

MECHANICAL TECHNOLOGY INC
Form DEF 14A
May 20, 2004

SCHEDULE 14A	
INFORMATION REQUIRED IN PROXY STATEMENT	
SCHEDULE 14A INFORMATION	
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934	
Filed by the Registrant <input checked="" type="checkbox"/> [X]	
Filed by a Party other than the Registrant <input type="checkbox"/> []	
Check the appropriate box:	
<input type="checkbox"/> Preliminary proxy statement	
<input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))	
<input checked="" type="checkbox"/> Definitive proxy statement	
<input type="checkbox"/> Definitive additional materials	
<input type="checkbox"/> Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12	
<u>MECHANICAL TECHNOLOGY INCORPORATED</u>	
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)	
Payment of filing fee (Check the appropriate box):	
<input checked="" type="checkbox"/> No fee required.	
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and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to

Exchange Act Rule 0-11:

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

MECHANICAL TECHNOLOGY INCORPORATED

431 NEW KARNER ROAD

ALBANY, NEW YORK 12205

May 26, 2004

Dear Shareholder:

You are cordially invited to attend the 2004 Annual Meeting of Shareholders (the Annual Meeting) of Mechanical Technology Incorporated, a New York corporation (the Company), to be held on Thursday, June 24, 2004 at 10:00 a.m., local time, at The Century House, 997 New Loudon Road, Route 9, Latham, New York.

The Annual Meeting has been called for the purpose of (i) electing three Directors, each for a three-year term, (ii) approving the private placement

of the Company's common stock to Fletcher International, Ltd., (iii) ratifying the appointment of PricewaterhouseCoopers LLP as independent auditors for the Company for the year ending December 31, 2004 and (iv) considering and voting upon such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on April 26, 2004 as the record date for determining shareholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

The Board of Directors of the Company recommends that you vote FOR the election of the three nominees as Directors of the Company, vote FOR the approval of the private placement of the Company's common stock to Fletcher International, Ltd., and vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors, each described in the accompanying Proxy Statement.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. VOTES WILL BE TABULATED BY INSPECTORS OF ELECTION APPOINTED IN ACCORDANCE WITH THE APPLICABLE PROVISIONS OF THE NEW YORK BUSINESS CORPORATION LAW.

Sincerely,

Dale W. Church

Chairman and CEO

MECHANICAL TECHNOLOGY INCORPORATED

431 NEW KARNER ROAD

ALBANY, NEW YORK 12205

(518) 533-2200

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the 2004 Annual Meeting of Shareholders (the Annual Meeting) of Mechanical Technology Incorporated, a New York corporation (the Company), will be held on Thursday, June 24, 2004, at 10:00 a.m., local time, at The Century House, 997 New Loudon Road, Route 9, Latham, New York for the purpose of considering and voting upon:

1. The election of three Directors, each to hold office until the Company's 2007 annual meeting of shareholders and until such Director's successor is duly elected and qualified.
2. The approval of the private placement of the Company's common stock to Fletcher International, Ltd.
3. The ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors for the Company for the year ending December 31, 2004.
4. Such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on April 26, 2004 as the record date for determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Only holders of common stock of record at the close of business on April 26, 2004 will be entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

In the event that there are insufficient shares to be voted in favor of any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies.

By Order of the Board of Directors

Catherine S. Hill

Corporate Secretary

Albany, NY

May 26, 2004

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, YOU ARE REQUESTED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IN THE UNITED STATES. VOTES WILL BE TABULATED BY INSPECTORS OF ELECTION APPOINTED IN ACCORDANCE WITH THE APPLICABLE PROVISIONS OF THE NEW YORK BUSINESS CORPORATION LAW.

MECHANICAL TECHNOLOGY INCORPORATED

431 NEW KARNER ROAD

ALBANY, NEW YORK 12205

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of proxies to be voted at the Annual Meeting of Shareholders of Mechanical Technology Incorporated to be held on June 24, 2004, and any adjournment thereof, at The Century House, 997 New Loudon Road, Route 9, Latham, New York.

The shares represented by properly completed proxies received prior to the vote will be voted FOR any proposal unless specific instructions to the contrary are given or an abstention from voting is indicated by the shareholder. The following proposals will be voted upon by the shareholders: 1) the election of directors; 2) the approval of the private placement of the Company's common stock to Fletcher International, Ltd.; and 3) the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors for the year ended December 31, 2004. The proxy may be revoked any time before it is exercised.

This Proxy is first being mailed to shareholders on or about May 26, 2004. At the close of business on April 26, 2004 the Company had outstanding 29,224,666 shares of Common Stock. Each share of Common Stock entitles the holder thereof to one vote on the matters to be voted upon by such shareholder. A majority of the outstanding shares, present in person or by proxy, will constitute a quorum at the meeting. Abstentions and broker non-votes are counted for purposes of determining whether a quorum is present but do not affect the outcome of the election. A plurality vote is required for the election of Directors. An affirmative vote of a majority of the votes cast is necessary to approve all other actions. Votes will be tabulated by inspectors of election appointed in accordance with the applicable provisions of the New York Business Corporation Law.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of the Corporation's Proxy Statement or Annual Report to Shareholders may have been sent to multiple shareholders who share an address. The Company will promptly deliver a separate copy of either document to any shareholder upon written or oral request. Requests may be made by mail to: Investor Relations Department, Mechanical Technology Incorporated, 431 New Karner Road, Albany, New York 12205; by e-mail: contact@mechtech.com; or by telephone: (518) 533-2200. Any shareholder who wants to receive separate copies of the Proxy Statement or Annual Report to Shareholders in the future, or any shareholder who is receiving multiple copies and would like to receive only one copy per household, should contact the shareholder's bank, broker, or other nominee record holder, or the shareholder may contact the Company directly at the address or phone number listed above.

Proposal No. 1

ELECTION OF DIRECTORS

At the Annual Meeting of Shareholders, three Directors are to be elected, each to hold office until the expiration of his or her term and until a successor shall be elected and shall qualify. The Directors serve staggered terms.

Listed below are the three Directors nominated for election in Steven Fischer's case or re-election at the Annual Meeting. All of the directors elected at the Annual Meeting will serve a three-year term expiring at the Annual Meeting in 2007.

	Position with		Director
Name	the Company	Age	Since
Steven Fischer	Director	60	2003
Dr. Walter Robb	Director	76	1997
Dr. Beno Sternlicht	Director	76	1996

The Board of Directors has nominated Steven Fischer, Dr. Walter Robb and Dr. Beno Sternlicht to serve three-year terms, expiring in 2007. Dennis O'Connor is beginning the third year of a three-year term, expiring 2005. Dale Church, Edward Dohring and David Eisenhaure are beginning the second year of three-year terms, expiring in 2006.

Certain Information Regarding Director Nominees

Mr. Fischer

, 60, a Director and Chairman of the Audit Committee since September 12, 2003 and a Director of MTI MicroFuel Cells Inc. since March 4, 2004, was President and Chief Executive Officer of Urbach Kahn & Werlin Advisors, Inc. from 1985 until December 31, 2001 and since January 1, 2002 has been Chairman of Urbach Kahn & Werlin Advisors, Inc., which is a Centerprise Advisors, Inc. company, and a former member of the board of directors of Centerprise, which is ranked among the 15 largest professional service firms in the United States; he is also a former Chairman and current board member of Urbach Kahn & Werlin LLP, Certified Public Accountants and a former Chairman and board member of Urbach Hacker Young International, the entity responsible for international services to firm clients, which he co-founded and which currently has more than 4,200 employees in 46 countries worldwide.

Dr. Robb

, 76, a Director since 1997, has been a management consultant and President of Vantage Management, Inc., since 1993. Prior to that, Dr. Robb was with General Electric Company ("GE") in a number of executive positions. He was Senior Vice President for Corporate Research and Development from 1986 until his retirement on December 31, 1992, directing the GE Research and Development Center, one of the world's largest and most diversified industrial laboratories, and serving on GE's Corporate Executive Council. He served on the Board of Directors of Plug Power Inc., from 1997 through October 9, 2002, and is a Director of Celgene Corp. and a number of privately owned companies.

Dr. Sternlicht

, 76, a Director since 1996 and a co-founder of the Company, is also a Director of MTI MicroFuel Cells Inc. and a Director of MTI Instruments, Inc., has been President of Benjosh Management Assoc., a management firm in New York City, since 1976; President of AMEAST Corporation, a consulting and trading corporation, since 1974; and President of Arben International, LLC, a distribution and manufacturing firm for products for the furniture and home décor industry, with offices in Russia, China and the United States, since 1994. He has also served as Chairman of the Board of Comfortex Corp., a window shade developer and manufacturer, from 1992 until its sale to Hunter Douglas in 1999, and currently serves as shareholder representative to the board of directors of Hunter Douglas. Dr. Sternlicht was a Director of the Company from 1961 to 1992, and prior to 1985 held the position of Technical Director and Board Chairman. Dr. Sternlicht was one of the founders of VITA (Volunteers in Technical Assistance), and has served on various advisory committees of NASA, the Department of Energy and the Commerce Department under Presidents Carter, Reagan and Bush, and served as an Advisor on Energy to the People's Republic of China, Israel and India.

The Board of Directors recommends that you vote FOR election of the three nominees listed above as Directors of the Company.

Certain Information Regarding Incumbent Directors

Mr. Church,

64, a Director since 1997 became the Chief Executive Officer and Chairman of the Board on October 22, 2002. Mr. Church is a Director of MTI Instruments, Inc. and became Chairman of the Board of MTI MicroFuel Cells Inc. on October 22, 2002. Mr. Church has practiced law in private practice, government, and corporate environments for over 30 years with specialties in U.S. and international government contracting, developing companies, mergers and acquisitions, and joint ventures. He has been the Chief Executive Officer of Ventures & Solutions LLC since 1996, was the Chairman and CEO of Intelligent Inspection Corporation from 1999 to April 2003, and was a partner in the law firm of McDermott, Will & Emery from 1993 to 1997. He served as General Counsel to the American Electronics

Association from 1994 to 1998. His previous experience includes working for the U.S. Government's Central Intelligence Agency and Department of Defense and as corporate counsel to establish several companies in the Silicon Valley of California. He is a Director of the National Defense Industrial Association and is a director of various private corporations.

Mr. Dohring

, 70, is currently Chairman of the Board of MTI Instruments, Inc. where he served as President from April 1, 2000 to April 5, 2002, and has been a Director of the Company since 1997. Mr. Dohring retired on December 31, 1998 from Silicon Valley Group, Inc. ("SVG") where he had been Vice President since July 1992 and President of its SVG Lithography Systems, Inc. ("SVGL") unit since October 1994. From June 1992 to October 1994, he served as President of SVG's Track Systems Division. He joined SVG from Rochester Instrument Systems, Inc., where he

served as President from April 1989 to June 1992. He also held management positions with General Signal, CVC Products, Bendix, Bell & Howell and Veeco Instruments. He is a member of the Board of Directors of Tegal Corporation, and has served as a director of Semiconductor Equipment & Materials International (SEMI) and International Disc Equipment Manufacturers Association (IDEMA).

Mr. Eisenhaure

, 58, a Director since 2000, has served as President, Chief Executive Officer and Chairman of the Board of Directors of SatCon Technology Corporation ("SatCon") since 1985. Prior to founding SatCon, Mr. Eisenhaure was associated with the Charles Stark Draper Laboratory, Incorporated, from 1974 to 1985, and with its predecessor, the Massachusetts Institute of Technology's Instrumentation Laboratory, from 1967 to 1974. In addition to his duties at SatCon, Mr. Eisenhaure holds an academic position at the Massachusetts Institute of Technology, serving as a lecturer in the Department of Mechanical Engineering. Mr. Eisenhaure became a Director of the Company when he was selected by SatCon as its designee on the Company's Board of Directors pursuant to the agreements entered into in connection with the October 1999 transactions between SatCon and the Company whereby the Company sold its subsidiary,

Ling Electronics, to SatCon and agreed to invest approximately \$7 million in SatCon. He is also a member of the Board of Directors of Implant Sciences Corp.

Mr. O'Connor

, 64, a Director since 1993, is a registered patent attorney, and from 1984 until his retirement in June 2000, was the Director of New Products and Technology for Masco Corporation, a diversified manufacturer of building, home improvement, and other specialty products for the home and family.

Proposal No. 2

Approval of Private Placement

Introduction

We are asking you to approve the issuance and sale, through a private placement, to Fletcher International, Ltd., or Fletcher, of (1) 1,418,842 shares of our common stock, issued to Fletcher on January 29, 2004, for an aggregate purchase price of \$10 million, or \$7.048 per share, and (2) rights to purchase up to an additional \$28 million of our common stock and in certain instances up to 2,700,000 shares of Plug Power Inc. common stock owned by us. We consummated the Fletcher private placement on January 29, 2004 and amended its terms on May 4, 2004. The private placement is subject to the terms and conditions outlined in the Agreement between the Company and Fletcher dated as of January 26, 2004, amended as of May 4, 2004 and the Certificate of Additional Investment Rights issued by the Company on May 4, 2004.

The Company amended its agreement with Fletcher for several reasons including (1) to reduce potential shareholder dilution by changing the exercise price for the rights to purchase additional shares of our common stock to a fixed price, (2) to increase the Company's potential funding under the agreement, and (3) to revise certain technical provisions regarding SEC registration of shares that may be issued in the future under the agreement.

The first paragraph of the Introduction is a brief summary of some of the principal terms of the private placement as amended. A more detailed description is contained below in this Proxy Statement. This summary and the more detailed description below are qualified by reference to the Agreement between Fletcher and the Company, as amended, and the Certificate of Additional Investment Rights issued by the Company on May 4, 2004 (which was issued in exchange for the Certificate of Additional Investment Rights issued on January 29, 2004). The Agreement

between Fletcher and the Company and the Certificate of Additional Investment Rights issued on January 29, 2004 are attached as exhibits to our Form 8-K, filed with the SEC on January 27, 2004. The amendments to the Agreement between Fletcher and the Company, and the Certificate of Additional Investment Rights issued by the Company on May 4, 2004 are attached as exhibits to our Form 8-K, filed with the SEC on May 4, 2004.

Reasons for the Transaction

The principal reason for the private placement is to provide us with additional working capital to continue to invest in and support MTI MicroFuel Cells in its development and commercialization of Direct Methanol Micro Fuel Cells (DMFCs) as a future power source for portable electronic devices. The Company is committed to the commercialization of DMFCs. One of the most significant challenges facing the commercialization of any new technology is the ability to finance that technology through commercialization. The Company needed sufficient cash reserves available to help assure that it would have sufficient cash to fund MTI Micro through to commercialization of DMFCs. We believe that the best option for us is to obtain that additional financing, in part, through the private placement. The proceeds of the Fletcher private placement have been and will continue to be used to fund the operations of MTI Micro and for other general corporate purposes.

Any exercises of the additional investment rights could result in sales of our common stock at prices that are below the market for our common stock at the time of exercise and could result in substantial dilution to our shareholders. In addition, the number of shares of Plug Power common stock Fletcher may purchase and the exercise price for those shares are subject to fluctuation based on the market price of our common stock and the market price of Plug Power common stock. Accordingly, Fletcher may, in certain instances, purchase shares of Plug Power common stock either at a price below the fair market value of such shares, thereby reducing the value of our assets, or even if based on the market price of Plug Power shares, at a price which we would otherwise not desire to sell such shares.

Background of the Transaction

Our Board of Directors and management considered a number of different financing alternatives prior to entering into the Agreement with Fletcher. During 2003, management met with more than six private equity groups and investment bankers specializing in private placements. We also evaluated other types of financing, including the sale of Plug Power shares, the sale of MTI Micro common shares and acquisitions of companies with substantial cash balances. Several of these financing alternatives generated proposals, which were discussed by our Board of Directors, but which the Board of Directors ultimately determined were not in the best interest of the shareholders.

Fletcher presented us with a term sheet initially in November 2003 and began its due diligence of the Company. After extensive negotiations, Fletcher and the Company agreed to the principal deal terms in January 2004. At a meeting of the Board of Directors on January 13, 2004, the Board approved the private placement with Fletcher. On January 26, 2004, the Company and Fletcher signed definitive agreements and the Company issued a press release the next day. We filed the press release with the SEC on January 27, 2004 on Form 8-K and included copies of the Agreement and the Certificate of Additional Investment Rights.

On May 4, 2004, we amended our agreement with Fletcher. The agreement, as amended, includes a change in the exercise price for the rights to purchase additional shares of MTI common stock to a fixed price of \$6.34 per share from, in the original agreement, \$7.05 per share until December 31, 2005 and the lesser of \$7.05 per share or a variable price in 2006. The change to a fixed price substantially reduces the potential for shareholder dilution if shares had been purchased at a variable price in 2006. The price remains subject to adjustment upon the occurrence of certain limited events. The agreement, as amended, also includes:

- ◆ an increase in the rights to purchase additional shares of MTI common stock to \$28 million from \$26 million;
- a reduction in Fletcher's right to purchase Plug Power Inc. (NASDAQ:PLUG) common stock escrowed by the Company to a maximum of 2,700,000 shares from a maximum of 3,000,000 shares;
- an extension of the exercise period for the right to purchase Plug Power Inc. common stock to one or more purchases between June 1, 2005 and December 31, 2006 from a one-time purchase in June of 2005;
- an extension of MTI's ability to withdraw Plug Power Inc. common stock from escrow through December 31, 2006 instead of through June 30, 2005; and
- an extension of the exercise period for the right to invest the first \$8 million in MTI's common stock to any time prior to December 31, 2004 from any time prior to ninety business days after the effective date of MTI's registration statement.

The amendments to the Agreement between Fletcher and the Company, and the Certificate of Additional Investment Rights issued by the Company on May 4, 2004 are attached as exhibits to our Form 8-K, filed with the SEC on May 4, 2004.

Why We Need Shareholder Approval

As a NASDAQ listed company, we are subject to the Marketplace Rules of the National Association of Securities Dealers. Under Marketplace Rule 4350(i), we must obtain shareholder approval for a transaction involving the sale or issuance of shares of common stock (or securities convertible or exercisable for common stock) at a price below the book value or market value of such shares, where the amount of stock being issued is equal to 20% or more of our common stock outstanding prior to such issuance or represents 20% or more of the voting power outstanding prior to such issuance. Our amended agreement with Fletcher requires that we seek shareholder approval of all shares of our common stock issued or issuable to Fletcher. In the event we obtain such shareholder approval, Fletcher's exercise of its additional investment rights may result in the issuance of more than 20% of our common stock outstanding on January 26, 2004 at a price that may be below the market value. Accordingly, we are seeking shareholder approval in order to satisfy Rule 4350(i) and the terms of our amended agreement with Fletcher.

The amended Fletcher agreement provides that prior to obtaining shareholder approval, Fletcher may not exercise its additional investment rights if such exercise would result in issuances to Fletcher in the private placements (which include all prior issuances) of more than 19.99% of our common stock outstanding on January 26, 2004. If we do not obtain shareholder approval, Fletcher will be entitled to a "net basis settlement" as more fully described under the caption "Net Basis Settlement" below.

Private Placement

On January 29, 2004, we issued to Fletcher, in a private placement (1) 1,418,842 shares of our common stock for an aggregate purchase price of \$10 million, or \$7.048 per share, and (2) rights to purchase up to an additional \$26 million of our common stock and in certain instances up to 3,000,000 shares of Plug Power common stock owned by us, which rights are referred to herein as the additional investment rights. We have been and will continue to use the proceeds of the private placement primarily to support the operations of MTI Micro and for other general corporate purposes. As required by our agreement with Fletcher, we filed a registration statement with the SEC to register the resale of 1,418,842 shares of our common stock that were issued in January 2004. That registration statement was declared effective by the SEC on May 20, 2004.

On May 4, 2004, we amended our agreement with Fletcher. The agreement, as amended, includes a change in the exercise price for the rights to purchase additional shares of MTI common stock to a fixed price of \$6.34 per share from, in the original agreement, \$7.05 per share until December 31, 2005 and the lesser of \$7.05 per share or a

variable price in 2006. The change to a fixed price substantially reduces the potential for shareholder dilution if shares had been purchased at a variable price in 2006. The price remains subject to adjustment upon the occurrence of certain limited events. The agreement, as amended, also includes:

- an increase in the rights to purchase additional shares of MTI common stock to \$28 million from \$26 million;
- a reduction in Fletcher's right to purchase Plug Power Inc. (NASDAQ:PLUG) common stock escrowed by the Company to a maximum of 2,700,000 shares from a maximum of 3,000,000 shares;
- an extension of the exercise period for the right to purchase Plug Power Inc. common stock to one or more purchases between June 1, 2005 and December 31, 2006 from a one-time purchase in June of 2005;
- an extension of MTI's ability to withdraw Plug Power Inc. common stock from escrow through December 31, 2006 instead of through June 30, 2005; and
- an extension of the exercise period for the right to invest \$8 million to any time prior to December 31, 2004 from any time prior to ninety business days after the effective date of the registration statement.

Additional Investment Rights

The amended additional investment rights provide Fletcher with the right, but not the obligation, to purchase up to an additional \$8 million of our common stock at any time prior to December 31, 2004, at a price per share equal to \$6.34. In addition, in the event Fletcher exercises in full such \$8 million investment right, Fletcher shall have the right, but not the obligation, to purchase, in a single purchase or multiple purchases, up to an additional \$20 million of our common stock at any time prior to December 31, 2006 at a price per share equal to \$6.34, which date may be extended in the event that we have not satisfied our contractual obligations with respect to the registration for resale of common stock issued or issuable to Fletcher.

The table below illustrates the number of shares Fletcher would receive upon exercise of its \$20 million additional investment right at a price per share equal to \$6.34 (such exercise price is subject to adjustment as described under "Adjustment Provisions") . Note that our amended agreement with Fletcher provides that the maximum number of shares we could potentially issue to Fletcher is 8,330,411 shares.

Purchase Price	Shares Issuable in Exchange for \$20
<u>MTI Stock</u>	<u>Million Investment</u>
\$6.34	3,154,575

Plug Power Shares

In connection with the amended private placement agreement, the Company has reduced the number of shares of Plug Power it has deposited into escrow to 2,700,000 shares, a reduction of 300,000 shares. Commencing immediately after the SEC declares effective the registration statement relating to shares of our common stock that Fletcher owns (or may acquire), we continue to have the right to have 250,000 of such shares released from escrow to us, on a monthly basis, in the event that on any day during such month, the prevailing price of our common stock exceeds \$6.343 (which price may have been adjusted to reflect stock splits, recombinations, stock dividends or the like). If Fletcher does not exercise its right to purchase the first additional \$8 million of our common stock, all of such Plug Power shares will be released from escrow to us. If, however, Fletcher does exercise such right, then at any time, on one or multiple occasions, from June 1, 2005 to December 31, 2006, Fletcher may exercise its right to purchase from us a number of shares of Plug Power

common stock totaling \$10,000,000 divided by the prevailing price per share of Plug Power common stock, but only to the extent of the number of shares remaining in escrow.

The exercise price for the Plug Power investment right is \$10,000,000 less the positive difference between \$18,000,000 and the product of the sum of 1,418,842 and the quantity of shares purchased in the exercise of the first \$8 million of additional investment rights multiplied by the prevailing price per share of our common stock on the date Fletcher elects to exercise such right, all divided by the quotient obtained by dividing 10,000,000 by the prevailing price of Plug Power common stock on the date Fletcher elects to exercise such right. As used herein, a prevailing price is the average of the daily volume-weighted average price per share of common stock during the sixty-business-day period ending three days prior to the date Fletcher elects to exercise such right, provided however that the price may not exceed the average of the daily volume-weighted average prices for any ten business days within such sixty-business-day period. Each of the above referenced per share exercise prices for the additional investment rights was subject to adjustment as described below under "*Adjustment Provisions.*"

As a result of this exercise price calculation, we may be required to sell shares of Plug Power at a discount to prices we would otherwise obtain in sales at market prices. The table below illustrates such potential discounts based on assumed decreases in our stock price from \$6.00 (which, for the purposes of this illustration, serves as an approximation of the price of our common stock as of March 11, 2004, the date we filed Amendment No.1 to our Registration Statement on Form S-3), and an assumed price of Plug Power stock at the time of exercise. Note that Fletcher's right to purchase Plug Power shares is conditioned on the exercising of Fletcher's first \$8 million of additional investment rights.

MTI	Assumed	Effective	Percentage	Plug Shares	Proceeds to
<u>Price</u>	<u>Price</u>	<u>Price</u>	<u>to Market</u>	<u>Purchased</u>	<u>MTI</u>
\$6.00	\$7.00	\$5.66	19%	1,428,571	\$8,084,031
\$4.50	\$7.00	\$2.84	59%	1,428,571	\$4,063,023
\$3.00	\$7.00	\$0.03	99%	1,428,571	\$ 42,016
\$1.50	\$7.00	\$ -	100%	1,428,571	\$ -

Adjustment Provisions

Our amended agreement with Fletcher also provides that we may be required to issue additional shares to Fletcher, reduce the exercise prices described above for the additional investment rights and/or extend the investment term upon the occurrence of certain events (each as more fully described below) including:

- ◆ a restatement of our financial results,
- ◆ a change in control of our company,
- ◆ a future issuance of our capital stock at a price less than \$7.048 as it relates to the initial \$10 million investment and \$6.34 as it relates to all additional investments, or
- ◆ our failure to maintain the effectiveness of the registration statement relating to shares of our common stock that Fletcher owns or may acquire, as well as our failure to satisfy the other requirements relating to registration.

Restatement

In the event we restate any portion of our financial statements prior to January 29, 2005, or prior to the first anniversary of the closing of any additional investment, as the case may be, the exercise price for the additional investment rights will be adjusted to equal the prevailing price of our common stock sixty days after we restate our financial statements. In addition, with respect to any investments made prior to the time of the restatement, Fletcher will receive additional shares of common stock such that all such investments will have been effectively made at such adjusted exercise price.

Change in Control

In the event of a change of control of our Company prior to sixty days after the expiration of the additional investment term, we may have to issue additional shares of our common stock to Fletcher and the additional investment rights (including the right to purchase the Plug Power shares) may be accelerated. If the consideration per share paid to our shareholders in the change of control transaction is less than twice the amount of the price per share paid by Fletcher for any of its investments pursuant to the agreement with Fletcher or the certificate of additional investment rights, then we must issue to Fletcher a number of shares of our common stock such that all of its investments will have been effectively made at a price per share equal to such per share change of control consideration multiplied by 0.5. In addition, if our shareholders have not approved the transaction with Fletcher prior to a change of control of our Company, Fletcher may make a net basis settlement with respect to its additional investment rights. The mechanics of a net basis settlement are described below under "Net Basis Settlement and Shareholder Approval."

Dilutive Issuances

If on or prior to December 31, 2004 we issue any equity securities at a price below \$7.048 as it relates to the initial \$10 million investment and \$6.34 as it relates to all additional investments, then we must issue to Fletcher a number of additional shares to reflect the number of shares it would have acquired if its purchase price was such lower price and adjust the exercise price for the additional investment rights to such lower price. In addition, if after December 31, 2004 and ending December 31, 2006 we issue any equity securities at a price below \$7.048 as it relates to the initial \$10 million investment and \$6.34 as it relates to any additional investments which have been made, the exercise price for the additional investment rights shall be adjusted to provide Fletcher "weighted average" anti-dilution protection and we must issue to Fletcher a number of additional shares such that all prior investments will have been effectively made at such adjusted exercise price.

Registration Obligations

In the event we fail to satisfy our contractual obligations to register for resale shares of common stock issued or issuable to Fletcher, then we must issue to Fletcher a number of additional shares to reflect the number of shares it would have acquired if its purchase price was based on the actual exercise price reduced by five percent for each month in which we fail to satisfy our obligations and adjust the exercise price for the additional investment rights to such lower price. In addition, such failure will result in an extension of the investment term for each day we fail to satisfy our registration obligations. These registration obligations include, among other things, maintaining the effectiveness of registration statements.

Net Basis Settlement and Shareholder Approval

We are obligated under the agreement with Fletcher to seek shareholder approval of the issuance of more than 19.99 percent of our common stock pursuant to our transactions with Fletcher. In the event we do not obtain such shareholder approval, or in the event a change in control of our Company occurs prior to obtaining such shareholder approval, and as a result of the exercise of the additional investment rights, we would have issued more than 19.99 percent of our common stock, Fletcher will be entitled to a "net basis settlement", whereby it receives a certain number of shares of common stock, without any cash payment by Fletcher, representing the difference between the market value of the additional investment rights as of three business days prior to the date Fletcher elects to exercise such additional investment rights and the investment purchase price. Such number of shares shall equal the quotient obtained by dividing "X" by the closing price of our common stock on the date three days prior to Fletcher exercising an additional investment right (such price is referred to herein as the net basis price), where "X" is the product of (1) the additional investment amount, divided by the additional investment exercise price, multiplied by (2) the amount by which the net basis price exceeds the additional investment exercise price.

Other

The agreement also provides Fletcher certain other rights including, but not limited to, indemnification rights with respect to (1) breaches of representations, warranties and covenants contained in the agreements with Fletcher, and (2) misstatements in or omissions from the prospectus and the registration statement relating to shares of our common stock that Fletcher owns or may acquire.

Placement and Amendment Fees

In connection with the private placement, in February 2004 the Company paid placement fees of \$600 thousand to Chicago Investment Group LLC and issued a warrant to purchase 28,377 shares of the Company's common stock at an exercise price of \$10.572 per share. The warrant may not be exercised until February 5, 2005 and expires on February 5, 2006. In connection with the amendment of the private placement, the Company paid advisory fees of \$300 thousand to Citigroup Global Markets Inc.

Dissenter's Rights

Under New York law, shareholders are not entitled to dissenters' rights with respect to Proposal No. 2.

The Board of Directors recommends that you vote to APPROVE the private placement

BOARD OF DIRECTORS MEETINGS AND COMMITTEES

The Board of Directors held ten meetings during 2003. All directors attended at least 75% of all of the Board and committee meetings that they were eligible to attend during 2003. The Board has no formal policy regarding attendance at the annual meeting, however Directors are encouraged but not required to attend annual meetings of the Company's shareholders. All directors of the Company as of the date of the 2003 Annual Meeting of Shareholders attended the meeting. The Board of Directors has established an Audit Committee and a Compensation, Nominating and Governance Committee.

Audit Committee

The Audit Committee currently consists of Mr. Fischer (Chairman), Mr. O'Connor and Dr. Robb. Prior to the adoption of the new Audit Committee Charter on March 11, 2004, Mr. Dohring served as a member of the Audit Committee. The Board has determined that the current members of the Audit Committee are independent directors under the NASDAQ audit committee structure and membership requirements.

The Audit Committee met four times during 2003. The responsibilities of the Audit Committee are set forth in the Charter of the Audit Committee, which was adopted by the Board of Directors of the Company on March 11, 2004. The Committee, among other matters, is responsible for the annual appointment of independent accountants as the auditors of the Company, and reviews the arrangements for and the results of the auditors' examination of the Company's books and records, auditors' compensation, internal accounting control procedures, and activities. The Audit Committee also reviews the Company's accounting policies, control systems and compliance activities and reviews the Charter of the Audit Committee. The Audit Committee Charter is included herein as Exhibit A and is available on our website at www.mechtech.com.

Report of the Audit Committee

Management is responsible for the Company's internal controls and the financial reporting process. The Company's independent auditors, PricewaterhouseCoopers LLP ("PwC"), are responsible for performing an independent audit of the Company's financial statements in accordance with generally accepted auditing standards and to issue a report on those financial statements.

The Board of Directors has designated Mr. Fischer as an "Audit Committee Financial Expert" under the Securities Exchange Act of 1934 and NASD standards.

Review of Audited Financial Statements with Management

The Audit Committee reviewed and discussed the Company's audited financial statements for the year ended December 31, 2003 with the management of the Company.

Review of Financial Statements and Other Matters with Independent Accountants

The Audit Committee has discussed with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*. In addition, the Audit Committee has received the written disclosures and the letter from PwC required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit*

Committees, and has discussed with PwC the independent accountants' independence from the Company and its management.

Recommendation that Financial Statements be Included in the Company's Annual Report

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements for the year ended December 31, 2003 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for filing with the Securities and Exchange Commission.

Audit Committee

:

Mr. Steven Fischer (Chairman)

Mr. E. Dennis O'Connor

Dr. Walter L. Robb

Proposal No. 3

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee annually considers and recommends to the Board the appointment of the Company's independent auditors.

The Board of Directors has appointed PricewaterhouseCoopers LLP ("PwC"), independent auditors, to audit the Company's consolidated financial statements for fiscal year 2004. PwC served as the Company's independent auditors for fiscal year 2003.

The Board recommends you vote FOR ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors.

The persons named in the enclosed Proxy will vote to ratify the appointment of PricewaterhouseCoopers LLP ("PwC") as independent auditors for the year ending December 31, 2004 unless otherwise directed by the shareholders. A representative of PwC is expected to be present at the Annual Meeting and will have the opportunity to make a statement and answer appropriate questions from shareholders. If the shareholders do not ratify the appointment of PwC as the Company's independent auditors, the appointment of such independent auditors will be reconsidered by the Audit Committee and the Board.

Accounting Fees

Aggregate fees for professional services rendered for the Company by PwC for the years ended December 31, 2003 and 2002 are as follows⁽¹⁾:

	Year Ended December 31, <u>2003</u>	Year Ended December 31, <u>2002</u>
Audit	\$125,110	\$77,900
Audit Related	8,600	4,725
Tax	43,450	9,800
All Other	=	=
Total	<u>\$177,160</u>	<u>\$92,425</u>

(1)

The aggregate fees included in Audit are fees billed for the fiscal periods for the audit of the Company's annual financial statements and review of financial statements and statutory and regulatory filings or engagements. The aggregate fees included in each of the other categories are fees billed in the fiscal periods.

The *Audit Fees* billed for the fiscal years ended December 31, 2003 and 2002, respectively, were for professional services rendered for the audits of the consolidated financial statements of the Company, reviews of quarterly consolidated financial statements, National Institute of Science and Technology contract audit, audit of the Company's 401(K) plan and its associated Form 11-K filing and consents and assistance with and review of documents filed with the Commission.

The *Audit Related Fees* billed during the fiscal years ended December 31, 2003 and 2002, respectively, were for assurance and related services related to consultations concerning financial accounting and reporting standards.

The *Tax Fees* billed during the fiscal years ended December 31, 2003 and 2002, respectively, were for services related to tax compliance, including the preparation of tax returns and claims for refund; and tax planning and tax advice, including assistance with and representation in tax audits and advice related to proposed transactions.

The Audit Committee has considered whether the provision of the non-audit services above is compatible with maintaining the auditors' independence, and has concluded that it is.

Audit Committee Pre-Approval Policies and Procedures

Pursuant to Section 202(a) of the Sarbanes-Oxley Act, the Audit Committee has adopted the following policies and procedures under which frequently utilized audit and non-audit services are pre-approved by the Audit Committee and the authority to authorize the independent auditor to perform such services is delegated to a single committee member or executive officer.

A. Annual audit, quarterly review and annual tax return services will be pre-approved upon review and acceptance of the tax and audit engagement letters submitted by the independent auditors to the Audit Committee.

B. Additional audit and non-audit services related to the resolution of accounting issues or the adoption of new accounting standards, audits by tax authorities or reviews of public filings by the Securities and Exchange Commission must be pre-approved by the Audit Committee and the authority to authorize the independent auditor to perform such services is delegated to the Chairman of the Audit Committee for fees up to \$5,000, and for fees above \$5,000 entire Committee approval is required.

C. Additional audit and non-audit services related to tax savings strategies, tax issues arising during the preparation of tax returns, tax estimates and tax code interpretations must be pre-approved by the Audit Committee and the authority to authorize the independent auditor to perform such services is delegated to the Chairman of the Audit Committee for fees up to \$5,000, and for fees above \$5,000 entire Committee approval is required.

D. Additional audit and non-audit services related to the tax and accounting treatments of proposed business transactions must be pre-approved by the Audit Committee and the authority to authorize the independent auditor to perform such services is delegated to the Chairman of the Audit Committee for fees up to \$5,000, and for fees above \$5,000 entire Committee approval is required.

E. Quarterly and annually, a detailed analysis of audit and non-audit services will be provided to and reviewed with the Audit Committee.

All of the 2003 services described under the captions "Audit Fees," "Audit Related Fees," and "Tax Fees" were approved by the Audit Committee.

REPORT OF THE COMPENSATION, NOMINATING AND GOVERNANCE COMMITTEE

ON EXECUTIVE COMPENSATION

Until October 9, 2003, the Board of Directors did not have a nominating committee because director nominations were made by the Board of Directors as a whole, based on the advice of management. On October 9, 2003, the Board of Directors delegated the authority for nominations to the Board of Directors to the Compensation Committee, which has been renamed the Compensation and Nominating Committee. On April 28, 2004, the Board of Directors delegated the authority for governance to the Compensation and Nominating Committee, which has been renamed the Compensation, Nominating and Governance Committee. On April 28, 2004, the Board also adopted a Compensation, Nominating and Governance charter for the Company. That charter has been posted to the Company's website at www.mechtech.com. The Compensation, Nominating and Governance Committee consists of Drs. Robb and Sternlicht and Mr. O'Connor, who are all independent directors in accordance with the NASDAQ National Market System director independence standards. Mr. O'Connor is Chairman of the Compensation, Nominating and Governance Committee.

The role of the Compensation, Nominating and Governance Committee is to assist the Board of Directors by 1) identifying, evaluating and recommending the nomination of Board members; 2) setting the compensation for the Company's Chief Executive Officer; 3) establishing bonus and option pool amounts for other employees and performing other compensation oversight; 3) establishing Director compensation; 4) selecting and recommending Director candidates to the Board of Directors; 5) recommending improved governance of the Company to the Board of Directors; and 5) assisting the Board of Directors with other assigned tasks as needed.

Prior to the delegation of nomination responsibilities to the Compensation, Nominating and Governance Committee, Directors were nominated by the full Board of Directors, based on input from management. In looking for Directors, the Board focused on the candidate's credentials, business savvy, concern for the Company's shareholders and since 2003, that such Directors met the director independence standards of the Nasdaq National Market System. It is anticipated that the Compensation, Nominating and Governance Committee will continue to follow these standards.

Neither the Company, nor its Compensation, Nominating and Governance Committee has a formal policy by which shareholders may recommend Director candidates, but the newly formed Committee will consider appropriate candidates recommended by shareholders. A shareholder wishing to submit such a recommendation should send a letter to the Secretary of the Company at 431 New Karner Rd., Albany New York, 12205. The mailing envelope must contain a clear notation that the enclosed letter is a "Director Nominee Recommendation." The letter must identify the author as a shareholder and provide a brief summary of the candidate's qualifications. At a minimum, candidates recommended for election to the Board of Directors must meet the independence standards of the NASDAQ National Market System.

The Compensation, Nominating and Governance Committee administers the executive compensation program for the Company and MTI Instruments. This Committee is responsible for establishing the policies that govern base salary, as well as short and long-term incentives for the Company's and MTI Instruments' senior management teams. The executive compensation program for MTI Micro is managed by the Compensation Committee of MTI Micro. The Compensation, Nominating and Governance Com