FINAL TRANSCRIPT

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PLUGD - Q1 2011 Plug Power Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

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Gerry Anderson
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PRESENTATION

Operator

Greetings, and welcome to the Plug Power first quarter earnings conference call.

(Operator Instructions).

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Cathy Yudzevich, Manager of Investor Relations for Plug Power. Thank you, you may begin.

Cathy Yudzevich - *Plug Power Inc - IR, Manager*

Good morning. Thank you for joining Plug Power to discuss our 2011 first quarter results. Andy Marsh, CEO, and Gerry Anderson, CFO, will be on this call today. This call will also be archived on our website at PlugPower.com in the investor section under presentations.

This conference call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to, expectations regarding revenues and product orders for 2011. These statements are based on current expectations that are subject to certain assumptions, risks, and uncertainties, any of which are difficult to predict, are beyond our control, and that may cause our actual results to differ materially from the expectations in our forward-looking statements.

We encourage our listeners to refer to our SEC filings for a complete recital of our Safe Harbor statements, as well as other risks and uncertainties discussed under Item 1-A risk factors, in our annual report on Form 10-K for the fiscal year ended December 31, 2010, filed with the Securities and Exchange Commission on March 31, 2011. Plug Power does not intend to, and undertakes no duty to update any forward-looking statements as a result of new information or future events. At this time, it is my pleasure to turn the call over to Andy Marsh.

Andy Marsh - *Plug Power Inc - President, CEO*

Thank you, Cathy. Good morning, everyone. And thank you for joining our call. Over the course of the past three years, Plug Power has made a series of pivotal decisions. We reduced the size of our Company by more than half, and consolidated all operations to our Latham, New York headquarters. We scrutinized the state of our businesses, and targeted the one market most primed for near-term revenue growth and profitability. We leveraged the Company's rich patent portfolio into innovative power products for powering forklift trucks, while simultaneously developing a broad sales channel in North America.

Last week, Plug Power initiated a 1-for-10 reverse stock split, to keep the Company eligible to remain listed on NASDAQ. And this morning, Plug Power announced the results of a public offering that provides a critical capital injection, with net proceeds of approximately $18.3 million.

I would like to start today's call with this morning's news about our capital raise. To secure additional capital this morning, Plug Power announced that we priced an underwritten public offering of 8,265,000 shares of the Company's common stock and warrants to purchase an aggregate of 6,198,750 shares of common stock. The shares and the warrants will be sold together as a fixed combination, with each combination consisting of one share of common stock and 0.75 warrants to purchase 0.75 shares of common stock at price to the public of $2.42 per fixed combination, for gross proceeds of approximately $20 million US.

The warrants have an exercise price of $3 per share, are eligible -- are immediately exercisable, and will expire on May 31, 2016. The capital raise as part of this offering, will be used to fund ongoing operating expenses and support working capital requirements. The Company is presently exploring a working line of credit to support financing our accounts receivables and inventory.

I'd now like to transition to the Company's decision to initiate a 1-for-10 reverse stock split last week. The Plug Power Board and management team gave considerable thought to the decision to initiate this split. With the shareholders' approval, we performed a reverse stock split on May 19 to maintain our NASDAQ listing and increase the share price to make our stock more attractive to institutional investors. The split occurred at a time when Plug Power boasts the largest backlog in the Company's history, enjoys 85% market share in the fuel cell material handling market, and just completed a significant capital raise. We are confident this decision will not only maintain Plug Power's listing on NASDAQ, but will also ultimately increase shareholder value.

Now, I would like to turn the discussion to Plug Power's customer momentum in the material handling market. Plug Power sells productivity improvements to industrial customers. It's simple, with our products, customers reduce the size of their forklift truck fleet, and increase efficiency. They eliminate complicated and timely battery change-out processes. They eliminate battery droop, and keep operators moving product at constant speed. Our customers' commitment should speak for themselves.

Last November, Wal-Mart Calgary opened a greenfield facility, and invited 40 to 50 key suppliers and competitors to a ribbon-cutting. This facility was designed to be completely dependent on a hydrogen fuel cell solution to power their forklift truck fleet. During his remarks, the CEO of Wal-Mart Canada stood up, said how excited he was about deploying fuel cells, and made it clear that Wal-Mart doesn't do anything, unless it saves them money.

Also, by the end of this quarter, the third quarter of this year, we will have three Sysco sites completely cut over to a hydrogen-powered fuel cell solution. This time next year, I expect the number to rise to six or seven sites. This will mean that the core functions of these distribution centers, the ability to move goods, will be done exclusively with GenDrive power forklift trucks.

Additionally, we did a deal in the first quarter to sell 193 GenDrive systems to a company called [Newark] Farm Markets, the largest wholesale distributor of fruits and vegetables in the northeast. I was sitting with the CEO, and he said, I chose your products because we were able to eliminate the dirty lead acid battery room, which took up to 7% of the space in this new facility, reducing our construction costs. For context, it cost the customer about $1.5 million to build a battery room in a new greenfield facility. Once a customer decides to eliminate that cost, and build a facility exclusively with hydrogen infrastructure, it then costs that customer $6 million to go back and retrofit the facility to install a battery infrastructure instead.

When you think about that kind of commitment, I believe it says a lot about the reliability of the products, and I also believe it tells you a lot about the commitment of our customers. The customers we have to date, alone, could buy 35,000 units a year from Plug Power. We only need to ship 3,500 units, or a 10% share to be profitable. Also, the Company is targeting adding two new customers a quarter, to add to this base.

Moving to a greater discussion of our financials, I would like to point out that this year is unlike any other in the history of the Company. This is the first year Plug Power is entirely focused on the material handling market, and our solutions for material handling products. Last year, we shipped 650 units. Our revenue was $19.5 million. Our margins were negative. Coming into this year, we planned to ship between 1,600 and 2,300 units. We have the biggest backlog we've ever had. The revenue for the

business continues to grow, indicated by the fact that in it's last four and a half months, the Company has booked over $18 million of business. And that $18 million of business, represents 555 unit orders received in the first quarter alone.

Turning to gross margins. Plug Power expects margins to top 20% in 2012, and reach 30% in 2013. Our margins are driven by three items, material costs, labor costs, and fixed loads. Our development team is making two important changes to our products this year, to lower material costs. First, we are making a significant change in the thermal management strategy for low power products, moving from a liquid-cooled thermal management system to a fan-cooled system. This will help us reduce the component count by 30% to 40%, which will have a dramatic change in our costs.

Second, on our high power products, we've actually introduced technology to change the present power architecture to eliminate about 25% of our components, and simplify the other components in our system. This innovation will be incorporated into our products in the fourth quarter, and will dramatically lower our cost of materials by 30%. Regarding labor cost reductions, if you have fewer, less complicated parts to put together, the system's easier to build. The design and manufacturing team at Plug Power work very closely together, and we expect the labor savings will be over 30% in the coming year, as the changes to simplify our systems are implemented.

And finally, one of the biggest remaining challenges is the fixed load. Every unit we ship today has a $6,000 fixed load associated on a per unit basis, because our volumes are so low. By the time we reach shipments of 4000 units a year, we reduce that fixed load by 75%. And at that point, our margins will just naturally grow, every time we ship a unit. When I think about the business today, our basic income statement, we have driven our expenses down to $16 million annually, and revenue is growing. We have a clear plan for how to drive down product costs, labor costs, load costs, and have a clear vision for profitability.

I'd now like to discuss, what to expect from Plug Power moving forward. Plug Power is singularly focused on material handling, but we are actively engaged reviewing other opportunities at a senior management level. We continue to look to the future of this market, and future opportunities for meaningful and relevant growth. Today, we are selling commercially in North America only, but much of the product development activity to reduce the costs of our products today, also positions our product to be successfully deployed in Europe. We took our first order for a European application in the first quarter. It was a small order, but we're looking to build on that.

But what we're looking to do is not to go to Europe alone, we're looking to find partners and relationships to help us expand the material handling business in Europe, and to grow profitably from the start, instead of driving down the operating income of the Company. We are also looking to increase the range of products that we're offering to our present customers. Samples include, refrigerated trailers at food distribution centers and airport fleet vehicles. We are in discussions with a number of present customers and OEMs about the benefit fuel cells can offer in these applications and others. In sum, management will not tell customers what they should be doing. Customers will drive where the Plug Power market future should be. I'd now like to turn the call over to Gerry Anderson, for a detailed discussion of our first quarter financials.

Gerry Anderson - *Plug Power Inc - CFO, VP Operations*

Thank you, Andy, and good morning, everyone. As Andy has noted, we had a spectacular quarter in new unit bookings, the best-ever in our Company's history at 555 units. When combined with the 527 units that were in our backlog at 2010 year-end, we had 1,082 units with shippable value of almost $23 million, of which approximately 70% of the value is targeted to ship in 2011. During the quarter, we did ship 144 units worth about $4 million, leaving with us a backlog at the end of the quarter of 938 units, with a value of approximately $19 million. We expect continued strong order bookings in quarter two to add to our backlog, and we will see heavier shipment flow in the latter half of the year, based on our customers' requested delivery dates.

Reviewing our operating results for the first quarter of 2011, total revenue was $6 million, up 36% or $1.6 million increase over 2010 quarter one results. More importantly, as we focus our efforts on expanding commercial sales, our product and service revenue at $5 million accounts for 84% of total revenue for the quarter, and represents a 58% increase over the prior year

comparable quarter's product and service revenue. We expect our full-year product and service revenue to be in the mid $30 million range, with the majority realized in the latter half of the year, consistent with our expected shipment ramp-up.

During the quarter, we also realized $785,000 in research and development contract revenue, a decline of $400,000 or 33% from the prior year comparable quarter. As our emphasis will remain on building our commercial sales, we expect full-year R&D contract revenue to be in the range of $2 million. Lastly, during the quarter, we realized $163,000 in licensed technology revenue, and we expect that will continue at the same dollar level for another two quarters. For a more detailed review of our revenue recognition policies, as well as other accounting policies, we encourage you to review our filings with the SEC.

Our total cost of revenue for the first quarter of 2011 was $8 million, and was comprised of $6.7 million for product and service cost of revenue, and $1.3 million for cost of R&D contract revenue. The cost of product and service revenue resulted in a negative gross margin of 34% for the quarter, but we anticipate we will achieve positive gross margins over the latter half of the year, primarily due to two factors Andy mentioned earlier.

Engineering design improvements will be cut into serial production later this year, which will result in an average decrease in material cost per GenDrive unit of approximately 30%. Additionally, as our production scales, we will be more efficiently absorbing our manufacturing overhead, which is largely fixed in nature, and provides us with build capacity of up to 10,000 units annually. Our cost of revenue for R&D contracts at $1.3 million, represented 170% of revenue which we expect to be fairly consistent if not higher, for the full-year as the remaining contracts we are working on are 50/50 cost share arrangements. Essentially, this means for each dollar of contract revenue, Plug Power will incur $2 of cost.

In our operating expense categories, research and development expenses for the quarter at $1.1 million, was a $4.4 million decline from the prior year comparable quarter. Plug Power is now realizing the full benefit from the restructuring completed by year-end 2010, which resulted in the wind-down of operations in Canada and India. Also during the quarter, approximately $300,000 of our internal R&D costs were allocated to costs of research and development contract revenue for work performed on several R&D programs.

Our selling, general, and administrative expenses for the quarter were $3.6 million, a decrease of $300,000 from the prior year first quarter. While we are expending more resources on sales and service activities to continue to grow our GenDrive business, the wind-down of operations in Canada and India have positively impacted our SG&A spend as well.

Our net loss for the quarter ended March 31, 2011 was $7.2 million, or $0.05 per share on a basic and diluted basis as reported, which is $0.55 per share as restated for the reverse stock split. Weighted average shares outstanding for the quarter were 132.2 million as reported, which is 13.2 million shares, as restated for the split. Net cash used in operating activities for the quarter was $7.2 million, and another $1 million was used for capital purchases. On March 31, 2011, the Company had $13 million in cash, cash equivalents, and available for sale securities, $500,000 in restricted cash balances, and $17.2 million in working capital. We would now like to open the call to any questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions).

It appears there are no questions at this time. I would now like to turn the floor back to Andy Marsh for closing comments.

Andy Marsh - *Plug Power Inc - President, CEO*

I know our shareholders and investors wish this Company would grow faster, but when I step back, and look at some of the things we've achieved in the past three years including doubling our shipments and tripling our product revenue, I can say with confidence that this Company has the right mix for commercial traction, technology innovation, and investment to reach profitability in 2012. I want to thank everyone for taking the time today. Thank you.

Operator

This concludes today's teleconference. You may now disconnect your lines at this time, and thank you for your participation.
