MECHANICAL TECHNOLOGY INC
Form 10-K/A
March 22, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

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

For the fiscal year ended December 31, 2002

or

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

For the transition period from __________ to __________

Commission file number 0-6890

MECHANICAL TECHNOLOGY INCORPORATED

(Exact name of registrant as specified in its charter)

New York	14-1462255
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
431 New Karner Road, Albany, New York	12205
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (518) 533-2200

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12 (g) of the Act:

$1.00 Par Value Common Stock	NA
(Title of class)	(Name of exchange on which registered)

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 x No ¨ *

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. ¨

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting Registrant's common stock held by non-affiliates of the Registrant on June 28, 2002 (based on the last sale price of $1.08 per share for such stock reported by NASDAQ for that date) was approximately $54,335,114.

As of March 24, 2003, the Registrant had 27,639,135 shares of common stock outstanding.

*Please see the Explanatory Note below.

Document	DOCUMENTS INCORPORATED BY REFERENCE
Proxy Statement for Annual Meeting	Where Incorporated into Form 10-K Report
of Shareholders to be held on June 19, 2003	Part III

EXPLANATORY NOTE

This Annual Report on Form 10-K/A ("Form 10-K/A") is being filed as Amendment No. 1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. This Form 10-K/A is filed with the Securities and Exchange Commission (the "Commission") for the purpose of filing financial statements of Plug Power Inc. and SatCon Technology Corporation in accordance with the requirements of Rule 3-09 of Regulation S-X and filing the Consents from their auditors and revisions to Note 7, Holdings at Equity.

Part II

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements filed herewith are set forth on the Index to

Consolidated Financial Statements on Page F-1 of the separate financial section.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders

of Mechanical Technology Incorporated

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and of cash flows present fairly, in all material respects, the financial position of Mechanical Technology Incorporated at December 31, 2002 and 2001, and the results of their operations and their cash flows for the year ended December 31, 2002, the three month period ended December 31, 2001, and for each of the two years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* on January 1, 2002, Emerging Issues Task Force Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's own Stock* on June 30, 2001, and Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities o*n October 1, 2000. Additionally, as discussed in Note 1, the Company changed its method of accounting for its investments in Plug Power Inc. and SatCon Technology Corporation on December 20, 2002 and July 1, 2002, respectively.

/s/PricewaterhouseCoopers LLP

Albany, New York

February 26, 2003

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

	(Dollars in thousands)	
	2002	2001
Assets		
Current Assets:		
Cash and cash equivalents	$ 7,320	$ 4,127
Restricted cash equivalents	-	14
Securities available for sale (Note 8)	37,332	5,734
Accounts receivable, less allowances of $0		
in 2002 and 2001	1,445	902
Inventories	1,378	1,510
Notes receivable - current	-	25
Deferred income taxes	-	2,315

Prepaid expenses and other current assets	668	1,042
Total Current Assets	48,143	15,669
Derivative assets	6	194
Property, plant and equipment, net	1,558	1,548
Deferred income taxes	2,677	-
Notes receivable - noncurrent, less allowance		
of $660 in 2002 and 2001	-	-
Holdings, at equity (Note 7)	-	38,937
Total Assets	$52,384	$56,348

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

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2002 and 2001

	(Dollars in thousands)	
	2002	2001
Liabilities and Shareholders' Equity		
Current Liabilities:		
Line of credit (Note 12)	$ -	$ 1,000
Accounts payable	761	643
Accrued liabilities	1,543	1,632
Accrued liabilities - related parties	190	101
Income taxes payable	92	28
Deferred income taxes	8,876	-
Net liabilities of discontinued operations	-	356

Total Current Liabilities	11,462	3,760
Long-Term Liabilities:		
Deferred income taxes and other credits	24	4,406
Total Liabilities	11,486	8,166
Commitments and Contingencies		
Minority interests	150	574
Shareholders' Equity		
Common stock, par value $1 per share,		
authorized 75,000,000; 35,648,135		
issued in 2002 and 35,505,235 in 2001	35,648	35,505
Paid-in-capital	67,479	67,045
Accumulated deficit	(61,874)	(54,913)
	41,253	47,637
Accumulated Other Comprehensive Income:		
Unrealized gain on available for sale		
securities, net of tax	13,170	-
Restricted stock grant	(40)	-
Common stock in treasury, at cost,		
8,020,250 shares in 2002 and 20,250 shares		
in 2001	(13,635)	(29)
Total Shareholders' Equity	40,748	47,608
Total Liabilities and Shareholders' Equity	$ 52,384	$ 56,348

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Year Ended December 31, 2002, Three Months Ended December 31, 2001 and Years Ended September 30, 2001 and 2000

(Dollars in thousands, except per share)

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Product revenue	$ 5,362	$ 1,246	$ 7,298	$ 5,558
Funded research and development	1,573	90	-	-
Total revenue	6,935	1,336	7,298	5,558
Operating costs and expenses:				
Cost of product revenue	2,428	688	3,150	2,587
Research and development expenses:				
Funded research and development	2,560	187	-	-
Unfunded research and product development	4,055	874	3,684	2,034
Total research and product development	6,615	1,061	3,684	2,034

Selling, general and administrative	4,941	1,357	6,159	4,864
Operating loss	(7,049)	(1,770)	(5,695)	(3,927)
Interest	(46)	(15)	(1,970)	(1,943)
Loss on derivatives	(188)	(26)	(1,266)	-
Gain on derivatives, Company stock	-	165	922	-
Gain on sale of holdings, net	5,925	-	28,838	-
Gain on exchange of securities (Note 18)	8,006	-	-	-
Gain on sale of subsidiary	-	-	-	1,262
Impairment losses (Note 9)	(8,127)	(15,433)	-	-
Other expense, net	(90)	(82)	(93)	(309)
(Loss) income from continuing operations before income taxes, equity in holdings' losses and minority interests	(1,569)	(17,161)	20,736	(4,917)
Income tax benefit (expense)	636	6,788	(7,524)	1,927
Equity in holdings' losses (net of tax benefit of $4,550 in 2002, $2,169 in Transition Period, $9,722 in 2001 and $10,219 in 2000)	(6,671)	(3,316)	(17,072)	(15,849)
Minority interests in losses of consolidated subsidiary	418	104	123	-
Loss from continuing operations	(7,186)	(13,585)	(3,737)	(18,839)
Income from discontinued operations (net of taxes of $154 in 2002 and $157 in 2000)	225	-	-	243

Loss before cumulative effects of changes in accounting principles	(6,961)	(13,585)	(3,737)	(18,596)
Cumulative effect of accounting change for derivative financial instruments for Company's own stock, net of tax expense of $1,000	-	-	1,468	-
Cumulative effect of accounting change for derivative financial instruments, net of tax expense of $3,876	-	-	6,110	-
Net (loss) income	$(6,961)	$(13,585)	$ 3,841	$(18,596)
(Loss) Earnings per Share (Basic and Diluted):				
Loss from continuing operations	$ (.21)	$ (.38)	$ (.10)	$ (.54)
Income from discontinued operations	.01	-	-	.01
Cumulative effect of accounting change for derivative financial instruments for Company's own stock	-	-	.04	-
Cumulative effect of accounting change for derivative financial instruments	-	-	.17	-
(Loss) earnings per share	$ (.20)	$ (.38)	$ .11	$ (.53)

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

AND COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31, 2002, Three Months Ended December 31, 2001 and Years Ended September 30, 2001 and 2000

(Dollars in thousands)

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
COMMON STOCK				
Balance, beginning	$ 35,505	$ 35,505	$ 35,437	$ 34,947
Issuance of shares - options	93	-	68	490
Issuance of shares - restricted stock	50	-	-	-
Balance, ending	$ 35,648	$ 35,505	$ 35,505	$ 35,437
PAID-IN-CAPITAL				
Balance, beginning	$ 67,045	$ 65,103	$ 54,790	$ 19,457
Issuance of shares - options	18	-	3	(3)
MTI MicroFuel Cell investment	(28)	46	1,163	-
Plug Power holding, net of taxes	430	131	8,678	29,252
SatCon holding, net of taxes	(90)	1,677	2,506	872
Warrants issued, net of taxes	-	-	-	2,207
Compensatory options	49	13	(14)	1,199
Reclassification of common stock warrants from equity to liability, net of taxes	-	75	(2,207)	-
Stock option exercises recognized differently for financial reporting				

and tax purposes	55	-	184	1,806
Balance, ending	$ 67,479	$ 67,045	$ 65,103	$ 54,790
ACCUMULATED DEFICIT				
Balance, beginning	$(54,913)	$(41,328)	$(45,169)	$(26,573)
Net (loss) income	(6,961	(13,585	3,841	(18,596)
	)	)		
Balance, ending	$(61,874)	$(54,913)	$(41,328)	$(45,169)
ACCUMULATED OTHER COMPREHENSIVE INCOME				
(LOSS):				
UNREALIZED GAIN (LOSS) ON AVAILABLE FOR				
SALE SECURITIES, NET OF TAXES				
Balance, beginning	$ -	$ (5,204)	$ -	$ (5)
Unrealized gain (loss) on available for				
sale securities, net of taxes	13,170	5,204	(5,204	5
			)	
Balance, ending	$ 13,170	$ -	$ (5,204)	$ -
FOREIGN CURRENCY TRANSLATION ADJUSTMENT				
Balance, beginning	$ -	$ -	$ -	$ (11)
Adjustments	-	-	-	11
Balance, ending	$ -	$ -	$ -	$ -
TREASURY STOCK				
Balance, beginning	$ (29)	$ (29)	$ (29)	$ (29)
Stock acquisition	(13,606	-	-	-
	)			

Balance, ending	$(13,635)	$ (29)	$ (29)	$ (29)
RESTRICTED STOCK GRANTS				
Balance, beginning	$ -	$ -	$ -	$ -
Grants issued	(50)	-	-	-
Grants vested	10	-	-	-
Balance, ending	$ (40)	$ -	$ -	$ -
TOTAL SHAREHOLDERS' EQUITY	$ 40,748	$ 47,608	$ 54,047	$ 45,029
TOTAL COMPREHENSIVE INCOME (LOSS):				
Net (loss) income	$ (6,961)	$(13,585)	$ 3,841	$(18,596)
Other comprehensive income (loss):				
Foreign currency translation adjustment	-	-	-	11
Unrealized gain (loss) on available				
for sale securities, net	13,170	5,204	(5,204)	5
Total comprehensive income (loss)	$ 6,209	$ (8,381)	$ (1,363)	$(18,580)

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

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Year Ended December 31, 2002, Three Months Ended December 31, 2001 and

Years Ended September 30, 2001 and 2000

(Dollars in thousands)

	Year Ended	Three Months	Year Ended	Year Ended
OPERATING ACTIVITIES	Dec. 31,	Ended	Sept. 30,	Sept. 30,

	2002	Dec. 31, 2001	2001	2000
Net (loss) income excluding discontinued operations	$(7,186)	$(13,585)	$ 3,841	$(18,839)
Adjustments to reconcile net income (loss) to net cash used by operating activities:				
Cumulative effect of accounting change for derivative financial instruments, gross	-	-	(9,986)	-
Cumulative effect of accounting changes for derivative financial instruments for Company's own stock, gross	-	-	(2,468)	-
Loss on derivatives	188	26	1,266	-
Gain on derivatives, Company stock	-	(165)	(922)	-
Impairment losses	8,127	15,433	-	-
Loss on warrant issued by subsidiary	-	98	-	-
Stock dividend	-	-	(827)	-
Capitalized interest	-	-	107	-
Gain on sale of holdings, net	(5,925)	-	(28,838)	-
Gain on exchange of securities	(8,006)	-	-	-
Depreciation and amortization	592	128	1,761	264
Gain on sale of subsidiary	-	-	-	(1,262)
Minority interests in losses of consolidated subsidiary	(418)	(104)	(123)	-
Equity in holdings' losses, gross	11,221	5,485	26,794	26,068
Allowance for bad debts	-	-	(250)	636
Loss on disposal of fixed assets	15	-	4	20
Deferred income taxes and other credits	(4,974)	(9,034)	2,197	(12,152)
Stock based compensation	59	13	(14)	547

Changes in operating assets and liabilities net				
of effects from discontinued operations:				
Accounts receivable	(543)	(316)	107	887
Other receivables - related parties	-	-	-	105
Inventories	132	164	(481)	(343)
Prepaid expenses and other current assets	266	52	(166)	(76)
Accounts payable	116	(164)	524	311
Income taxes	64	3	16	19
Accrued liabilities - related parties	89	98	(6)	9
Accrued liabilities	(89)	(313)	342	(127)
Net cash used by operating activities excluding				
discontinued operations	(6,272)	(2,181)	(7,122)	(3,933)
Discontinued Operations:	225	-	-	243
Income from discontinued operations				
Deferred income taxes and other credits	154	-	-	157
Changes in net liabilities/assets	(356)	(2)	127	(309)
Net cash (used) provided by discontinued operations	23	(2)	127	91
Net cash used by operating activities	(6,249)	(2,183)	(6,995)	(3,842)
INVESTING ACTIVITIES				
Purchases of property, plant & equipment	(527)	(81)	(1,318)	(286)
Proceeds from sale of holdings	10,834	-	37,842	-
Purchase of stock in Plug Power	-	-	-	(20,500)

Purchase of stock in SatCon	-	-	-	(7,070)
Purchase of stock in Beacon Power	-	-	-	(6,050)
Proceeds from sale of subsidiary, net	-	-	-	23
Change in restricted cash equivalents, net	14	64	1,064	(1,142)
Investment in marketable debt securities	-	-	-	(2,000)
Proceeds from sale of marketable debt securities	-	-	-	9,881
Investment in note receivable	-	-	-	(660)
Principal payments from notes receivable	25	225	191	72
Net cash provided (used) by investing activities	10,346	208	37,779	(27,732)
FINANCING ACTIVITIES				
Proceeds from stock option exercises	111	-	71	489
Net proceeds from subsidiary stock issuance	-	295	867	-
Treasury stock purchase by subsidiary	(15)	-	-	-
Financing costs	-	-	(1,360)	(233)
Net borrowings (payments) on related party debt	-	-	(107)	-
Payments under lines-of-credit	(1,000)	(4,000)	(23,200)	(5,500)
Borrowings under lines-of-credit	-	-	1,200	32,500
Net cash (used) provided by financing activities	(904	(3,705	(22,529)	27,256
	)	)		
Increase (decrease) in cash and cash equivalents	3,193	(5,680)	8,255	(4,318)
Cash and cash equivalents - beginning of year	4,127	9,807	1,552	5,870
Cash and cash equivalents - end of year	$ 7,320	$ 4,127	$ 9,807	$ 1,552

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For The Year Ended December 31, 2002, Three Months Ended December 31, 2001 and Years Ended September 30, 2001 and 2000

(Dollars in thousands)

	Year Ended Dec. 31, 2002	Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Non-cash Investing and Financing Activities:				
Additional holdings and paid-in-capital resulting from other investors' investments in Plug Power Inc. stock	$ 717	$ 219	$14,464	$42,310
Acquired stock of SatCon Technology Corporation in exchange for net assets of Ling Electronics, Inc. and subsidiaries	-	-	-	6,738
Additional holdings and paid-in-capital resulting from warrant issuance to SatCon Technology Corporation	-	-	-	3,678
Additional holdings and paid-in-capital resulting from other investors' activity in SatCon Technology Corporation stock	(150)	2,795	4,175	1,418
Additional paid-in-capital resulting from				

stock option exercises treated differently for financial reporting and tax purposes	55	-	184	1,806
Holdings in Beacon Power Corporation - warrant exercise to convert derivative asset to common stock	-	-	8,500	-
Contingent obligation to common stock warrant holders	-	(124)	1,210	-
Change in investment and paid-in-capital resulting from other investors' activity in MTI MicroFuel Cells Inc. stock	(28)	46	1,163	-
Prepaid material in exchange for investment in subsidiary	(18)	-	750	-
Treasury stock from exchange of securities	(13,606)	-	-	-

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The equity method of accounting is used for holdings in entities over which the Company has significant influence, generally this represents common stock ownership or partnership equity of at least 20% and not more than 50%, or where the Company has the ability to exercise significant influence over operating and financial policies of the underlying entity. All significant intercompany transactions are eliminated in consolidation.

Under the equity method of accounting, the Company recognizes its proportionate share of income or loss of holdings. Holdings' losses are generally recognized only to the extent of holdings. Changes in equity of holdings, other than income or loss, which change the Company's proportionate interest in the underlying equity of holdings, are generally accounted for as changes in holdings and additional paid-in-capital. Non-monetary contributions to equity holdings are recorded at book value, and if the Company's calculated share of net assets of holdings exceeds the book value of non-monetary contributions, the difference is accounted for as a basis difference. Original differences between the Company's carrying amount of an equity holding and its calculated share of the holding's net assets are treated as an embedded difference if the Company's carrying amount is higher, or as a basis difference if lower. Until January 1, 2002, embedded differences were amortized into net income (loss) from holdings generally over a five-year period while basis differences are generally not amortized due to the research and development nature of holdings. Upon an equity holdings' initial public offering, basis differences are eliminated in connection with the change in equity. Impairment is measured in accordance with the Company's Asset Impairment Policy.

Change in Year-End

On February 13, 2002, the Company changed its fiscal year-end from September 30 to December 31, effective with the calendar year beginning January 1, 2002. A three-month transition period from October 1, 2001

through December 31, 2001 (the "Transition Period") precedes the start of the 2002 fiscal year. "2001" and "2000" refer to the years ended September 30, the Transition Period refers to the three months ended December 31, 2001 and "2002" refers to the twelve months ended

December 31, 2002. This new fiscal year makes the Company's annual and quarterly reporting periods consistent with those used by Plug Power Inc. ("Plug Power") and permitted the Company to continue to account for its holdings in Plug Power on a timely basis through December 20, 2002, the date of its change in accounting for Plug Power from the equity method to the fair value method.

Change in Accounting for Holdings

SatCon Technology Corporation ("SatCon")

The Company's holdings in SatCon were accounted for on a one-quarter lag under the equity method of accounting from their acquisition date through

July 1, 2002. On July 1, 2002, the Company determined that it no longer has the ability to exercise significant influence over the operating and financial policies of SatCon as a result of waiving the Company's right to nominate and recommend directors to SatCon's board and our reduction

of ownership in SatCon and, therefore, has accounted for its investment

in SatCon since July 1, 2002 using the fair value method as set forth in SFAS No. 115, "*Accounting for Certain Debt and Equity Securities.*" The Company is no longer required to record its share of any losses from SatCon and the holding is carried at fair value, designated as available for sale and any unrealized holding gains or losses are included in stockholders' equity as a component of accumulated other comprehensive income (loss).

During the year ended December 31, 2002, the Company believed the decline in market value through September 30, 2002 represented an other than temporary decline and recorded an impairment loss of $3.143 million in its statement of operations. As of December 31, 2002, the fair market value of SatCon's common stock was $1.40 per share and the

Company's book value basis before fair value adjustment in its holdings in SatCon's common stock was $1.34 per share, therefore as of December 31, 2002, the Company recorded an unrealized holding gain, net of taxes of $27 thousand in its statement of shareholders' equity.

Additionally, the Company has warrants to purchase 100,000 shares of SatCon's common stock at an exercise price of $7.84 per share with expiration dates in October 2003 and January 2004. The Company accounts for these warrants in accordance with SFAS No. 133 and, therefore, records the warrants at their fair value and records any change in value in its statement of operations. As of December 31, 2002, the warrants to purchase SatCon common stock had a fair value of $6 thousand and are included in derivative assets on the accompanying balance sheet.

Plug Power

The Company's holdings in Plug Power were accounted for under the equity method of accounting from their acquisition date through December 20, 2002. On December 20, 2002, the Company determined that it no longer has the ability to exercise significant influence over the operating and financial policies of Plug Power as a result of its reduced ownership in Plug Power and, therefore, has accounted for its investment in Plug Power since December 20, 2002 using the fair value method as set forth in SFAS No. 115, "*Accounting for Certain Debt and Equity Securities.*" The Company is no longer required to record its share of any losses from Plug Power and the holding is carried at fair value, designated as available for sale and any unrealized holding gains or losses are included in stockholders' equity as a component of accumulated other comprehensive income (loss).

As of December 31, 2002, the fair market value of Plug Power's common stock was $4.49 per share, and the Company's book value basis before fair value adjustment in its holdings in Plug Power's common stock was $1.78 per share, therefore as of December 31, 2002, the Company recorded an unrealized holding gain, net of taxes of $13.143 million in its statement of stockholders' equity.

(1) Accounting Policies (Continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires 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.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, unbilled contract costs and fees, warrants to purchase shares of common stock, accounts payable and debt instruments. The estimated fair value of these financial instruments approximate their carrying values at December 31, 2002 and 2001. The estimated fair values have been determined through information obtained from market sources, where available, Black-Scholes valuations or based on current rates offered for debt with similar terms and maturities.

Accounting for Derivative Instruments

On October 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes a new model for accounting for derivatives and hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure these instruments at fair value. Upon adoption of SFAS No. 133, the Company recorded an unrealized gain on its investment in derivatives, consisting of warrants to purchase SatCon Technology Corporation and Beacon Power Corporation common stock, in its results of operations as a cumulative effect of a change in accounting principle of $6.110 million to reflect the impact of adopting this accounting standard on October 1, 2000. On December 20, 2000, the Company exercised its warrants to purchase Beacon Power common stock.

In September 2000, the Emerging Issues Task Force issued EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock," which requires

freestanding contracts that are settled in a company's own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value, with any changes in fair value recorded in the results of

operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required. In accordance with EITF 00-19, the Company determined that outstanding

warrants as of September 30, 2001 to purchase 300,000 shares of the Company's Common Stock issued to SatCon Technology Corporation should be designated as a liability. Effective June 30, 2001, all warrants designated as a liability must be recorded as a liability and therefore, the Company reclassified the warrants designated as a liability from

equity to liabilities, which had a fair value on the issuance date of $3.678 million, using the Black Scholes option-pricing model.

Additionally on June 30, 2001, the Company recorded the warrants at the current fair value of $1.210 million, using the Black-Scholes option-pricing model, and recorded a $1.468 million gain, net of tax in its results of operations as a cumulative effect of a change in accounting principle. Effective December 28, 2001, the Company amended these warrants, removing the provisions providing the warrant holders with rights that rank higher than those of common stockholders. As a result of the amendment, these warrants meet the criteria of equity instruments in accordance with EITF 00-19 and, therefore, the Company reclassified the value of these warrants to equity from liabilities.

The Company held or has outstanding the following derivative financial instruments:

	Dec. 31, 2002	Dec. 31, 2001	Expiration
Derivatives issued:			

Warrants, immediately exercisable, to purchase the Company's common stock issued to SatCon at a purchase price of $12.56 per share	108,000	108,000	October 31, 2003
Warrants, immediately exercisable, to purchase the Company's common stock issued to SatCon at a purchase price of $12.56 per share	192,000	192,000	January 31, 2004
Derivatives held:			
Warrants, immediately exercisable, to purchase SatCon Technology common stock at a purchase price of $7.84 per share	36,000	36,000	October 21, 2003
Warrants, immediately exercisable, to purchase SatCon Technology common stock at a purchase price of $7.84 per share	64,000	64,000	January 31, 2004

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant, and Equipment

Property, plant and equipment are stated at cost and depreciated using primarily the straight-line method over their estimated useful lives:

Leasehold improvements	Lesser of the life of the lease or the useful life of the improvement
Machinery and equipment	2 to 10 years
Office furniture, equipment and fixtures	2 to 10 years

Significant additions or improvements extending assets' useful lives are capitalized; normal maintenance and repair costs are expensed as incurred. The costs of fully depreciated assets remaining in use are included in the respective asset and accumulated depreciation accounts.

When items are sold or retired, related gains or losses are included in net income.

ECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (Continued)

Income Taxes

The Company accounts for taxes in accordance with Financial Accounting

Standard No. 109, *Accounting for Income Taxes*, which requires the use

of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted

statutory tax rates applicable for future years to differences between financial statement and tax bases of existing assets and liabilities. Under FAS No. 109, the effect of tax rate changes on deferred taxes is

recognized in the income tax provision in the period that includes the enactment date. The provision for taxes is reduced by investment and other tax credits in the years such credits become available.

Revenue Recognition

The Company recognizes revenue from product sales in accordance with Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition*. Product revenue is recognized when there is persuasive evidence of an arrangement, delivery of the product to the customer or distributor has occurred, at which time title generally is passed to the customer or distributor, and the Company has determined that collection of a fixed fee is probable, all of which occur upon shipment of the product. If the

product requires installation to be performed by the Company; all revenue related to the product is deferred and recognized upon the completion of the installation.

The Company performs funded research and development for government agencies and companies under cost reimbursement contracts, which generally require the Company to absorb up to 50% of the total costs incurred. Cost reimbursement contracts provide for the reimbursement of allowable costs. Revenues are generally recognized in proportion to the reimbursable costs incurred. When government agencies are providing funding they do not expect the government to be the only significant end user of the resulting products. These contracts do not require delivery of products which meet defined performance specifications but are best efforts arrangements to achieve overall research and development objectives. Included in accounts receivable are billed and unbilled work-in-progress on cost reimbursed contracts.

While the Company's accounting for these contract costs are subject to audit by the sponsoring entity, in the opinion of management, no material adjustments are expected as a result of such audits. Cost of product revenue includes material, labor and overhead. Costs incurred in connection with funded research and development arrangements are included in funded research and product development expenses.

Deferred revenue consists of payments received from customers in advance of services performed, products shipped or installation completed.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (Continued)

Warranty

The Company records a warranty reserve at the time product revenue is recorded based on a historical rate. The reserve is reviewed during the year and is adjusted, if appropriate, to reflect new product offerings or changes in experience. Actual warranty claims are tracked by product.

Accounting for Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted the provisions of SFAS

No. 142, *Goodwill and Other Intangible Assets*. This Statement affects the Company's treatment of goodwill and other intangible assets. The Statement requires that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified within the Statement's criteria. Intangible assets with finite useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminable lives will cease.

As a result of the adoption of the Statement, the Company stopped amortizing goodwill associated with its equity holdings in SatCon.

The Company recorded expense related to the amortization of goodwill associated with its holdings in SatCon of $0, $688, $2,755 and $2,067 thousand, respectively, during 2002, the Transition Period, 2001 and 2000, respectively. The Company has no intangible assets.

The Pro Forma effects of the Company adopting the provisions of SFAS No. 142 as if SFAS No. 142 had been applied for all periods presented would be as follows:

		Three Months		
(Dollars in thousands, except	Year Ended	Ended	Year Ended	Year Ended

per share data)	Dec. 31, 2002	Dec. 31, 2001	Sept. 30, 2001	Sept. 30, 2000
Reported net (loss) income	$(6,961)	$(13,585)	$ 3,841	$(18,596)
Add back goodwill amortization, net				
of taxes	-	416	1,763	1,261
Adjusted net (loss) income	$(6,961)	$(13,169)	$ 5,604	$(17,335)
Basic and Diluted (Loss) Income				
Per Share:				
Reported net (loss) income	$ (0.20)	$ (0.38)	$ 0.11	$ (0.53)
Goodwill amortization	-	0.01	0.05	0.04
Adjusted (loss) income per share	$ (0.20)	$ (0.37)	$ 0.16	$ (0.49)

Accounting for Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, *Accounting for the*

Impairment or Disposal of Long-Lived Assets, which supersedes SFAS No.

121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, and the accounting and reporting provisions of APB No. 30. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and

was adopted as of January 1, 2002. This Statement specifies how impairment will be measured and how impaired assets will be classified in the financial statements. The Company's adoption of this Statement did not have a material impact on the Company's financial statements.

Foreign Currency Translation

Assets and liabilities of Ling Electronics, Limited, which was sold on October 21, 1999, were translated at year-end rates of exchange, and revenues and expenses are translated at the average rates of exchange for the year. Gains or losses resulting from the translation of the foreign subsidiary's balance sheet are accumulated in a separate component of shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of less than three months.

Securities Available for Sale

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determinations at each balance sheet date. Marketable securities for

which the Company does not have the intent or ability to hold to maturity are classified as available for sale. Securities available for sale are carried at fair value, with the unrealized gains and losses, net of income taxes, reported as a separate component of shareholders' equity. The Company has had no investments that qualify as trading or held to maturity. In 2000, the amortized cost of marketable debt securities was adjusted for accretion of discounts to maturity. Such accretion, as well as interest, is included in interest income. Realized gains and losses are included in "Gain on sale of holdings, net" or "Other expense, net" in the Consolidated Statements of Operations. The cost of securities sold is based on the specific identification method.

Net Income (Loss) per Basic and Diluted Common Share

The Company reports net income (loss) per basic and diluted common share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings Per Share*, which establishes standards for computing and presenting income (loss) per share. Basic income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted income (loss) per share reflects the potential

dilution, if any, which would occur if securities or other contracts to

issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income (loss) of the Company.

Stock Based Compensation

At December 31, 2002, the Company has two stock-based employee compensation plans, which are described more fully in Note 15. SFAS No.

(1) Accounting Policies (Continued)

123, *Accounting for Stock-Based Compensation*, requires the measurement of the fair value of stock options or warrants granted to employees to be included in the statement of operations or, alternatively, disclosed in the notes to consolidated financial statements. The Company accounts for stock-based compensation of employees under the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations and has elected the disclosure-only alternative under SFAS No. 123. The

Company records the fair market value of stock options and warrants granted to non-employees in exchange for services in accordance with Emerging Issues Task Force (EITF) No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, in the Consolidated Statement of Operations. The Company does not intend to adopt the transition provisions of SFAS No. 148, *Accounting for Stock- Based Compensation- Transition and Disclosure.*

The following table illustrates the effect on net (loss) income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Net (loss) income, as reported	$(6,961)	$(13,585)	$3,841	$(18,596)
Add: Total stock-based employee compensation expense already recorded in financial statements, net of related tax effects	30	8	(9)	334
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,803)	(397)	(1,690)	(4,059)
Pro forma net (loss) income	$(8,734)	$(13,974)	$2,142	$(22,321)
Earnings per share:				
Basic and diluted - as reported	$ (.20)	$ (.38)	$ .11	$ (.53)
Basic and diluted - pro forma	$ (.25)	$ (.39)	$ .06	$ (.63)

Advertising

The costs of advertising are expensed as incurred. Advertising expense was approximately $37, $10, $67 and $44 thousand in 2002, the Transition Period, 2001 and 2000, respectively.

Concentration of Credit Risk

Financial instruments that subject the Company to concentrations of credit risk principally consist of cash equivalents, marketable securities, trade accounts receivable and unbilled contract costs.

The Company's trade accounts receivable and unbilled contract costs and fees are primarily from sales to commercial customers and U.S. government and state agencies. The Company does not require collateral and has not historically experienced significant credit losses related to receivables or unbilled contract costs and fees from individual customers or groups

of customers in any particular industry or geographic area.

(1) Accounting Policies (Continued)

The Company deposits its cash and invests in marketable securities

primarily through commercial banks and investment companies. Credit exposure to any one entity is limited by Company policy.

Research and Development Costs

The Company expenses research and development costs as incurred.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss), as well as changes in stockholders' equity, other than those resulting from investments by shareholders (i.e., issuance or repurchase of common shares and dividends).

Effect of Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Statement ("SFAS") No. 143, *Accounting for Asset Retirement Obligation.* SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes a cost by increasing the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not believe the adoption of this Statement will have a material impact on its consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. This statement is effective for exit and disposal activities initiated after December 31, 2002. The Company does not believe the adoption of this Statement will have a material impact on its consolidated financial statements.

In November 2002, FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statement No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34 ("FIN 45")*. FIN 45 clarifies the requirements of SFAS No. 5, *Accounting for Contingencies*, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN

45 requires that upon issuance of a guarantee, the guarantor must

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (Continued)

recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 covers guarantee contracts that have any of the following four characteristics: (a) contracts that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, a liability, or an equity security of the guaranteed party (e.g., financial and market value guarantees), (b) contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an obligating agreement (performance guarantees), (c) indemnification agreements that contingently require the indemnifying party (guarantor) to make payments to the indemnified party (guaranteed party) based on changes in an underlying that is related to an asset, a liability, or an equity security of the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, and (d) indirect guarantees of the indebtedness of others. FIN 45 specifically excludes certain guarantee contracts from its scope. Additionally, certain guarantees are not subject to FIN 45's provisions for initial recognition and measurement but are subject to its disclosure requirements. The initial recognition and measurement provisions are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for our annual financial statements for the year ended December 31, 2002. The Company has made appropriate disclosures regarding warranties as of December 31, 2002 and is currently reviewing this Statement to determine its further effect on its consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock Based Compensation-Transition and Disclosure, an amendment to FASB Statement No. 123*. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Finally, SFAS No. 148 amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial reporting. For entities that voluntarily change to the fair value based method of accounting for stock-based employee compensation, the transition provisions are effective for fiscal years ending after December 15, 2002. For all other companies, the disclosure provisions and the amendment to APB No. 28 are effective for interim periods beginning after December 15, 2002. The Company does not intend to adopt the transition provisions of the Statement and has made all required disclosures as of December 31, 2002.

In January 2003, FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (Continued)

residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company is currently evaluating the impact of FIN 46 on its consolidated financial statements and related disclosures but does not expect that there will be any material impact.

Reclassification

Certain Transition Period, 2001 and 2000 amounts have been reclassified to conform to the 2002 presentation.

2. Contracts Receivable

Included in accounts receivable are the following at December 31:

(Dollars in thousands)	2002	2001
U.S. and State Government:		
Amount billable	$300	$191
Amount billed	42	-
Retainage	25	-
	$367	$191

The balances billed but not paid by customers pursuant to retainage provisions in contracts are due upon completion of the contracts and acceptance by the customer. Based on the Company's experience, most retainage amounts are expected to be collected within the ensuing year.

3. Issuance of Stock by Subsidiary

MTI MicroFuel Cells Inc. ("MTI Micro") was formed on March 26, 2001. On that date, MTI Micro sold approximately 200 thousand shares of its junior convertible preferred class A stock to founding employees of MTI Micro at a price of $.50 per share which raised cash proceeds of $117 thousand. In July 2001, MTI Micro sold approximately 1.3 million shares of its senior convertible preferred class B stock to E.I. du Pont de Nemours and Company ("Dupont"), in connection with the establishment of a strategic partnership, at a price of $1.18 per share which resulted in cash proceeds of $750 thousand and $750 thousand of prepaid materials.

Preferred shares are convertible into common shares on a one- for -one basis and there are no dividend rights.

On November 1, 2001, MTI Micro sold approximately __ I00,000 shares of its senior convertible preferred Class B stock to Dupont, at a price of $2.325 per share which raised proceeds of approximately $295 thousand.

During 2002, MTI Micro purchased treasury shares with a total value of $15 thousand. F-19

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Issuance of Stock by Subsidiary (Continued)

The (decrease) increase in the Company's paid-in-capital of $(28), $46 and $1,163 thousand in 2002, the Transition Period and 2001,respectively represents the changes in the Company's equity investment in MTI Micro, which results from stock transactions in MTI Micro.

4. Inventories

Inventories consist of the following at December 31:

(Dollars in thousands)	2002	2001
Finished goods	$ 313	$ 342
Work in process	253	479
Raw materials, components and assemblies	812	689
	$1,378	$1,510

5. Property, Plant and Equipment

Property, plant and equipment consist of the following at December 31:

(Dollars in thousands)	2002	2001
Leasehold improvements	$ 547	$ 518
Machinery and equipment	2,642	2,228

Office furniture and fixtures	233	191
Construction in progress	5	-
	3,427	2,937
Less accumulated depreciation	1,869	1,389
	$1,558	$1,548

Depreciation expense was $497, $113, $262 and $169 thousand for 2002, the Transition Period, 2001 and 2000, respectively. Repairs and maintenance expense was $71, $9, $52 and $52 thousand for 2002, the Transition Period, 2001 and 2000, respectively.

6. Notes Receivable

Notes receivable consists of the following at December 31:

(Dollars in thousands)	2002	2001
Notes receivable with interest at prime (4.25% at December 31, 2002 and 4.75% at December 31, 2001), interest and principal due May 18, 2005	$ 660	$ 660
Notes receivable with an interest rate of 10%, interest and principal due September 30, 1998 (A)	-	25
	660	685
Less: Current portion	-	(25)
Less: Allowance for bad debt	(660)	(660)
	$ -	$ -

(A) The principal amount of this note could be reduced in accordance with the terms of the note in the event of a sale of the fixed assets. The purchaser, Noonan Machinery ("Noonan"), requested that the principal amount of the note be reduced to reflect the resale value of certain assets of the L.A.B. Division, which was sold on September 30, 1997. The Company enforced its rights with respect to the note and was granted a summary judgment for collection of this note during 2001. Noonan appealed this summary judgment and the Company and Noonan agreed to a settlement, which includes the principal balance of this note receivable and accrued interest.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Holdings, at Equity

The Company's holdings in SatCon were accounted for on a one-quarter lag until July 1, 2002 and its holdings in Plug Power were accounted for until December 20, 2002 when the accounting for these holdings was changed to fair value from the equity method (see Note 1).

The principal components of holdings, at equity consist of the following at December 31, 2001:

Holding	Recorded Book Value ($ in millions)	Quoted Market Price per NASDAQ	Calculated Market Value per NASDAQ ($ in millions)	Ownership	Shares
Plug Power Inc.	$32.177	$8.74	$104.830	23.83%	11,994,315
SatCon Technology Corporation	6.760	$5.20	6.760	7.86%	1,300,000
Total	$38.937		$111.590		

Holding	Description of Business
Plug Power Inc.	Plug Power designs, develops and manufactures on-site electric power generation systems utilizing Proton Exchange Membrane (PEM) fuel cells for stationary applications.
SatCon Technology Corporation	SatCon Technology Corporation manufactures and sells power and energy management products for digital power markets. SatCon has three business units: SatCon Power Systems manufactures and sells power systems for distributed power generation, power quality and factory automation. SatCon Semiconductor Products manufactures and sells power chip components; power switches; RF devices; amplifiers; telecommunications electronics; and hybrid microcircuits for industrial, medical, and aerospace applications. SatCon Applied Technology develops advanced technology in digital power electronics, high-efficiency machines and control systems with the strategy of transitioning those technologies into products.

Plug Power Inc.

The following is a roll forward of the Company's holdings in Plug Power:

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001
Holdings balance, beginning of period	$ 32,177	$36,027
Share of Plug Power losses, gross	(10,111)	(4,069)
Sale of shares	(2,768)	-
Equity adjustment for share of third-party investments in Plug Power which increased equity	717	219
Exchange of securities	(5,599)	-
Transfer assets to securities available for sale on December 20, 2002	(14,416)	-
Holdings balance, December 31	$ -	$32,177

There is no difference between the carrying value of the Company's holdings in Plug Power and its interest in the underlying equity at December 31, 2001.

- Holdings at Equity (Continued)

Summarized below is financial information for Plug Power whose fiscal year ends December 31.

(Dollars in thousands)	Year Ended Dec.31, 2002	Year Ended Dec.31, 2001	Unaudited Three Months Ended December 31, 2001
Current assets	$ 67,135	$ 100,565	$ 100,565

Noncurrent assets	41,548	50,809	50,809
Current liabilities	10,259	10,199	10,199
Noncurrent liabilities	5,727	6,172	6,172
Stockholders' equity	92,697	135,003	135,003
Gross revenue	11,818	5,742	2,505
Gross profit (loss)	478	(5,549)	(2,207)
Net loss	(47,218)	(73,112)	(17,070)

SatCon Technology Corporation

The following is a roll forward of the Company's holdings in SatCon:

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001
Holdings balance, beginning of period	$ 6,760	$11,170
Share of SatCon losses on one-quarter lag, gross	(1,110)	(727)
Sale of shares	(832)	-
Amortization of embedded difference between the Company's basis and calculated ownership of underlying equity, one-quarter lag	-	(688)
Impairment loss (Note 9)	(2,475)	(5,790)
Equity adjustment for other equity activity	(150)	2,795
Transfer assets to securities available for sale on July 1, 2002	(2,193)	-
Holdings balance, December 31	$ -	$ 6,760

The difference between the carrying value of the Company's holdings in SatCon and its interest in the underlying equity consists of the following at December 31, 2001:

(Dollars in thousands)	Year Ended Dec. 31, 2001
Calculated ownership, one-quarter lag, except for common stock sales which are recognized as of the sale date (7.86% in the Transition Period)	$ 4,285
Embedded difference	2,475
Carrying value of holdings in SatCon	$ 6,760

Summarized below is financial information for SatCon. SatCon's fiscal year ends September 30. The Company's holdings in SatCon were accounted for on a one-quarter lag, except for sales of common stock, which were effected as of the sale date.

- Holdings at Equity (Continued)

(Dollars in thousands)		Unaudited	Unaudited	
	Year Ended Sept. 30, 2002	Nine Months Ended June 29, 2002	Nine Months Ended Dec. 29, 2001	Year Ended Sept.30, 2001

Current assets	$22,189	$25,046	$35,352	$42,466
Noncurrent assets	20,171	20,792	25,183	26,310
Current liabilities	11,217	11,445	12,131	12,842
Noncurrent liabilities	1,217	932	1,105	1,423
Stockholders' equity	29,926	33,461	47,299	54,511
Gross revenue	41,630	30,395	8,340	41,684
Gross profit	4,809	3,552	687	6,411
Net loss before cumulative effect of changes in				
accounting principles	-	(15,389)	-	(22,156)
Cumulative effect of changes in accounting				
principles	-	-	-	(168)
Net loss	(20,761)	(15,389)	(5,397)	(22,324)

8. Securities Available for Sale

Securities available for sale are classified as current assets and accumulated net unrealized gains (losses) are charged to other comprehensive income (loss).

The principal components of the Company's securities available for sale consist of the following:

(Dollars in millions)

Security	Book Basis	Fair Value Adjustment	Recorded Fair Value	Quoted Market Price Per NASDAQ	Ownership	Shares
December 31, 2002						
Plug Power	$14.344	$21.905	$36.249	$ 4.49	15.83%	8,073,227

SatCon	1.037	.046	1.083	1.40	4.58%	773,600
Total	$15.381	$21.951	$37.332			
December 31, 2001						
Beacon Power	$ 5.734	$ -	$ 5.734	$ 1.30	10.3%	4,410,797

The book basis roll forward of Plug Power, SatCon and Beacon Power common stock is as follows:

Plug Power (beginning December 20, 2002)

(Dollars in thousands)	Dec. 31, 2002	Dec.31, 2001
Securities available for sale, beginning of period	$ -	$ -
Transfer asset from holdings, at equity on December 20, 2002	14,416	-
Sale of shares	(72)	-
Securities book basis	14,344	-
Unrealized gain on marketable securities	21,905	-
Securities available for sale, end of period	$36,249	$ -

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Securities Available for Sale (Continued)

SatCon (beginning July 1, 2002)

(Dollars in thousands)	Dec. 31, 2002	Dec.31, 2001
Securities available for sale, beginning of period	$ -	$ -
Transfer asset from holdings, at equity on July 1, 2002	2,193	-
Sale of shares	(488)	-
Impairment loss (Note 9)	(668)	-
Securities book basis	1,037	-
Unrealized gain on marketable securities	46	-
Securities available for sale, end of period	$ 1,083	$ -

Beacon Power

(Dollars in thousands)	Dec. 31, 2002	Dec.31, 2001
Securities available for sale, beginning of period	$5,734	$15,377
Impairment loss (Note 9)	(4,984)	(9,643)
Sale of shares during 2002	(750)	-
Securities book basis	-	5,734
Unrealized gain on marketable securities	-	-
Securities available for sale, end of period	$ -	$ 5,734

Unrealized gains and (losses) related to securities available for sale are as follows:

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Unrealized gains (losses)	$21,951	$ 8,673	$(8,673)	$ 5
Deferred tax (expense) benefit on				

unrealized gains (losses)	(8,781)	(3,469)	3,469	-
Net unrealized gains (losses), included in other comprehensive income (loss)	$13,170	$ 5,204	$(5,204)	$ 5

Proceeds and realized gains and (losses) related to the sale of securities available for sale are as follows:

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Proceeds from sales of available for sale securities	$ 865	$ -	$ -	$ -
Gross realized gains from sales of securities available for sale	91	-	-	-
Gross realized (losses) from sales of securities available for sale	(536)	-	-	-

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

9. Impairment Losses

The Company regularly reviews its holdings and securities available for sale to determine if any declines in value of those holdings are other than temporary. The Company assesses whether declines in the value of its holdings and securities in publicly traded companies, measured by

comparison of the current market price of the securities to the carrying value of the Company's holdings and securities, are considered to be other than temporary based on factors that include (1) the length of time carrying value exceeds fair market value, (2) the Company's assessment of the financial condition and the near term prospects of the companies, and (3) the Company's intent with respect to the holdings and securities.

The slowing economy has had a negative impact on the equity value of companies in the new energy sector. In light of these circumstances

and based on the results of the reviews described above, the Company recorded other than temporary impairment charges with respect to its holdings in publicly traded companies. The pre-tax impairment losses were recorded as follows:

Holdings, at equity (SatCon), (Note 7)	$(2,475)	$ (5,790)	$ -	$ -
Securities available for sale (Beacon), (Note 8)	(4,984)	(9,643)	-	-
Securities available for sale (SatCon), (Note 8)	(668	-	-	-
)				
	$(8,127)	$(15,433)	$ -	$ -

10. Income Taxes

Deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates.

Income tax expense (benefit) consists of the following:

		Three Months		
	Year Ended	Ended	Year Ended	Year Ended
	Dec. 31,	Dec. 31,	Sept. 30,	Sept. 30,
(Dollars in thousands)	2002	2001	2001	2000
Continuing operations before equity holdings'				
losses and changes in accounting principle				
Federal	$ (625)	$ 16	$ 459	$ (457)
State	264	85	22	14

Deferred	(275)	(6,889)	7,043	(1,484)
	)			
	(636)	(6,788	7,524	(1,927
	)		)	
Equity in holdings' losses				
Federal	-	-	-	-
State	-	-	-	-
Deferred	(4,550)	(2,169	(9,722	(10,219
	)	)	)	
	(4,550	(2,169	(9,722	(10,219
)	)	)	)	
Total continuing operations	(5,186	(8,957	(2,198)	(12,146
)	)		)	

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Income Taxes (Continued)

		Three Months		
	Year Ended	Ended	Year Ended	Year Ended

(Dollars in thousands)	Dec. 31, 2002	Dec. 31, 2001	Sept. 30, 2001	Sept. 30, 2000
Change in accounting principle for derivative				
financial instruments				
Federal	-	-	-	-
State	-	-	-	-
Deferred	-	-	3,876	-
Change in accounting principle	-	-	3,876	-
Change in accounting principle for				
derivative				
financial instruments in Company's own				
stock				
Federal	-	-	-	-
State	-	-	-	-
Deferred	-	-	1,000	-
Change in accounting principle	-	-	1,000	-
Discontinued operations				
Federal	-	-	-	-
State	-	-	-	-
Deferred	154	-	-	157
Total discontinued operations	154	-	-	157
Total	$(5,032)	$(8,957)	$ 2,678	$(11,989)

Items charged (credited) directly to shareholders'

equity:				
Increase in additional paid-in capital for equity holdings, and warrants and options issued - Deferred	$ 227	$ 1,206	$ 7,456	$ 18,825
Increase in unrealized gain (loss) on available for sale securities - Deferred	8,781	3,469	(3,469)	-
Expenses for employee stock options recognized differently for financial reporting/tax purposes - Federal	(55)	-	(184)	(1,806)
Decrease in additional paid-in capital for cumulative effect of change in accounting for derivative financial instruments for Company's own stock	-	-	(1,471)	-
Increase in additional paid-in-capital for reclassification of common stock warrants from liability to equity	-	49	-	-
Valuation allowance	-	-	-	(3,750)
	$8,953	$ 4,724	$ 2,332	$ 13,269

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

• Income Taxes (Continued)

The significant components of deferred income tax (benefit) expense consists of the following:

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Continuing operations				
Deferred tax expense (benefit)	$ (294)	$(6,133)	$(3,157)	$ (647)
Net operating loss carryforward	(673)	(756)	10,200	(1,981)
Valuation allowance	692	-	-	1,144
	(275)	(6,889)	7,043	(1,484)

Equity holdings losses				
Deferred tax benefit	(4,550)	(2,169)	(8,705)	(8,179)
Net operating loss carryforward	-	-	(1,017)	(2,040)
Valuation allowance	-	-	-	-
	(4,550	(2,169)	(9,722	(10,219
	)		)	)
Change in accounting principle for				
derivative financial instruments				
Deferred tax expense	-	-	3,876	-
Net operating loss carryforward	-	-	-	-
Valuation allowance	-	-	-	-
	-	-	3,876	-
Change in accounting principle for				
derivative financial instruments in				
Company's own stock				
Deferred tax expense	-	-	1,000	-
Net operating loss carryforward	-	-	-	-
Valuation allowance	-	-	-	-
	-	-	1,000	-
Discontinued operations				
Deferred tax expense	154	-	-	187
Net operating loss carryforward	-	-	-	(30)
Valuation allowance	-	-	-	-
	154	-	-	157
	$(4,671)	$(9,058)	$2,197	$(11,546)

The Company's effective income tax rate from continuing operations, including equity in holdings' losses, differed from the Federal statutory rate:

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Federal statutory tax rate	(34)%	(34)%	34%	(34)%
State taxes, net of federal tax effect	(5)	(6)	6	(6)
Change in valuation allowances	5	-	-	4
Research and development credit	-	-	1	1
Other, net	(7)	-	(5)	(4)
	(41)%	(40)%	36%	(39)%

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Income Taxes (Continued)

Pre-tax (loss) from continuing operations before minority interests, including pre-tax losses from equity holdings, was $(12,790), $(22,646), $(6,058) and $(30,985) thousand for 2002, the Transition Period, 2001 and 2000, respectively.

The deferred tax assets and liabilities consist of the following tax effects relating to temporary differences and carryforwards as of December 31:

(Dollars in thousands)

Current deferred tax (liabilities) assets:	2002	2001
Loss provisions for discontinued operations	$ -	$ 142
Bad debt reserve	264	277

Inventory valuation	12	27
Inventory capitalization	19	12
Securities available for sale	(9,659)	1,344
Vacation pay	94	94
Warranty and other sale obligations	22	33
Stock options	256	237
Other reserves and accruals	116	149
Net current deferred tax (liabilities) assets	$(8,876)	$ 2,315
Noncurrent deferred tax assets (liabilities):		
Net operating loss	$ 3,790	$ 3,117
Property, plant and equipment	(123)	(82)
Holdings, at equity	-	(7,314)
Derivatives	(2)	(78)
Other	239	201
Research and development tax credit	459	459
Alternative minimum tax credit	150	609
	4,513	(3,088)
Valuation allowance	(1,836)	(1,144)
Noncurrent net deferred tax assets (liabilities)	$ 2,677	$(4,232)
Other credits	$ (24)	$ (174)

The valuation allowance at December 31, 2002 and 2001 was $1.836 million and $1.144 million, respectively. During the year ended December 31, 2002, the valuation allowance was increased through the statement of operations by $.692 million. The valuation allowance reflects the estimate that it is more likely than not that certain net operating losses may be unavailable to offset future taxable income.

At December 31, 2002, the Company has unused Federal net operating loss carryforwards of approximately $9.657 million. The Federal net operating loss carryforwards, if unused, will begin to expire in 2009. The use of $1.920 million of loss carryforwards is limited on an annual basis, pursuant to the Internal Revenue Code, due to certain changes in ownership and equity transactions, which occurred in 1997. For the year ended December 31, 2002, the

Company has approximately $459 thousand of research and development tax credit carryforwards, which begin to expire in 2018, and approximately $150 thousand of alternative minimum tax credit carryforwards, which have no expiration date.

- Income Taxes (Continued)

The Company made cash payments, net of refunds, or received net (refunds) for income taxes of $(112), $56, $454 and $(18) thousand for 2002, the Transition Period, 2001 and 2000, respectively.

11. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

(Dollars in thousands)	2002	2001
Salaries, wages and related expenses	$ 513	$ 488
Acquisition and disposition costs	363	401
Legal and professional fees	159	270
Warranty and other sale obligations	54	81
Commissions	38	76
Interest expense	3	4
Deferred revenue	175	-
Other	238	312
	$1,543	$1,632

- Debt

Outstanding debt consists of the following at December 31:

(Dollars in thousands)	2002	2001
Line of Credit - KeyBank with interest at		
Prime (4.25% at December 31, 2002 and 4.75%		

at December 31, 2001)	$ -	$ 1,000
Less: Current portion	-	(1,000)
	$ -	$ -

As of December 31, 2002, the Company had a $10 million Credit Agreement with KeyBank, N.A. dated as of August 10, 2001 ("the $10 million Credit Agreement"). The Company has no outstanding debt and no availability under this line as of December 31, 2002.

The $10 million Credit Agreement expires July 31, 2003. The Company has pledged two million shares of Plug Power common stock as collateral for the $10 million Credit Agreement. Additional collateral consisting of 500,000 shares of SatCon common stock was pledged in August 2001, when the market value of Plug Power common stock fell below $10 per share. Terms of the $10 million Credit Agreement include reductions of availability under the line as follows:

- In the event the market value of Plug Power common stock falls below $10 per share, the facility will be reduced to $7.5 million and additional collateral will be required;
- In the event the market value of Plug Power common stock falls below $8 per share, the facility will be reduced to $5.0 million; and
- In the event the market value of Plug Power common stock falls below $7 per share, the facility will be reduced to zero.

12. Debt (Continued)

As of December 31, 2002, the market value of Plug Power common stock was $4.49, which reduced the availability under the facility to zero.

The Company is required to make interest only payments through July 31, 2003 and to pay any outstanding principal balance on July 31, 2003.

Interest is payable monthly at either the Prime Rate or, after November 3, 2001, if certain performance standards are achieved, based on both the trading volume and market price of Plug Power common stock, at LIBOR based rates.

The $10 million Credit Agreement requires the Company to meet certain covenants, including maintenance of a debt service reserve account (equal

to three months interest payments on outstanding debt), minimum Plug Power share price and pledge additional collateral and maintain an additional collateral value, if required, based on the Plug Power share price falling below $10 per share. The Company was in compliance with these covenants as of December 31, 2002.

As of December 31, 2002, the carrying value of assets pledged as collateral for the $10 million Credit Agreement was as follows (dollars in thousands):

Collateral	Carrying Value
2 million shares of Plug Power Common Stock	$8,980
500 thousand shares of SatCon Common Stock	700
Total Collateral Value	$9,680

Cash payments for interest were $48, $46, $2,144 and $1,731 thousand for 2002, the Transition Period, 2001 and 2000, respectively.

13. Shareholders' Equity

Treasury Stock

On December 20, 2002, the Company acquired 8,000,000 shares of treasury stock from First Albany Companies Inc. as part of a share exchange transaction (See Note 18).

Stock Splits

On March 8, 2000, the Company declared a 3-for-1 stock split in the form of a dividend. Holders of the Company's $1.00 par value common stock received two additional shares of $1.00 par value common stock for every one share of common stock owned as of April 3, 2000. Earnings per share information has been retroactively adjusted to reflect the April 3, 2000 3-for-1 stock split.

Warrants

The Company issued warrants as part of its strategic alliance with

SatCon. The warrants, as adjusted for the April 3, 2000 stock split, provide for the purchase of 108,000 and 192,000 shares of the Company's common stock and were issued on October 21, 1999 and January 31, 2000, respectively. The warrants are immediately exercisable at $12.56 per

share and expire on October 21, 2003 and January 31, 2004, respectively.

Changes in Common Shares

Changes in common shares are as follows:

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Common Shares				
Balance, beginning	35,505,235	35,505,010	35,437,285	34,949,877
Issuance of shares for stock option exercises	92,900	225	67,725	487,408
Issuance of shares for restricted stock grant	50,000	-	-	-
Balance, ending	35,648,135	35,505,235	35,505,010	35,437,285
Treasury Shares				
Balance, beginning	20,250	20,250	20,250	20,250
Acquisition of shares (Note 18)	8,000,000	-	-	-
Balance, ending	8,020,250	20,250	20,250	20,250

14. Earnings per Share

The following is the reconciliation, effected for the stock split in 2000, of the numerators and denominators of the basic and diluted per share computations of loss from continuing operations:

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Loss from continuing operations	$ (7,186)	$(13,585)	$(3,737)	$(18,839)

Basic and Diluted EPS:				
Common shares outstanding,				
beginning of period	35,484,760	35,484,760	35,417,035	34,949,877
Weighted average common shares				
issued during the period	47,893	-	38,747	286,401
Weighted average common shares				
reacquired during the period	(263,014)	-	-	-
Weighted average shares outstanding	35,269,639	35,484,760	35,455,782	35,236,278
Loss from continuing operations per				
weighted average share	$ (.21)	$ (.38)	$ (.10)	$ (.54)

During 2002, options to purchase 3,327,525 shares of common stock at prices ranging from $0.54 to $21.92 per share and warrants to purchase 300,000 shares of common stock at $12.56 per share were outstanding but were not included in the computation of earnings per share-assuming dilution because the Company incurred a loss from continuing operations during this period and inclusion would be anti-dilutive. The options expire between December 20, 2006, and November 19, 2012. The warrants expire October 21, 2003 (108,000 shares) and January 31, 2004 (192,000 shares).

14. Earnings Per Share (Continued)

During the Transition Period, options to purchase 3,199,175 shares of common stock at prices ranging from $.54 to $21.92 per share and warrants to purchase 300,000 shares of common stock at $12.56 per share were outstanding but were not included in the computation of earnings per share-assuming dilution because the Company incurred a loss during this period and inclusion would be anti-dilutive. The options expire between December 20, 2006 and December 5, 2011. The warrants expire October 21, 2003 (108,000 shares) and January 31, 2004 (192,000 shares).

During 2001, options to purchase 3,182,900 shares of common stock at prices ranging from $0.54 to $21.92 per share and warrants to purchase 300,000 shares of common stock at $12.56 per share were outstanding but were not included in the computation of earnings per share-assuming dilution because the Company incurred a loss from continuing operations before accounting changes during this period and inclusion would be anti-dilutive. The options expire between December 20, 2006, and April 2, 2011. The warrants expire October 21, 2003 (108,000 shares) and January 31, 2004 (192,000 shares).

During 2000, options to purchase 2,703,374 shares of common stock at prices ranging from $0.54 to $21.90 per share and warrants to purchase 300,000 shares of common stock at $12.56 per share were outstanding but were not included in the computation of earnings per share-assuming dilution because the Company incurred a loss during this period and

inclusion would be anti-dilutive. The options expire between December 20, 2006, and August 3, 2010. The warrants expire October 21, 2003 (108,000 shares) and January 31, 2004 (192,000 shares).

- Stock Based Compensation

The 1999 Employee Stock Incentive Plan ("1999 Plan") was approved by shareholders during March 1999. The 1999 Plan provides that an initial aggregate number of 1 million shares of common stock may be awarded or issued. The number of shares which may be awarded under the 1999 Plan has been adjusted for stock splits, and during 2002, the Transition Period, 2001 and 2000 the total number of shares which may be awarded under the 1999 Plan were 4,500,000 shares. Under the 1999 Plan, the Board of Directors is authorized to award stock options to officers, employees and others.

The 1996 Stock Incentive Plan ("1996 Plan") was approved by shareholders during December 1996. The 1996 Plan provides that an initial aggregate number of 500,000 shares of common stock may be awarded or issued. The number of shares which may be awarded under the 1996 Plan may be increased by 10% of any increase in the number of outstanding shares of common stock for reasons other than shares issued under this 1996 Plan. The number of shares which may be awarded under the 1996 Plan have been adjusted for stock splits and rights offerings, and during 2002, the Transition Period, 2001 and 2000, the total number of shares which may be awarded under the 1996 Plan were 3,478,746 shares. Under the 1996 Plan, the Board of Directors is authorized to award stock options, stock

14. Stock Based Compensation (Continued)

appreciation rights, restricted stock, and other stock-based incentives to officers, employees and others.

Options are generally exercisable in from one to four cumulative annual amounts beginning 12 months after the date of grant. Certain options granted may be exercisable immediately or begin vesting immediately. Option exercise prices are not less than 85 percent of the market value of the shares on the date of grant. Unexercised options generally terminate ten years after grant.

The Company has elected to follow Accounting Principles Board ("APB")

No. 25, *Accounting for Stock Issued to Employees*, and related

Interpretations, in accounting for employee stock-based compensation and to provide the disclosures required under SFAS No. 123, *Accounting for*

Stock Based Compensation. APB No. 25 requires no recognition of compensation expense for most of the stock-based compensation arrangements provided by the Company, namely, broad-based employee

stock purchase plans and option grants where the exercise price is equal

to or not less than 85 percent of the market value at the date of grant. However, APB No. 25 requires recognition of compensation expense for

variable award plans over the vesting periods of such plans, based upon the then-current market values of the underlying stock. In contrast, SFAS No. 123 requires recognition of compensation expense for grants of stock, stock options, and other equity instruments, over the vesting periods of such grants, based on the estimated grant-date fair values of those grants.

During 2002, the Company awarded 50,000 restricted shares of common stock, these shares vest over a one-year period and during 2000, and the Company awarded 60,000 options to consultants. Certain of these shares under option vest over a four-year period. Presented below is a summary of compensation expense (income) recorded in "Selling, general and administrative expenses" in the Consolidated Statements of Operations.

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
SFAS 123 - Consultants	$ 49	13	$ 51	$ 505
Restricted stock	10	-	-	-
APB No. 25 - Variable stock options	-	-	(65)	42
Total compensation expense (income)	$ 59	$ 13	$(14)	$ 547

Presented below is a summary of the stock option plans' activity:

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Shares under option, beginning	3,199,175	3,182,900	2,703,375	2,224,839
Granted	280,000	16,500	583,000	1,081,000

Exercised	(92,900)	(225)	(67,725)	(474,808)
Canceled	(58,750)	-	(35,750)	(127,656)
Shares under option, ending	3,327,525	3,199,175	3,182,900	2,703,375
Options exercisable	2,776,835	2,221,304	2,030,654	1,500,636
Remaining shares available for granting of options	3,379,582	3,650,832	3,667,332	4,214,582

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Stock Based Compensation (Continued)

The weighted average exercise price is as follows:

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Shares under option, beginning	$7.15	$7.17	$7.85	$ 1.63
Granted:				
Exercise price less than fair market value at grant date	-	-	-	11.55
Exercise price equal to fair market value at grant date	2.77	2.62	3.15	19.87
Exercised	1.19	1.78	1.03	1.01
Canceled	3.63	-	4.57	2.34

Shares under option, ending	7.01	7.15	7.17	7.85
Options exercisable, ending	6.60	6.30	6.66	6.42

The following table summarizes information for options outstanding and exercisable at December 31, 2002:

Outstanding Options				Options Exercisable	
Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ 0.54-$ 0.76	364,475	4.5	$ 0.69	364,475	$ 0.69
$ 0.98-$ 1.33	559,375	6.0	$ 1.27	509,375	$ 1.30
$ 1.65-$ 1.78	276,175	5.4	$ 1.77	273,824	$ 1.77
$ 2.62-$ 3.42	684,000	8.1	$ 3.03	446,750	$ 3.10
$ 4.17-$ 4.56	400,000	6.2	$ 4.20	396,250	$ 4.20
$ 6.27-$ 9.25	37,500	7.3	$ 8.06	33,750	$ 8.26
$10.65-$14.05	379,000	7.5	$11.58	251,411	$11.52
$20.92-$21.92	627,000	7.0	$21.40	501,000	$21.35
	3,327,525			2,776,835	

The fair value of options granted, which is amortized to expense over the option vesting period in determining the pro forma impact, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

		Three Months		
	Year Ended	Ended	Year Ended	Year Ended

	Dec. 31, 2002	Dec. 31, 2001	Sept. 30, 2001	Sept. 30, 2000
Expected life of option	5 yrs	5 yrs	5 yrs	5 yrs
Risk-free interest rate	2.97-4.69%	4.26%	4.66-5.71%	6.00-6.55%
Expected volatility of the Company's stock	97%	97%	96.5%	91%
Expected dividend yield on the Company's stock	0%	0%	0%	0%

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Stock Based Compensation (Continued)

The weighted average fair value of options granted is as follows:

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Fair value of each option granted	$ 2.09	$ 1.97	$ 2.38	$ 12.55
Number of options granted	280,000	16,500	583,000	1,081,000
Fair value of all options granted	$585,200	$32,505	$1,387,540	$13,566,550

In accordance with SFAS No. 123, the weighted average fair value of stock options granted is required to be based on a theoretical statistical model using the preceding Black-Scholes assumptions.

The weighted average fair value of restricted stock granted is as follows:

Three Months

	Year Ended Dec. 31, 2002	Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Fair value of each option granted	$ 1	$-	$-	$-
Number of options granted	50,000	-	-	-
Fair value of all options granted	$50,000	$-	$-	$-

16. Equity in Holdings' Losses, Net of Tax

The Company's proportionate share of losses, from holdings, net of tax, accounted for under the equity method is as follows:

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Plug Power(A)	$(6,095)	$(2,460)	$(14,089)	$(14,122)
SatCon(B)	(576)	(856)	(2,983)	(1,727)
	$(6,671)	$(3,316)	$(17,072)	$(15,849)

(A)

The accounting for the Company's holdings in Plug Power was changed on December 20, 2002 to fair value from the equity method (see Note 1).

(B)

The Company's holdings in SatCon were accounted for on a one-quarter lag (through SatCon's quarter ended June 29, 2002) until accounting for the holding was changed on July 1, 2002 to fair value from the equity method (see Note 1).

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Sale of Holdings

The Company sold shares of the following holdings and recognized gains and proceeds as follows:

(Dollars in thousands, except shares)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Plug Power				
Shares sold	1,200,000	-	1,710,000	-
Proceeds	$ 9,222	$ -	$35,717	$ -
Gain on sales	$ 6,382	$ -	$31,009	$ -
SatCon				
Shares sold	526,400	-	500,000	-

Proceeds	$ 1,302	$ -	$ 2,125	$ -
Loss on sales	$ (17)	$ -	$(2,171)	$ -
Beacon				
Shares sold	4,410,797	-	-	-
Proceeds	$ 310	$ -	$ -	$ -
Loss on sales	$ (440)	$ -	$ -	$ -
Total net gain on sales	$ 5,925	$ -	$28,838	$ -

18. Share Exchange Transaction

On December 20, 2002, the Company and First Albany Companies Inc.

("FAC") completed a share exchange transaction. As part of the agreement to exchange 8 million shares of the Company's common stock owned by FAC for 2,721,088 shares of Plug Power common stock owned by the Company. As a condition of the exchange, FAC agreed not to sell its remaining shares of the Company for two years. The Company recorded a gain on the exchange transaction of $8.006 million and recorded treasury stock at a cost of $13.606 million. As of December 31, 2002, FAC owns 2,991,040 shares, or approximately 10.83%, of the Company.

As a result of the transaction, the Company is no longer required to account for its remaining holdings in Plug Power under the equity method of accounting. Under the equity method of accounting, the Company was required to report its proportionate share of Plug Power's financial results.

19. Retirement Plan

The Company maintains a voluntary savings and retirement plan (Internal Revenue Code Section 401(k) Plan) covering substantially all employees.

The Company plan allows eligible employees to contribute a percentage of their compensation; the Company makes additional voluntary contributions in amounts as determined by management and the Board of Directors. The investment of employee contributions to the plan is self-directed.

Effective April 1, 2001, employees of MTI Micro were included in the Plan

and effective October 21, 1999, Ling employees no longer participate in

the Plan due to Ling's sale to SatCon. The cost of the plan was $150,

$35, $116, and $81 thousand for 2002, the Transition Period, 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Commitments and Contingencies

Litigation

On September 9, 1998, Barbara Lawrence, the Lawrence Group, Inc.

("Lawrence"), and certain other Lawrence-related entities ("Plaintiffs") initially filed suit in the Bankruptcy Court and the United States District Court for the Northern District of New York, which were subsequently consolidated in the District Court, against First Albany Corporation, Mechanical Technology, Dale Church, Edward Dohring, Alan Goldberg, George McNamee, Beno Sternlicht, Marty Mastroianni (former President and Chief Operating Officer of MTI), and 33 other individuals ("Defendants") who purchased a total of 820,909 shares of the Company's stock from the Plaintiffs. The case concerns the Defendants' 1997 purchase of Mechanical Technology shares from the Plaintiffs at the price of $2.25 per share. FAC acted as Placement Agent for the Defendants in the negotiation and sale of the shares and in proceedings before the Bankruptcy Court for the Northern District of New York, which approved the sale in September 1997.

Plaintiffs claim that the Defendants failed to disclose material inside information concerning Plug Power, LLC to the Plaintiffs and therefore the $2.25 per share purchase price was unfair. Plaintiffs are seeking damages of $5 million plus punitive damages and costs. In April 1999, Defendants filed a motion to dismiss the amended complaint, which was

denied by the Bankruptcy Court. On appeal in October 2000, Plaintiffs' cause of action was dismissed by the United States District Court for

the Northern District of New York. In November 2000, Plaintiffs filed an appeal of that dismissal with the United States Court of Appeals for the Second Circuit. In June 2002, the Second Circuit Court of Appeals reversed the District Court decision and remanded the case for further consideration of the Plaintiffs claims as motions to modify the Bankruptcy Court sale order. The Plaintiff's claims have now been referred back to Bankruptcy Court for such consideration. The Company believes the claims have no merit and intends to defend them vigorously. The Company cannot predict the outcome of the claims nor reasonably estimate a range of possible loss given the current status of the litigation. Accordingly, no amounts have been reserved for this matter.

Leases

The Company and its subsidiaries lease certain manufacturing, laboratory and office facilities. The leases generally provide for the Company to pay either increases over a base year level for taxes, maintenance, insurance and other costs of the leased properties or the Company's allocated share of insurance, taxes, maintenance and other costs of leased properties. The leases contain renewal provisions.

Future minimum rental payments required under noncancelable operating leases are (dollars in thousands): $570 in 2003; $607 in 2004, $547 in

2005, $429 in 2006, $316 in 2007 and $605 thereafter. Rent expense under all leases was $536, $134, $453 and $392 thousand for 2002, the Transition Period, 2001 and 2000, respectively. Contingent rent included

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Commitments and Contingencies (Continued)

in the rent expense amounts was $31, $8, $9 and $0 thousand for 2002, the Transition Period, 2001 and 2000, respectively. Rental income under all sub-leases was $0, $0, $0 and $12 thousand in 2002, the Transition Period, 2001 and 2000, respectively.

Warranties

A reconciliation of changes in product warranty liabilities is as follows:

(Dollars in thousands)	Year Ended Dec. 31,2002	Three Months Ended Dec. 31, 2002
Balance, beginning of period	$ 81	$73
Accruals for warranties issued	54	12
Accruals related to pre-existing warranties (including changes in estimates)	(66)	-
Settlements made (in cash or in kind)	(15)	(4)
Balance, end of period	$ 54	$ 81

Licenses

The Company licenses, on a non-exclusive basis, certain DMFC technology from Los Alamos National Laboratory. Under this agreement, the Company is required to pay future minimum annual license fees of (dollars in thousands): $150 in 2003, $200 in 2004, and $250 in 2005. Once products are being sold, royalties will be based on 2% of the first $50 million of net sales, 1% on net sales in excess of $50 million but less than $100 million and .5% on net sales in excess of $100 million. License payments made in any year can be applied against royalties due and total annual fees in any year shall not exceed $1 million.

Employment Agreements

The Company has employment agreements with certain employees that provide severance payments and accelerated vesting of certain options upon termination of employment under certain circumstances, as defined. As of December 31, 2002, the Company's potential minimum obligation to these employees was approximately $874 thousand.

Investment Company Act

Our equity holdings and securities available for sale constitute investment securities under the Investment Company Act. In general, a company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of its total assets, subject to

certain exclusions and exemptions. Investment companies are subject to

registration under, and compliance with, the Investment Company Act

unless a particular exemption or safe harbor provision applies. If we were to be deemed an investment company, we would become subject to the requirements of the Investment Company Act. As a consequence, we would be prohibited from engaging in certain businesses or issuing certain securities, certain of our contracts might be voidable, and we might be subject to civil and criminal penalties for noncompliance.

Until 2001, we qualified for a safe harbor exemption under the Investment Company Act based upon the level of our ownership of shares

20. Commitments and Contingencies (Continued)

of Plug Power and our influence over its management or policies. However, since we sold some of our shares of Plug Power during 2001, this safe harbor exemption is no longer available.

On December 3, 2001, we made an application to the Securities and

Exchange Commission ("SEC") requesting that they either declare that we are not an investment company because we are primarily engaged in

another business or exempt us from the provisions of the Investment Company Act. This application is pending. If our application is not granted, we will have to find another safe harbor or exemption that we can qualify for, which may include a one year safe harbor granted by the Investment Company Act, or become an investment company subject to the regulations of the Investment Company Act.

If we were deemed to be an investment company and could not find another safe harbor or exemption and failed to register as an investment company, the SEC could require us to sell our interests in Plug Power and SatCon, until the value of our holdings is reduced below 40% of total assets. This could result in sales of our holdings in quantities of shares at depressed prices and we may never realize anticipated benefits from, or may incur losses on, these sales.

Further, we may be unable to sell some holdings due to contractual or legal restrictions or the inability to locate a suitable buyer. Moreover, we may incur tax liabilities when selling assets.

21. Related Party Transactions

Management believes transactions among related parties are as fair to the Company as obtainable from unaffiliated third parties.

On December 20, 2002, as a condition of the agreement to exchange 8 million shares of the Company's common stock owned by FAC for 2,721,088 shares of the Plug Power common stock owned by the Company, FAC agreed not to sell its remaining shares of the Company for two years ("lock-up agreement")(see Note 18). MTI waived this lock-up agreement in late December 2002 to permit FAC to gift shares.

During the twelve months ended December 31, 2002, FAC sold 662,705 shares of the Company's common stock in the public markets and owned approximately 10.83% of the Company's common stock at December 31, 2002.

In July 2001, MTI Micro entered into a Joint Venture Agreement with Dupont, a minority shareholder in MTI Micro, solely to undertake a research and development program funded by the Advanced Technology Program ("ATP") of the National Institute of Standards and Technology ("NIST"). As the program administrator, MTI Micro submits all bills from Dupont to NIST for payment. In connection with NIST billings, as

- Related Party Transactions (Continued)

of December 31, 2002 and 2001, the Company has a liability to Dupont for approximately $173 and $101 thousand. The Company also purchases materials from Dupont; such purchases totaled $29, $5 and $2 thousand in 2002, the Transition Period and 2001, respectively. The Company has a liability for materials purchases to Dupont as of December 31, 2002 of $17 thousand. These liabilities are included in the financial statement line "Accrued liabilities - related parties."

In April 2000, the Company entered into a management services agreement with First Albany Corporation, a wholly owned subsidiary of FAC, to

provide certain services on a month-to-month basis. Under this agreement, FAC bills services to the Company (phone, network, postage, etc.) on a cost reimbursement basis. Billings under these agreements amounted to approximately $11, $13, $33 and $30 thousand for 2002, the Transition Period, 2001 and 2000, respectively.

During fiscal 2000, FAC/Equities, a division of First Albany Corporation, provided financial advisory services in connection with the sale of Ling Electronics, Inc. and Ling Electronics Limited, subsidiaries, to SatCon, for which FAC/Equities was paid a fee of approximately $353 thousand.

Prior to acquiring its interest in Beacon Power, a SatCon affiliate, the Company made a one time $1.2 million bridge loan to Beacon Power in April 2000. This bridge loan was converted to equity as part of a $6 million capital contribution. As part of the bridge financing, the Company received warrants to purchase 12,000 shares of Beacon Power's common stock at $4.20 per share. In order to avoid violating the asset test under the Investment Company Act, the Company exercised the warrants on August 24, 2000 for approximately $50 thousand and received 12,000 shares of Beacon Power common stock.

In connection with the above bridge loan conversion, the Company received warrants to purchase shares of common stock, the exercise date, number of shares and exercise price of which was determined upon the consummation of an underwritten public offering of Beacon Power common stock. When Beacon Power completed its IPO, the warrant terms were set for the purchase of 1,333,333 shares of common stock at an exercise price of $2.25 per share exercisable as of November 17, 2000. The Company exercised the 1,333,333 warrants on a cash-less basis, on December 20, 2000, and received 985,507 shares of Beacon Power common stock.

The Company also received approximately $183 thousand in preferred stock dividends from Beacon Power during fiscal 2001 and $5 thousand in interest income from Beacon Power for bridge loan interest during fiscal 2000.

On September 28, 2001, the Company received 544,148 shares of Beacon Power Common Stock as a pro rata distribution by SatCon. The Company recognized a gain of $827 thousand on this dividend distribution.

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Related Party Transactions (Continued)

Amounts receivable from an officer totaling approximately $38 thousand at September 30, 1999 was paid during fiscal 2000.

During 2000, the Company paid approximately $35 thousand to Plug Power in connection with a lease of office and manufacturing space. This lease terminated on November 24, 1999.

During fiscal 2000, the Company sold furniture and equipment to Plug Power totaling approximately $12 thousand.

Prior to becoming Vice President of Corporate Development, Catherine Hill's law firm, Catherine S. Hill, PLLC, served as general counsel to

the Company. Billings for 2000 totaled approximately $141 thousand. Ms. Hill also received 30,000 stock options during 2000 with a Black-Scholes value of approximately $446 thousand.

The Company made cash infusions into related parties as follows:

	Year Ended	Three Months	Year Ended	Year Ended
	Dec. 31,	Ended Dec.31,	Sept. 30,	Sept. 30
(Dollars in thousands)	2002	2001	2001	2000
Plug Power	$ -	$ -	$ -	$20,500
SatCon	-	-	-	7,070
Beacon Power	-	-	-	6,050
	$ -	$ -	$ -	$33,620

On December 27, 2000, the Company entered into a Put and Call with FAC to provide independent credit support for repayment of the loan ("FAC Credit Enhancement") for which the Company paid a fee of $945 thousand. The FAC

Credit Enhancement provided FAC with the option, if the price of Plug Power stock fell to $4 per share, to either purchase 6.3 million Plug Power shares pledged as collateral on the loan or take an assignment of KeyBank, N.A.'s rights under the $50 million Amended and Restated Credit Agreement. The FAC Credit Enhancement could be triggered in the event of a default and was amended on April 27, 2001, the original expiration date, to extend its expiration date to August 27, 2001. The Company paid a fee of $200 thousand for this amendment. The Company and FAC could renew the FAC Credit Enhancement on a monthly basis upon mutually agreeable terms. If the FAC Credit

Enhancement expired, and was not replaced, prior to November 3, 2001,

the loan would be immediately due and payable. Upon expiration of the FAC Credit Enhancement, mandatory repayments on any outstanding balance would be required if the Plug Power stock price fell below $20 per share. The FAC Credit Enhancement expired on August 27, 2001 and was not replaced since the Company amended and restated its Credit Agreement with KeyBank, N.A. on August 10, 2001, the $10 million Credit Agreement. The new KeyBank, N.A. agreement does not require a credit enhancement.

On December 27, 2000, the Company entered into two bridge loan agreements with FAC. The first loan was for $945 thousand and was used to pay the purchase price for the FAC Credit Enhancement. The Company

pledged 200,000 shares of Plug Power common stock as collateral. The

21. Related Party Transactions (Continued)

second loan was for $5 million, $3 million of which was used to make a

December 27, 2000 principal loan repayment to KeyBank, N.A. and the

remaining $2 million was available for working capital. The Company

pledged 1 million shares of Plug Power common stock as collateral. Upon

mutual agreement of FAC and the Company, the loans may be converted to equity prior to maturity. Both loans bear interest at the Prime Rate and both interest and principal are due on January 3, 2002. On March 30,

2001, the Company made a principal payment to FAC totaling $4 million. On April 30, 2001, the Company made principal and interest payments to FAC totaling $1.445 million and $.117 million, respectively, which reduced the Company's obligations on the FAC Bridge Loans to zero.

22. Discontinued Operations

The sale of the Company's Technology Division, the sole component of the

Technology segment, to NYFM, Incorporated (a wholly-owned subsidiary of

Foster-Miller, Inc., a Waltham, Massachusetts-based technology company) was completed on March 31, 1998. Accordingly, the Company no longer includes Technology among its reportable business segments. The

Technology Division has been reported as a discontinued operation since December 26, 1997. In exchange for the Technology Division's assets, NYFM, Incorporated (a) agreed to pay the Company a percentage of gross sales on an annual basis for a period of five years after the sale as follows: yearly combined gross sales (in excess of $2.5 million) multiplied by .13, .053, .027, for years one, two and three-to-five, respectively; (b) assumed approximately $40 thousand of liabilities; and

(c) established a credit for warranty work of approximately $35 thousand. The Company received approximately $21 thousand as contingent sales proceeds from NYFM, Incorporated in 2002. This amount is included in the financial statement line, "Income from discontinued operations."

During the third quarter of 2002 and fourth quarter of 2000, the Company reversed $358 and $400 thousand, respectively, of the previously recorded loss on disposal of the Technology Division. The reversals include estimated reductions in warranty and accounts receivable reserves.

Discontinued operations consist of the following:

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Sales	$ -	$ -	$ -	$ -
Income from discontinued operations before income tax	21	-	-	-
Income tax (benefit)	-	-	-	-
Net income from discontinued operations	$ 21	$ -	$ -	$ -
Gain on disposal of Division	$ 358	$ -	$ -	$ 400
Income tax expense	(154)	-	-	(157)
Net gain on disposal of Division	$ 225	$ -	$ -	$ 243

The liabilities of the Company's discontinued operations as of December 31, 2002 and 2001 were $0 and $356 thousand, respectively.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

23. Sale of Division/Subsidiary

On October 21, 1999, the Company created a strategic alliance with SatCon Technology Corporation ("SatCon"). SatCon acquired Ling Electronics, Inc. and Ling Electronics, Ltd. ("Ling") from the Company and the Company agreed to provide cash support of approximately $7 million to SatCon. In consideration for the acquisition of Ling and the Company's cash support, the Company received 1,800,000 shares of SatCon's common stock. The Company also received warrants to purchase

36,000 and 64,000 shares of SatCon common stock on October 21, 1999 and January 31, 2000, respectively. The warrants were immediately exercisable at $7.84 (as adjusted for SatCon share distribution in September 2001) per share and expire on October 21, 2003 and January 31, 2004, respectively. As a part of the SatCon transaction, the Company issued to SatCon warrants to purchase 108,000 and 192,000 shares of the Company's stock on October 21, 1999 and January 31, 2000, respectively. The warrants were immediately exercisable at $12.56 per share and expire on October 21, 2003 and January 31, 2004, respectively. The estimated fair value of these warrants at the dates issued were $4.94 and $16.38 per share, respectively, using a Black-Scholes option pricing model and assumptions similar to those used for valuing the Company's stock options.

The sale resulted in a $1.262 million gain, which was recorded in the first quarter of fiscal year 2000.

24. Geographic and Segment Information

The Company sells its products on a worldwide basis with its principal markets listed in the table below where information on product revenue is summarized by geographic area for the Company as a whole:

(Dollars in thousands)

Geographic Area	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
Product revenue:				
United States	$4,840	$1,095	$6,382	$4,362
Europe	76	8	176	185
Japan	248	67	358	397
Pacific Rim	128	74	243	387
Israel	58	-	-	-
China	-	-	38	88
Canada	-	-	47	20

Rest of World	12	2	54	119
Total product revenue	5,362	1,246	7,298	5,558
Funded research and development:				
United States	1,573	90	-	-
Total revenue	$6,935	$1,336	$7,298	$5,558

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Geographic and Segment Information (Continued)

The percentage of total revenues contributed by class of product or service which constitutes more than 10% of consolidated sales in any period are shown below:

	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000
(Dollars in thousands)				
MTI Instruments Products:				
Engine balancing systems	$2,346	$ 369	$1,088	$1,503
OEM	788	169	3,896	1,421
Capacitance probes and sensors	558	193	645	976
Fiber optic probes and sensors	644	49	524	563

Parts and service	606	93	517	450
Gages	253	301	382	343
Ling Products:				
Vibration test equipment	-	-	-	140
Total	$5,195	$1,174	$7,052	$5,396

The Company operates in two business segments**, New Energy** and **Test and Measurement Instrumentation**. The New Energy segment develops new energy

technologies and companies and is currently focused on commercializing direct methanol micro fuel cells. The Test and Measurement Instrumentation segment designs, manufactures, markets and services high performance test and measurement instruments and systems and computer-based balancing systems for aircraft engines; and prior to the sale of Ling in October 1999, vibration test systems and power conversion products. The Company's principal operations are located in North America.

The accounting policies of the New Energy and Test and Measurement Instrumentation segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes, accounting changes, items management does not deem relevant to segment performance, and interest income and expense. Inter-segment sales are not significant.

In the Test and Measurement Instrumentation Segment, in 2002, one customer accounted for $1.854 million or 34.6% of product revenues and a second customer accounted for $.546 million or 10.2% of product revenues; in the Transition Period one customer accounted for $.349 million or 28% of product revenues; in 2001, one customer accounted for $3.616 million or 49.5% of product revenues; and in 2000, one customer accounted for $1.16 million or 20.9% of product revenues and a second customer accounted for $620 thousand or 11.2% of product revenues. In 2002, one product line, engine balancing systems, accounted for 43.8% of product revenues compared to 14.9% in 2001. In 2001, one product line, OEM, accounted for 53% of product revenues compared to 26% in 2000.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes corporate related items and items like income taxes or unusual items,

24. Geographic and Segment Information (Continued)

which are not allocated to reportable segments. The reconciling items column includes minority interest in consolidated subsidiary and income tax allocation to equity in holdings' losses. In addition, segments'

noncash items include any depreciation and amortization in reported profit or loss. The New Energy segment figures include the Company's

activities related to evaluating new energy technologies, companies and growth opportunities, micro fuel cell operations, the Company's holdings in Plug Power, SatCon and Beacon Power and the results of the Company's equity method of accounting for certain holdings. SatCon results are accounted for on a one-quarter lag except for sale of stock, which is affected as of the date of sale. The results for Plug Power and SatCon are derived from their unaudited quarterly and audited annual financial statements.

The Company's holdings in SatCon were accounted for on a one-quarter lag (through SatCon's quarter ended June 29, 2002) until accounting for the holding was changed on July 1, 2002 to fair value from the equity method. The accounting for the Company's holdings in Plug Power was changed on December 20, 2002 to fair value from the equity method (see Note 1).

(Dollars in thousands)		Test and			
		Measurement		Reconciling	Consolidated
Year Ended December 31, 2002	New Energy	Instrumentation	Other	Items	Totals
Product revenue	$ -	$ 5,362	$ -	$ -	$ 5,362
Funded research and					
development revenue	1,573	-	-	-	1,573
Research and product					
development expenses	5,655	960	-	-	6,615
Selling, general and					
administrative expenses	1,935	1,741	1,265	-	4,941
Equity in holdings' losses	(11,221)	-	-	4,550	(6,671)
Impairment losses	(8,127)	-	-	-	(8,127)
Segment (loss) profit from					
continuing operations					
before income taxes, equity					
in holdings' losses and					
minority interests	(509)	110	(1,170)	-	(1,569)
Segment (loss) profit	(11,730)	110	4,241	418	(6,961)
Total assets	39,723	2,657	10,004	-	52,384

Holdings, at equity	-	-	-	-	-
Securities available for sale	37,332	-	-	-	37,332
Capital expenditures	394	10	123	-	527
Depreciation and amortization	216	142	234	-	592

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Geographic and Segment Information (Continued)

(Dollars in thousands) Three Months Ended December 31, 2001	New Energy	Test and Measurement Instrumentation	Other	Reconciling Items	Consolidated Totals
Product revenue	$ -	$ 1,246	$ -	$ -	$ 1,246
Funded research and development revenue	90	-	-	-	90
Research and product development expenses	776	285	-	-	1,061
Selling, general and administrative expenses	586	518	253	-	1,357

Equity in holdings' losses	(5,485)	-	-	2,169	(3,316)
Impairment losses	(15,433)	-	-	-	(15,433)
Segment (loss) profit from continuing operations before income taxes, equity in holdings' losses and minority interests	(16,909)	(326)	74	-	(17,161)
Segment (loss) profit	(22,394)	(326)	9,031	104	(13,585)
Total assets	47,074	2,529	6,745	-	56,348
Holdings, at equity	38,937	-	-	-	38,937
Securities available for sale	5,734	-	-	-	5,734
Capital expenditures	74	7	-	-	81
Depreciation and amortization	45	38	45	-	128

(Dollars in thousands)		Test and Measurement		Reconciling	Consolidated
Year Ended September 30, 2001	New Energy	Instrumentation	Other	Items	Totals
Product revenue	$ -	$ 7,298	$ -	$ -	$ 7,298
Funded research and development revenue	-	-	-	-	-
Research and product development expenses	2,381	1,303	-	-	3,684
Selling, general and administrative expenses	3,111	1,947	1,101	-	6,159
Equity in holdings' losses	(26,794)	-	-	9,722	(17,072)

Segment profit (loss) from continuing operations before income taxes, equity in holdings' losses and minority interests	32,024	650	(11,938)	-	20,736
Segment profit (loss)	5,230	650	(2,162)	123	3,841
Total assets	59,455	2,596	9,206	-	71,257
Holdings, at equity	47,197	-	-	-	47,197
Securities available for sale	6,704	-	-	-	6,704
Capital expenditures	704	44	570	-	1,318
Depreciation and amortization	57	170	1,534	-	1,761

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Geographic and Segment Information (Continued)

(Dollars in thousands)

Year Ended September 30, 2000	New	Test and Measurement	- -	Reconciling	Consolidated

	Energy	Instrumentation	Other	Items	Totals
Product revenue	$ -	$ 5,558	$ -	$ -	$ 5,558
Funded research and development revenue	-	-	-	-	-
Research and product development expenses	-	2,034	-	-	2,034
Selling, general and administrative expenses	1,185	2,264	1,415	-	4,864
Equity in holdings' losses	(26,068)	-	-	10,219	(15,849)
Segment loss from continuing operations before income taxes, equity in holdings' losses and minority interests	(1,222)	(2,431)	(1,264)	-	(4,917)
Segment (loss) profit	(27,290)	(2,431)	11,125	-	(18,596)
Total assets	70,438	2,286	4,292	-	77,016
Holdings, at equity	64,356	-	-	-	64,356
Holdings, at cost	6,050	-	-	-	6,050
Capital expenditures	9	137	140	-	286
Depreciation and amortization	3	130	131	-	264

The following table presents the details of "Other" segment profit (loss):

(Dollars in thousands)	Year Ended Dec. 31, 2002	Three Months Ended Dec. 31,	Year Ended Sept. 30, 2001	Year Ended Sept. 30, 2000

	2001			
Corporate and other income (expenses):				
Depreciation and amortization	$ (244)	$ (45)	$(1,534)	$ (131)
Interest expense	(46)	(15)	(1,970)	(1,943)
Interest income	102	29	384	463
Income tax benefit (expense)	5,032	8,957	(2,678)	12,146
Other (expense) income, net	(982)	105	3,636	(915)
Income from discontinued				
operations, net	379	-	-	243
Gain on sale of division	-	-	-	1,262
Total income (expense)	$4,241	$9,031	$(2,162)	$11,125

25. Subsequent Events

Sales of Holdings

From January 1 through March 24, 2003, the Company sold available for sale securities as follows:

(Dollars in thousands)

Company	Number of Shares Sold	Net Proceeds from Sales
Plug Power	500,000	$2,661
SatCon	89,000	87
		$2,748

-

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. (1) The financial statements filed herewith are set forth on the Index to Consolidated Financial Statements on page F-1 of the separate financial section which accompanies this Report, which is incorporated herein by reference.

(a) (2) Schedule. The following consolidated financial statement schedule for the year ended December 31, 2002, the three month period ended December 31, 2001 and each of the two years in the period ended September 30, 2001 is included pursuant to Item 15(d):

Report of Independent Accountants on Financial Statements Schedule;

Schedule II--Valuation and Qualifying Accounts.

All other financial statement schedules not listed have been omitted because they are either not required, not applicable, or the information has been included elsewhere in the consolidated financial statements or notes thereto.

(a) (3) Exhibits. The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Annual Report on Form 10-K.

(b) No reports on Form 8-K were filed during the quarter ended December 31, 2002.

The following exhibits are filed as part of this Report:

Exhibit Number	Description
3.1	Certificate of Incorporation of the registrant, as amended and restated and amended. (5)(11)(14)
3.2	By-Laws of the registrant, as restated. (5)
10.1	Mechanical Technology Incorporated Restricted Stock Incentive Plan. Filed as Exhibit 28.1 to the registrant's Form S-8 Registration Statement No. 33-26326 and incorporated herein by reference. (1)
10.14	Mechanical Technology Incorporated Stock Incentive Plan - included as Appendix A to the registrant's Proxy Statement, filed pursuant to Regulation 14A, for its December 20, 1996 Special Meeting of Shareholders and incorporated herein by reference. (2)
10.18	Limited Liability Company Agreement of Plug Power, LLC, dated June 27, 1997, between Edison Development Corporation and Mechanical Technology, Incorporated. (3)(4)

10.19 Contribution Agreement, dated June 27, 1997, between Mechanical Technology, Incorporated and Plug Power, LLC. (3)(4)

10.20 Asset Purchase Agreement, dated as of September 22, 1997, between Mechanical Technology, Incorporated and Noonan Machine Company. (3)

10.21 Asset Purchase Agreement between Mechanical Technology and NYFM, Incorporated, dated as of March 31, 1998. (6)

10.24 Contribution Agreement between Edison Development Corporation and Mechanical Technology, dated as of June 10, 1998. (6)

Exhibit Number	Description
10.30	Mechanical Technology Incorporated 1999 Employee Stock Incentive Plan. (7)
10.32	Stock Purchase Agreement, dated October 1,1999, between the registrant, Ling Electronics, Inc., Ling Electronics, Ltd. and SatCon Technology Corporation. (9)
10.33	Securities Purchase Agreement, dated October 21, 1999, between the registrant and SatCon Technology Corporation.(9)
10.34	Mechanical Technology Incorporated Registration Rights Agreement, dated October 21, 1999, between the registrant and SatCon Technology Corporation. (9)
10.36	Mechanical Technology Incorporated Stock Purchase Warrant dated October 21, 1999. (9)
10.37	SatCon Technology Corporation Stock Purchase Warrant dated October 21, 1999. (9)
10.38	Lease dated August 10, 1999 between Carl E. Touhey and Mechanical Technology, Inc. (9)

10.39	Registration Rights Agreement, dated November 1, 1999 by and among Plug Power Inc. and the registrant. (9)
10.40	Plug Power Inc. Lock-Up Agreement, dated November 1, 1999. (9)
10.41	Mechanical Technology Incorporated Stock Purchase Warrant dated January 31, 2000. (10)
10.42	SatCon Technology Corporation Stock Purchase Warrant dated January 31, 2000. (10)
10.43	Lease dated April 2, 2001 between Kingfischer L.L.C. and Mechanical Technology Inc. (15)
10.44	First Amendment to lease dated March 13, 2003 between Kingfischer L.L.C. and Mechanical Technology Inc. (17)
10.104	Credit Agreement, dated as of November 1, 1999, between the registrant and KeyBank National Association for a $22.5 million term loan to finance a capital contribution to Plug Power, LLC. (8)
10.105	Stock Pledge Agreement, dated as of November 1,1999, by the registrant with KeyBank National Association pledging 13,704,315 shares of Plug Power stock in support of the $22.5 million credit agreement. (8)
10.106	Amended and Restated Credit Agreement, dated as of March 29, 2000, between the registrant and KeyBank National Association for a $50 million revolving note. (12)
10.107	Revolving Note, dated as of March 29, 2000, between the registrant and KeyBank National Association for the $50 million credit agreement. (12)

10.108	Amended and Restated Stock Pledge Agreement, dated as of March 29, 2000, by The registrant and KeyBank National Association pledging 2,000,000 shares of Plug Power stock in support of the $50 million credit agreement. (12)

Exhibit Number	Description
10.109	Amendment dated as of October 1, 2000 to the Amended and Restated Credit Agreement originally dated as of March 29, 2000 between the registrant and KeyBank National Association. (13)
10.110	Waiver and Amendment dated as of December 27, 2000 to the Amended and Restated Credit Agreement originally dated as of March 29, 2000 between the registrant and KeyBank National Association. (13)
10.111	Amendment dated December 27, 2000 to the Stock Pledge Agreement, dated as of March 29, 2000, by the registrant with KeyBank National Association pledging 8,000,000 shares of Plug Power Stock in support of Amended $30 million Credit Agreement. (13)
10.112	Put and Call Agreement dated as of December 27, 2000, between the registrant, First Albany Companies Inc. and KeyBank. (13)
10.113	Bridge Promissory Note in the amount of $5 million, dated as of December 27, 2000 between the registrant and First Albany Companies Inc. (13)
10.114	Put Promissory Note in the amount of $945,000, dated as of December 27, 2000, between the registrant and First Albany Companies Inc. (13)
10.115	Stock Pledge Agreement, dated as of December 27, 2000, by registrant with First Albany Companies Inc. pledging 1,000,000 shares of Plug Power Stock in support of the $5 million Bridge Promissory Note. (13)

10.116	Stock Pledge Agreement, dated as of December 27, 2000, by registrant with First Albany Companies Inc. pledging 200,000 shares of Plug Power Stock in support of the $945,000 Put Promissory Note. (13)
10.117	Account Control Agreement, dated as of December 22, 2000, by registrant, KeyBank, and McDonald Investments Inc. (13)
10.118	Exchange Agreement dated December 20, 2002 by and between First Albany Companies Inc. and Mechanical Technology Incorporated (16)
21	Subsidiaries of the registrant. (17)
23	Consent of independent accountants. (17)
23.1	Consent of KPMG LLP.
23.2	Consent of Grant Thornton LLP.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Steven. N. Fischer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Cynthia A. Scheuer.
32.1	Section 1350 Certification of Steven. N. Fischer.
32.2	Section 1350 Certification of Cynthia A. Scheuer.

Exhibit Number	Description
99.15.1	Other Consolidated Financial Statements and Supplementary Data (Plug Power Inc. for the Years Ended December 31, 2002, 2001 and 2000)
99.15.2	Other Consolidated Financial Statements and Supplementary Data (SatCon Technology Corporation for the nine months ended June 29, 2002 and June 30, 2001)
99.15.3	Other Consolidated Financial Statements and Supplementary Data (SatCon Technology Corporation for the Years Ended September 30, 2002, 2001 and 2000)

Certain exhibits were previously filed (as indicated below) and are incorporated herein by reference. All other exhibits for which no other filing information is given are filed herewith:

1. Filed as Exhibit 28.1 to the registrant's Form S-8 Registration Statement No. 33-26326, filed December 29, 1988, and incorporated herein by reference.
2. Filed as Appendix A to the registrant's Definitive Proxy Statement Schedule 14A filed November 19, 1996.
3. Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for the fiscal year ended September 30, 1997.
4. Re-filed herewith after confidential treatment request, with respect to certain schedules and exhibits were denied by the Commission. Confidential treatment with respect to certain schedules and exhibits was granted.
5. Filed as an Exhibit to the Proxy Statement, Schedule 14A, dated March 9, 1998.
6. Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form S-2 dated August 18, 1998.
7. Filed as an Exhibit to the registrant's Proxy Statement, Schedule 14A, dated February 12, 1999.
8. Filed as an Exhibit to the registrant's Form 13-D Report dated November 4, 1999.
9. Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for the fiscal year ended September 30, 1999.
10. Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-Q Report for its fiscal quarter ended December 31, 1999.
11. Filed as an Exhibit to the Proxy Statement, Schedule 14A, dated February 22, 2000.
12. Filed as an Exhibit to the registrant's Form 10-Q Report for its fiscal quarter ended March 31, 2000.
13. Filed as an Exhibit to the registrant's Form 10-K Report for the fiscal year ended September 30, 2000.
14. Filed as an Exhibit to the Proxy Statement, Schedule 14A, dated March 19, 2001.
15. Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for the fiscal year ended September 30, 2001.
16. Filed as an Exhibit to the registrant's Form 13-D/A Report dated January 3, 2003.
17. Filed as an Exhibit to the registrant's Form 10-K report for the fiscal year ended December 31, 2002.

d) In accordance with the requirements of Rule 3-09 of Regulation S-X and as a result of comments received from the Securities and Exchange Commission in connection with a review of our previous filings, separate financial statements for Plug Power Inc. and SatCon Technology Corporation, less than fifty percent owned entities, filed herewith are set forth on their respective Indexes to Financial Statements of their separate financial sections. Such financial sections are filed as Exhibits 99.15.1, 99.15.2 and 99.15.3 for Plug Power and SatCon, respectively, to this Form 10-K/A Amendment No. 1. Plug Power's fiscal year ended December 31, 2002 and SatCon's unaudited nine months ended June 29, 2002 and fiscal year ended September 30, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Form 10-K on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized on this 22nd day of March, 2005.

MECHANICAL TECHNOLOGY INCORPORATED

Date: March 22, 2005

By: /s/ Steven. N. Fischer

Steven N. Fischer

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 to Form 10-K on Form 10-K/A has been signed below by the following persons on March 22, 2005 on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ Steven N. Fischer Steven N. Fischer	Chief Executive Officer and Chairman of the Board of Directors	March 22, 2005
/s/ Cynthia A. Scheuer Cynthia A. Scheuer	Chief Financial Officer (Principal Financial and Accounting Officer)	March 22, 2005
/s/ Dale W. Church	President Government Systems and Director	March 22, 2005

Dale W. Church

/s/ Edward A. Dohring	Director	March 22, 2005
Edward A. Dohring		
/s/	Director	March 22, 2005
Thomas J. Marusak		
Thomas J. Marusak		
/s/ William P. Phelan	Director	March 22, 2005
William P. Phelan		
/s/ E. Dennis O'Connor	Director	March 22, 2005
E. Dennis O'Connor		
/s/ Walter L. Robb	Director	March 22, 2005
Dr. Walter L. Robb		
/s/ Beno Sternlicht	Director	March 22, 2005
Dr. Beno Sternlicht		