 2016, the Company, and its subsidiaries Emerging Power Inc. and Emergent Power Inc. entered into a loan and security agreement with NY Green Bank, a Division of the New York State Energy Research & Development Authority, (NY Green Bank), pursuant to which NY Green Bank made available to the Company a secured term loan facility in the amount of $25.0 million (Term Loan Facility), subject to certain terms and conditions. The Company borrowed $25.0 million upon closing and incurred costs of $1.2 million. At December 31, 2016, the outstanding principal balance under the Term Loan Facility was $25.0 million. The fair value of the Term Loan Facility approximates the carrying value as of December, 31, 2016.

Advances under the Term Loan Facility bear interest at a rate equal to the sum of (i) the LIBOR rate for the applicable interest period, plus (ii) the credit default swap index coupon for the applicable interest period, plus (iii) 6.00% per annum. The interest rate at December 31, 2016 was approximately 11.3%. The term of the loan is three years, with a maturity date of December 23, 2019. Estimated principal payments will approximately be $3.0 million, $8.4 million, and

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Notes to Consolidated Financial Statements (Continued)

$13.6 million during the years ended December 31, 2017, 2018, and 2019, respectively. These payments will be funded by restricted cash released, as described in Note 17, Commitments and Contingencies.

Interest and a varying portion of the principal amount is payable on a quarterly basis and the entire then outstanding principal balance of the Term Loan Facility, together with all accrued and unpaid interest, is due and payable on the maturity date. On the maturity date, the Company may also be required to pay additional fees of up to $1.0 million if the Company is unable to meet certain goals related to the deployment of fuel cell systems in the State of New York and increasing the Company's number of full-time employees in the State of New York.

The Term Loan Facility is secured by substantially all of the Company's and the guarantor subsidiaries' assets, including, among other assets, all intellectual property, all securities in domestic subsidiaries and 65% of the securities in foreign subsidiaries, subject to certain exceptions and exclusions.

The Term Loan Facility contains covenants, including, among others, (i) the provision of annual and quarterly financial statements, management rights and insurance policies and (ii) restrictions on incurring debt, granting liens, making acquisitions, making loans, paying dividends, dissolving, and entering into leases and asset sales. The Term Loan Facility also provides for events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control, judgment and material adverse effect defaults at the discretion of the lender.

The Term Loan Facility provides that if there is an event of default due to the Company's insolvency or if the Company fails to perform, in any material respect, the servicing requirements for fuel cell systems under certain customer agreements, which failure would entitle the customer to terminate such customer agreement, replace the Company or withhold the payment of any material amount to the Company under such customer agreement, then the NY Green Bank has the right to cause a wholly owned subsidiary of the Company to replace the Company in performing the maintenance services under such customer agreement.

Hercules Capital, Inc. Loan

On June 27, 2016, Plug Power Inc. and its subsidiaries Emerging Power Inc. and Emergent Power Inc. entered into a loan and security agreement with Hercules Capital, Inc. (Hercules) pursuant to which Hercules agreed to make available to the Company a secured term loan facility in the amount of up to $40.0 million (the Hercules Term Loan Facility), subject to certain terms and conditions. The Company borrowed $25.0 million on the date of closing and

incurred transaction costs of $1.4 million.

On December 22, 2016, the Company prepaid in full its obligations under the Hercules Loan and Security Agreement and the Hercules Term Loan Facility was terminated. The Company used the net proceeds of preferred and common stock public offerings, together with existing cash, to repay the principal amount outstanding under the Hercules Term Loan Facility of $25.0 million and pay the interest, fees and expenses related to such repayment of $4.0 million. In addition, the Company recorded accelerated amortization of debt issuance costs of $1.1 million. The interest, fees, expenses and amortization have been included within interest and other (expense) income, net on the consolidated statements of operations.

9.

11. Warranty Reserve and Accrual for Loss Contracts Related to Service

The following table summarizes product warranty activity recorded during the years ended December 31, 2016 and 2015 (in thousands):

	December 31, 2016	December 31, 2015
Beginning balance - January 1	$ 406	$ 1,311
Additions for current period deliveries	42	230
Reductions for payments made	(263)	(1,135)
Ending balance - December 31	$ 185	$ 406

Management has projected estimated service costs related to GenCare extended maintenance contracts and determined that certain loss contracts exist. A variety of assumptions are included in the estimates of future service costs,

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Notes to Consolidated Financial Statements (Continued)

including the life of parts, failure rates of parts, and future costs of parts and labor. As a result, the Company has an accrual for loss contracts related to service of $0.8 million and $10.1 million, as of December 31, 2016 and 2015, respectively. During the year ended December 31, 2016, the Company renegotiated one of these service contracts. As a result, the projected costs over the remaining life of the amended contract were estimated to be reduced and the Company recognized a gain within cost of revenue where the original charge was recorded.

The following table summarizes activity related to the accrual for loss contracts related to service during the years ended December 31, 2016 and 2015 (in thousands):

	December 31, 2016	December 31, 2015
Beginning balance - January 1	$ 10,050	$ —
Provision	(1,071)	10,050
Reductions for losses realized	(8,227)	—
Ending balance - December 31	$ 752	$ 10,050

12. Stockholders’ Equity

Preferred Stock

The Company has authorized 5.0 million shares of preferred stock, par value $0.01 per share. The Company’s certificate of incorporation provides that shares of preferred stock may be issued from time to time in one or more series. The Company’s Board of Directors is authorized to fix the voting rights, if any, designations, powers, preferences, qualifications, limitations and restrictions thereof, applicable to the shares of each series.

The Company has authorized Series A Junior Participating Cumulative Preferred Stock, par value $.01 per share. As of December 31, 2016 and 2015, there were no shares of Series A Junior Participating Cumulative Preferred Stock issued and outstanding. See Note 13, Redeemable Preferred Stock, for description of the Company’s issued and outstanding Series C and D redeemable preferred stock.

Common Stock and Warrants

The Company has one class of common stock, par value $0.01 per share. Each share of the Company's common stock is entitled to one vote on all matters submitted to stockholders. There were 191,141,646 and 180,087,491 shares of common stock outstanding as of December 31, 2016 and 2015, respectively.

In December 2016, the Company completed an offering of an aggregate of 10,400,000 shares of common stock, and warrants to purchase 3,120,000 shares of common stock. The net proceeds to the Company were approximately $11.9 million, after deducting underwriting discounts and commissions and expenses payable by the Company. Each full warrant entitles the holder thereof to purchase one share of common stock at an exercise price equal to $1.50 per share. The warrants will be exercisable during the period commencing on the six-month anniversary of the date of original issuance and ending on June 21, 2022. The Company also entered into an underwriting agreement with Oppenheimer & Co. Inc., related to the underwritten registered offering of the Company's Series D Redeemable Preferred Stock, which included the issuance of warrants to purchase 7,381,500 shares of common stock, as discussed in Note 13, Redeemable Preferred Stock.

During 2014, the Company completed a series of underwritten public offerings, aggregating to issuances of 36,502,440 shares of common stock. The share prices ranged from $5.50 to $5.74 with respect to 26,502,440 of the shares. One of the underwritten public offerings included accompanying warrants to purchase 4,000,000 shares of common stock. The shares and the warrants were sold together in a fixed combination, with each combination consisting of one share of common stock and 0.40 of a warrant to purchase one share of common stock, at a price of $3.00 per fixed combination for 10,000,000 shares. The total net proceeds to the Company from the 2014 public offerings were $165.7 million, of which $11.8 million in value was ascribed to the warrants issued in the January 2014 public offering. The warrants had an initial exercise price of $4.00 per share, were immediately exercisable and will expire on January 15, 2019. Due to the anti-dilutive provision, the exercise price of the warrants decreased to $1.025 per share in December 2016.

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Notes to Consolidated Financial Statements (Continued)

During 2013, the Company completed a series of underwritten public offerings. One of the underwritten public offerings included accompanying warrants to purchase common stock. As of December 31, 2016 and 2015, 100 warrants with an exercise price of $0.15 per share, remain outstanding, are exercisable and will expire in February 2018.

During the years ended December 31, 2016, 2015 and 2014, 119,879, 26,882 and 23,918,429 warrants were exercised, respectively, resulting in the issuance of shares of common stock of 119,879, 26,882 and 23,832,038, respectively, and gross proceeds of $111 thousand, $25 thousand, $18.3 million, respectively, and increase of paid-in capital and reduction of the warrant liability by $141 thousand, $22 thousand and $83.4 million, respectively. At December 31, 2016 and 2015, the Company has 14,501,600 and 4,192,567 warrants outstanding and exercisable. The warrants are measured at fair value and classified as a liability on the consolidated balance sheets.

13. Redeemable Preferred Stock

In December 2016, the Company completed an offering of an aggregate of 18,500 shares of the Company's Series D Redeemable Preferred Stock, par value $0.01 per share and warrants to purchase 7,381,500 shares of common stock. The net proceeds to the Company were approximately $15.6 million, after deducting underwriting discounts and commissions and estimated expenses payable by the Company. The terms and conditions of the warrants issued pursuant to the preferred share offering are identical to the warrants issued pursuant to the common share offering (see Note 12, Stockholders' Equity). The Company is required to redeem the Series D Redeemable Preferred Stock in ten monthly installments in the amount of $1.9 million each from January 2017 through October 2017.

Each share of Series D Redeemable Preferred Stock was issued with an initial stated value of $1,000 per share. Over the first ten months of 2017, the Series D Redeemable Preferred Stock will be redeemed in ten equal installments of $1.9 million. The Company is required to elect, on a monthly basis, whether it will redeem or convert the required installment. Should the Company elect to redeem, the shares are valued at the stated value. Should the Company elect to convert, the holder of the shares will receive common stock, with a conversion price discounted at 12% of market value. Also, the holders of the shares, at any time, may elect to convert all or any whole amount of shares, using a conversion price of $1.55. Conversion prices become more discounted upon a change in control, remote triggering events, or failure to make a redemption payment.

Except for our Series C Redeemable Preferred Stock, which shall rank senior to the Series D Redeemable Preferred Stock as to dividends, distributions and payments upon the Company's liquidation, dissolution and winding up, and subject to the issuance of capital stock that is of senior or pari-passu rank to the preferred shares, all shares of our capital stock, including our common stock, shall be junior in rank to all preferred shares with respect to dividends,

distributions and payments upon our liquidation, dissolution and winding up or any capital stock that has a maturity date or other date requiring redemption or repayment prior to the maturity date of the preferred stock.

Holders of the Series D Redeemable Preferred Shares are not entitled to receive dividends except in connection with certain purchase rights and other corporate events, as described in the certificate of designations, or in connection with certain distributions of assets, as described in the certificate of designations, or as, when and if declared by the Company's Board of Directors acting in its sole and absolute discretion. Holders of Series D Redeemable Preferred Shares shall have no voting rights, except on matters required by law or under the certificate of designations to be submitted to a class vote of the holders of the Series D Redeemable Preferred Shares.

On May 8, 2013, the Company entered into a Securities Purchase Agreement with Air Liquide, pursuant to which the Company agreed to issue and sell 10,431 shares of the Company's Series C Redeemable Preferred Stock. On August 26, 2014, Air Liquide acquired 5,521,676 shares of Common Stock by converting 5,200 shares of Series C Redeemable Preferred Stock at the conversion price of $0.2343. Following the conversion, Air Liquide continues to own 5,231 shares of Series C Redeemable Preferred Stock. The holder of these shares is entitled to designate one director to the Company's Board of Directors. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, or other deemed liquidation event, as defined in the Securities Purchase Agreement, the holder of the Series C Redeemable Preferred Stock will be entitled to be paid an amount per share equal to the greater of (i) the original issue price, plus any accrued but unpaid dividends or (ii) the amount per share that would have been payable had all shares of the Series C Redeemable Preferred Stock been converted to shares of common stock immediately prior to such liquidation event. The

Series C Redeemable Preferred Stock is redeemable at the election of the holder of the Series C Redeemable Preferred Stock or the Company.

The holder of the Series C Redeemable Preferred Stock is entitled to receive dividends at a rate of 8% per annum, based on the original issue price of $2,595,400, payable in equal quarterly installments in cash or in shares of Common Stock, at the Company's option. During the years ended December 31, 2016, 2015 and 2014 dividends have been paid in the form of shares of Common Stock. The Series C Redeemable Preferred Stock is convertible into shares of Common Stock with the number of shares of Common Stock issuable upon conversion determined by dividing the original issue price of $2,595,400 by the conversion price in effect at the time the shares are converted. The conversion price of the Series C Redeemable Preferred Stock as of December 31, 2016 and 2015 was $0.2343. The Series C Redeemable Preferred Stock votes together with the Common Stock on an as-converted basis on all matters.

14. Employee Benefit Plans

2011 Stock Option and Incentive Plan

On May 12, 2011, the Company's stockholders approved the 2011 Stock Option and Incentive Plan (the 2011 Plan). The 2011 Plan provides for the issuance of up to a maximum number of shares of common stock equal to the sum of (i) 1,000,000, plus (ii) the number of shares of common stock underlying any grants pursuant to the 2011 Plan or the Plug Power Inc. 1999 Stock Option and Incentive Plan that are forfeited, canceled, repurchased or are terminated (other than by exercise). The shares may be issued pursuant to stock options, stock appreciation rights, restricted stock awards and certain other equity-based awards granted to employees, directors and consultants of the Company. No grants may be made under the 2011 Plan after May 12, 2021. Through various amendments to the 2011 Plan approved by the Company's stockholders, the number of shares of the Company's common stock authorized for issuance under the 2011 Plan has been increased to 17.0 million. For the years ended December 31, 2016, 2015, and 2014, the Company recorded expense of approximately $9.0 million, $7.5 million, and $3.6 million, respectively, in connection with the 2011 Stock Option and Incentive Plan.

At December 31, 2016, there were approximately 14.8 million options granted and outstanding and 1.0 million options available to be issued under the 2011 Plan, including adjustments for other types of share-based awards. Options for employees issued under this plan generally vest in equal annual installments over three years and expire ten years after issuance. Options granted to members of the Board generally vest one year after issuance. To date, options granted under the 2011 Plan have vesting provisions ranging from one to three years in duration and expire ten years after issuance.

Compensation cost associated with employee stock options represented approximately $9.0 million, $7.5 million and $3.4 million of the total share-based payment expense recorded for the years ended December 31, 2016, 2015, and 2014, respectively. The Company estimates the fair value of stock options using a Black-Scholes valuation model, and the resulting fair value is recorded as compensation cost on a straight-line basis over the option vesting period. Key inputs and assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the Company's stock, an appropriate risk-free rate, and the Company's dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company. The assumptions made for purposes of estimating fair value under the Black-Scholes model for the 3,702,500, 3,960,000 and 4,246,000 options granted during the years ended December 31, 2016, 2015 and 2014, respectively, were as follows:

	2016	2015	2014
Expected term of options (years)	6	6	6
Risk free interest rate	1.27% - 1.69%	1.52% - 1.87%	1.77% - 1.94%
Volatility	103.87% - 104.88%	104.03% - 105.29%	107.17% - 113.92%

There was no expected dividend yield for the employee stock options granted.

The Company's estimate of an expected option term was calculated in accordance with the simplified method for calculating the expected term assumption. The estimated stock price volatility was derived from the Company's actual historic stock prices over the past six years, which represents the Company's best estimate of expected volatility.

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Notes to Consolidated Financial Statements (Continued)

A summary of stock option activity for the year December 31, 2016 is as follows (in thousands except share amounts):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value
Options outstanding at December 31, 2015	11,700,786	$ 3.29	8.3	
Granted	3,702,500	1.72		
Exercised	(274,000)	0.37		
Forfeited	(347,482)	2.91		
Expired	(21,750)	49.18		
Options outstanding at December 31, 2016	14,760,054	$ 2.90	7.9	$ 878
Options exercisable at December 31, 2016	7,368,564	3.28	7.0	878
Options unvested at December 31, 2016	7,391,490	$ 2.52	8.9	—

The weighted average grant date fair value of options granted during the years ended December 31, 2016, 2015 and 2014 was $1.39, $1.99, and $4.05, respectively. As of December 31, 2016, there was approximately $11.0 million of unrecognized compensation cost related to stock option awards to be recognized over the next three years, all of this is expected to vest. The total fair value of stock options that vested during the years ended December 31, 2016 and 2015 was approximately $8.6 million and $6.1 million, respectively.

Restricted stock awards generally vest in equal installments over a period of one to three years. Restricted stock awards are valued based on the closing price of the Company’s common stock on the date of grant, and compensation cost is recorded on a straight-line basis over the share vesting period. The Company recorded expense associated with its restricted stock awards of approximately $88 thousand, $118 thousand, and $84 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. Additionally, for the years ended December 31, 2016, 2015 and 2014, there was $43 thousand, $132 thousand, and $265 thousand, respectively, of unrecognized compensation cost related to restricted stock awards to be recognized over the next three years.

A summary of restricted stock activity for the year ended December 31, 2016 is as follows (in thousands except share amounts):

	Shares	Aggregate Intrinsic Value
Unvested restricted stock at December 31, 2015	204,444	
Vested	(191,111)	

Unvested restricted stock at December 31, 2016	13,333	$	16

401(k) Savings & Retirement Plan

The Company offers a 401(k) Savings & Retirement Plan to eligible employees meeting certain age and service requirements. This plan permits participants to contribute 100% of their salary, up to the maximum allowable by the Internal Revenue Service regulations. Participants are immediately vested in their voluntary contributions plus actual earnings or less actual losses thereon. Participants are vested in the Company's matching contribution based on years of service completed. Participants are fully vested upon completion of three years of service. During 2002, the Company began funding its matching contribution in common stock. During 2016 and 2015, the Company funded its matching contribution with cash. During 2014, the Company issued 74,863 shares of common stock to the Plug Power Inc. 401(k) Savings & Retirement Plan.

The Company's expense for this plan, including the issuance of shares, was approximately $1.4 million, $0.8 million and $0.4 million for years ended December 31, 2016, 2015 and 2014, respectively.

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Non-Employee Director Compensation

Each non-employee director is paid an annual retainer for their services, in the form of either cash or stock compensation. The Company granted 105,479, 89,490, and 71,311 shares of stock to non-employee directors as compensation for the years ended December 31, 2016, 2015, and 2014, respectively. All common stock issued is fully vested at the time of issuance and is valued at fair value on the date of issuance. The Company's share-based compensation expense for this plan was approximately $267 thousand, $267 thousand and $331 thousand for the years ended December 31, 2016, 2015, and 2014 respectively.

15. Fair Value Measurements

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

	Total	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Balance at December 31, 2016				
Common stock warrant liability	$ 11,387	$ —	$ —	$ 11,387
Balance at December 31, 2015				
Common stock warrant liability	$ 5,735	$ —	$ —	$ 5,735

The Company's common stock warrant liability represents the only financial instrument measured at fair value on a recurring basis in the consolidated balance sheets. The fair value measurement is determined by using Level 3 inputs due to the lack of active and observable markets that can be used to price identical assets. Level 3 inputs are unobservable inputs and should be used to determine fair value only when observable inputs are not available. Unobservable inputs should be developed based on the best information available in the circumstances, which might include internally generated data and assumptions being used to price the asset or liability.

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

	December 31, 2016	December 31, 2015
Risk-free interest rate	0.87% - 1.96%	0.5% - 1.28%
Volatility	49.0% - 103.41%	79.82% - 128.35%
Expected average term	1.14 - 5.47	0.42 - 3.04

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

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The following table shows the activity related to financial instruments measured at fair value on a recurring basis using significant unobservable inputs for the years ended December 31, 2016 and 2015 (in thousands):

Common stock warrant liability	2016	2015
Beginning of period	$ 5,735	$ 9,418
Change in fair value of common stock warrants	(4,344)	(3,661)
Issuance of common stock warrants	10,137	—
Exercise of common stock warrants	(141)	(22)
End of period	$ 11,387	$ 5,735

16. Income Taxes

The components of loss before income taxes and the income tax benefit for the years ended December 31, 2016, 2015 and 2014, by jurisdiction, are as follows (in thousands):

	2016			2015			2014		
	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
ss before come xes	$ (56,317)	$ (1,562)	$ (57,879)	$ (54,921)	$ (769)	$ (55,690)	$ (87,459)	$ (1,354)	$ (88,813
come tax nefit	—	392	392	—	—	—	—	325	325
t loss ributable the mpany	$ (56,317)	$ (1,170)	$ (57,487)	$ (54,921)	$ (769)	$ (55,690)	$ (87,459)	$ (1,029)	$ (88,488

The significant components of deferred income tax (benefit) expense for the years ended December 31, 2016, 2015 and 2014, by jurisdiction, are as follows (in thousands):

	2016 U.S.	Foreign	Total	2015 U.S.	Foreign	Total	2014 U.S.	Foreign	Total
eferred tax enefit) pense	$ (6,420)	$ (1,299)	$ (7,719)	$ (14,237)	$ 893	$ (13,344)	$ (4,282)	$ 194	$ (4,088)
et operating ss rryforward enerated) pired	(16,727)	(2,827)	(19,554)	(8,345)	895	(7,450)	(8,974)	625	(8,349)
aluation lowance crease ecrease)	23,147	4,126	27,273	22,582	(1,788)	20,794	13,256	(819)	12,437
ovision for come taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

The Company’s effective income tax rate differed from the federal statutory rate as follows:

	2016	2015	2014
U.S. Federal statutory tax rate	(35.0)%	(35.0)%	(35.0)%
Deferred state taxes, net of federal benefit	(3.1) %	(3.1) %	(1.2) %
Common stock warrant liability	(2.6) %	(2.3) %	20.6 %
Foreign provision to return adjustments	(2.9) %	— %	— %
Change in unrecognized tax benefits	(0.7) %	— %	(0.9) %
Other, net	(1.6) %	0.3 %	0.7 %
Change in valuation allowance	45.2 %	40.1 %	15.4 %
	(0.7) %	0.0 %	(0.4) %

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of certain assets and liabilities for financial reporting and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

	U.S.		Foreign	
	2016	2015	2016	2015
Intangible assets	$ —	$ —	$ 1,614	$ 1,469
Deferred revenue	8,713	7,017	—	—
Other reserves and accruals	1,703	6,411	—	—
Tax credit carryforwards	1,218	798	1,216	65
Property, plant and equipment	754	1,803	—	389
Amortization of stock-based compensation	17,167	13,145	—	—
Capitalized research & development expenditures	16,935	13,431	4,352	4,008
Net operating loss carryforwards	43,929	27,202	8,624	5,797
Total deferred tax asset	90,419	69,807	15,806	11,728
Valuation allowance	(85,731)	(62,584)	(15,646)	(11,520)
Net deferred tax assets	$ 4,688	$ 7,223	$ 160	$ 208
Intangible assets	(177)	(220)	—	—
Property, plant and equipment	—	—	(160)	(208)
Non-employee stock based compensation	(1,628)	(1,556)	—	—
Section 382 recognized built in loss	(2,883)	(5,447)	—	—
Net deferred tax liability	$ (4,688)	$ (7,223)	$ (160)	$ (208)
Net	$ —	$ —	$ —	$ —

The Company has recorded a valuation allowance, as a result of uncertainties related to the realization of its net deferred tax asset, at December 31, 2016 and 2015 of approximately $101.4 million and $74.1 million, respectively. A reconciliation of the current year change in valuation allowance is as follows (in thousands):

	U.S.	Foreign	Total
Increase in valuation allowance for current year increase in net operating losses	$ 16,727	$ 2,827	$ 19,554
Increase in valuation allowance for current year net increase in deferred tax assets other than net operating losses	6,420	282	6,702
Increase in valuation allowance as a result of foreign currency fluctuation	—	235	235
Increase in valuation allowance due to change in tax rates	—	313	313
Increase in valuation allowance due to change in deferred tax assets related to unrecognized tax benefits	—	469	469
Net increase in valuation allowance	$ 23,147	$ 4,126	$ 27,273

The deferred tax assets have been offset by a full valuation allowance because it is more likely than not that the tax benefits of the net operating loss carryforwards and other deferred tax assets may not be realized. Included in the valuation allowance at December 31, 2016 and December 31, 2015 are $0.1 million of deferred tax assets resulting from the exercise of employee stock options, which upon subsequent realization of the tax benefits, will be allocated directly to paid-in capital.

Before the imposition of IRC Section 382 limitations described below, at December 31, 2016, the Company has unused federal and state net operating loss carryforwards of approximately $830.0 million, of which $117.0 million was generated from the operations of acquired companies prior to the dates of acquisition and $713.0 million was generated by the Company subsequent to the acquisition dates and through December 31, 2016.

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

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Notes to Consolidated Financial Statements (Continued)

Based on studies of the changes in ownership of the Company, it has been determined that IRC Section 382 ownership changes have occurred which significantly reduces that amount of pre-change net operating losses that can be used in future years to $13.5 million. In addition, net operating losses of $102.2 million incurred after the most recent ownership change are not subject to IRC Section 382 and are available for use in future years. Accordingly, the Company's deferred tax assets include $115.6 million of U.S. net operating loss carryforwards. The net operating loss carryforwards available at December 31, 2016, if unused will expire at various dates from 2017 through 2036.

The ownership changes also resulted in net unrealized built in losses per IRS Notice 2003-65 which should result in recognized built in losses during the five year recognition period. These recognized built in losses will translate into unfavorable book to tax add backs in the Company's 2017 to 2018 U.S. corporate income tax returns of approximately $7.6 million that resulted in a gross deferred tax liability of $2.9 million at December 31, 2016. This gross deferred tax liability offsets existing gross deferred tax assets effectively reducing the valuation allowance. This has no impact on the Company's current financial position, results of operations, or cash flows because of the full valuation allowance.

Approximately $1.2 million of research credit carryforwards generated after the most recent IRC Section 382 ownership change are included in the Company's deferred tax assets. Due to limitations under IRC Section 382, research credit carryforwards existing prior to the most recent IRC Section 382 ownership change will not be used and are not reflected in the Company's gross deferred tax asset at December 31, 2016.

At December 31, 2016, the Company has unused Canadian net operating loss carryforwards of approximately $13.7 million. The net operating loss carryforwards if unused will expire at various dates from 2026 through 2034. At December 31, 2016, the Company has scientific research and experimental development (SR&ED) expenditures of $16.7 million available to offset future taxable income in Canada. These SR&ED expenditures have no expiration date. At December 31, 2016, the Company has Canadian ITC credit carryforwards of $1.6 million available to offset future income tax. These credit carryforwards if unused will expire at various dates from 2021 through 2027.

At December 31, 2016, the Company has unused French net operating loss carryforwards of approximately $15.4 million. The net operating loss may carryforward indefinitely or until the Company changes its activity.

As of December 31, 2016, the Company has no un-repatriated foreign earnings.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2016	2015	2014
Unrecognized tax benefits balance at beginning of year	$ 437	$ 522	$ 1,033
Reductions for tax positions of prior years	(469)	—	(465)
Currency translation	32	(85)	(46)
Unrecognized tax benefits balance at end of year	$ —	$ 437	$ 522

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company had $0.4 million of interest and penalties accrued at December 31, 2015, which was released in 2016 upon the expiration of the statute of limitations.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities. Open tax years in the U.S. range from 2013 to 2016, and open tax years in foreign jurisdictions range from 2008 to 2016. However, upon examination in subsequent years, if net operating loss carryforwards and tax credit carryforwards are utilized, the U.S. and foreign jurisdictions can reduce net operating loss carryforwards and tax credit carryforwards utilized in the year being examined if they do not agree with the carryforward amount. As of December 31, 2016, the Company was not under audit in the U.S. or non-U.S. taxing jurisdictions.

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17. Commitments and Contingencies

Operating Leases

As of December 31, 2016 and 2015, the Company has several non-cancelable operating leases (as lessor and as lessee), primarily associated with sale/leaseback transactions that are partially secured by restricted cash (see also Note 1, Nature of Operations) as summarized below that expire over the next six years. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. Leases where the Company is the lessor contain termination clauses with associated penalties, the amount of which cause the likelihood of cancellation to be remote.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2016 are (in thousands):

	As Lessor	As Lessee
2017	$ 16,872	$ 12,350
2018	16,872	12,125
2019	16,872	10,936
2020	15,715	9,802
2021	11,480	5,535
2022 and thereafter	2,872	759
Total future minimum lease payments	$ 80,683	$ 51,507

Rental expense for all operating leases were $13.2 million, $6.2 million, and $1.5 million for years ended December 31, 2016, 2015, and 2014 respectively.

At December 31, 2016 and 2015, prepaid rent and security deposits associated with sale/leaseback transactions were $11.8 million and $12.1 million, respectively. At December 31, 2016, $1.9 million of the amount is included in prepaid expenses and other current assets and $9.9 million was included in other assets on the consolidated balance sheet. At December 31, 2015, $2.0 million of this amount was included in prepaid expenses and other current assets and $10.1 million was included in other assets on the consolidated balance sheet.

Finance Obligation

During the year ended December 31, 2016, the Company entered into sale/leaseback transactions, which were accounted for as capital leases and reported as part of finance obligations on the Company's consolidated balance sheet. These transactions represented project financing as referenced in Note 9, Short-term Borrowing. The outstanding balance of these finance obligations at December 31, 2016 was $29.4 million. The fair value of the finance obligation approximates the carrying value as of December 31, 2016.

Future minimum lease payments under non-cancelable capital leases (with initial or remaining lease terms in excess of one year) as of December 31, 2016 are (in thousands):

	Total Payments	Imputed Interest	Net Present Value
2017	$ 16,313	$ 4,205	$ 12,108
2018	10,665	2,064	8,601
2019	3,436	1,435	2,001
2020	3,436	1,083	2,353
2021	3,436	674	2,762
Thereafter	1,689	151	1,538
Total future minimum lease payments	$ 38,975	$ 9,612	$ 29,363

During the year ended December 31, 2015, the Company received cash for future services to be performed associated with certain sale/leaseback transactions and recorded the balance as a finance obligation. The outstanding balance of this obligation at December 31, 2016 and December 31, 2015 is $12.8 million and $15.1 million, respectively.

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The amount is amortized using the effective interest method. The fair value of this finance obligation approximates the carrying value as of December 31, 2016.

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

Restricted Cash

The Company has entered into sale/leaseback agreements associated with its products and services. In connection with these agreements, cash of $53.6 million is required to be restricted as security and will be released over the lease term. The Company has additional letters of credit backed by security deposits as disclosed in the Operating Leases section above.

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

Litigation

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

Concentrations of credit risk

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

At December 31, 2016, two customers comprise approximately 59.9% of the total accounts receivable balance, with each customer individually representing 40.0% and 19.9% of total accounts receivable, respectively. At December 31, 2015, two customers comprise approximately 50.9% of the total accounts receivable balance, with each customer individually representing 38.5% and 12.4% of total accounts receivable, respectively.

For the years ended December 31, 2016 and 2015, 34.1% and 56.7%, respectively, of total consolidated revenues were associated primarily with Walmart. For the year ended December 31, 2014, 37.2% of total consolidated revenues were associated primarily with Walmart and Volkswagen, representing 24.1% and 13.1% of total consolidated revenues, respectively.

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18. Unaudited Quarterly Financial Data (in thousands, except per share data)

	Quarters ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Revenue:				
Sales of fuel cell systems and related infrastructure	$ 5,218	$ 9,121	$ 5,653	$ 19,993
Services performed on fuel cell systems and related infrastructure	5,273	5,360	4,763	5,060
Power Purchase Agreements	2,706	3,062	3,858	4,061
Fuel delivered to customers	2,010	2,638	2,909	3,359
Other	125	278	376	105
Gross profit (1)	170	384	381	3,011
Operating expenses	13,120	13,760	13,637	14,948
Operating loss	(12,950)	(13,376)	(13,256)	(11,937)
Net loss attributable to common shareholders	(11,780)	(13,154)	(13,420)	(19,237)
Loss per share:				
Basic and Diluted	$ (0.07)	$ (0.07)	$ (0.07)	$ (0.11)

	Quarters ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Revenue:				
Sales of fuel cell systems and related infrastructure	$ 5,090	$ 18,663	$ 24,777	$ 29,472
Services performed on fuel cell systems and related infrastructure	2,645	2,883	3,555	4,929
Power Purchase Agreements	977	1,077	1,546	2,118
Fuel delivered to customers	659	1,128	1,544	1,744
Other	45	258	10	168
Gross (loss) profit (1)	(2,111)	1,562	76	(9,417)
Operating expenses	10,650	11,427	12,332	14,703
Operating loss	(12,761)	(9,865)	(12,256)	(24,120)
Net loss attributable to common shareholders	(11,077)	(9,253)	(10,238)	(25,227)
Loss per share:				
Basic and Diluted	$ (0.06)	$ (0.05)	$ (0.06)	$ (0.14)

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(1)

Gross profit in the second quarter of 2016 and the fourth quarter of 2015 includes the impact of a ($1.1 million) and $10.1 million provision for loss contracts related to service recorded by the Company, respectively, as discussed in Note 11, Warranty Reserve and Accrual for Loss Contracts Related to Service.