Making portable electronics truly wireless
People all over the world rely on wireless and other portable electronic devices every day—to make phone calls, take pictures, send email, check stock quotes, set up meetings and so much more. These devices—intended to make our lives more convenient, productive, and connected—still require wires to be recharged, which limits their use and our mobility, productivity and freedom. We are creating a power source to cut that cord and allow portable electronics to become truly wireless. We are the power behind this new portable energy—direct methanol fuel cells.
The year 2003 was an important one for MTI and its shareholders. We made progress on several fronts and added to shareholder value.

Our focus at the MTI corporate level was to conserve cash and strengthen operational efficiencies within our subsidiaries, MTI Instruments, which produces precision test and measurement systems, and MTI MicroFuel Cells, which plans to commercialize direct methanol fuel cells (DMFCs) as a power source for wireless portable electronics.

As MTI Micro approaches the launch of its first DMFC product at the end of 2004, we are also building up the critical cash reserves necessary to support moving DMFCs into the marketplace. Through a series of strategic steps, the MTI Board has already raised the Company’s consolidated cash position from around $12 million at the end of 2003 to over $22 million at the end of the first quarter of 2004. We believe our resources will support MTI Micro through its scheduled first product launch at the end of 2004 and provide for additional product development.

The progress of the MTI Micro team has made us a leader in developing micro fuel cells as a power source for products in the multi-billion dollar global markets in portable, wireless electronics. Some of the highlights of 2003 at MTI Micro include: continuing technical advancements in MTI Micro’s proprietary DMFC systems and a growing intellectual property portfolio; an increase in funded research and development revenues; the production and delivery of industrial and military DMFC prototypes; and substantial business progress.

In January 2003, MTI Micro announced an agreement with Intermec Technologies to integrate MTI Micro’s proprietary DMFC systems into future Intermec mobile computing equipment. We are on target to begin shipping our first DMFC product to Intermec at the end of 2004 to support Intermec’s launch of DMFC-powered industrial radio frequency identification (RFID) tag readers.

In September 2003, MTI Micro entered into a strategic alliance agreement with The Gillette Company. As part of the agreement, MTI Micro, Gillette and Gillette’s Duracell division will work together to develop and commercialize DMFC products to provide wireless power for future mass market, low-power, portable consumer devices such as PDAs, digital cameras, portable CD players and cell phones. Gillette also made an initial $1 million investment in MTI Micro common stock with the potential of up to an additional $4 million subject to milestones during the project.

In October 2003, MTI Micro and the Harris Corporation entered into a second agreement to jointly develop DMFC systems for wireless, portable military communications equipment.

At MTI Instruments, we have also seen significant progress. During 2003, there were gains in product revenue for the first nine months and, even with a delay in some orders resulting in a drop in sales for the fourth quarter, we ended the year up slightly with sales of $5.5 million. The gain was primarily from increased sales of aviation products under two multi-year, multi-million dollar contracts with the U.S. Air Force. Semiconductor product sales were also slightly higher during 2003, after almost three years of an industry downturn. We see MTI Instruments as being well positioned for growth in these two fields, with aggressive business development efforts and a growing roster of well received products.

We believe the strong product focus of our two subsidiaries should position us for continued progress and shareholder value during 2004.

Dale W. Church
Chairman and Chief Executive Officer
Mechanical Technology Incorporated

To our fellow shareholders
During 2003 we saw tremendous technical, product development and business progress at MTI Micro as we moved closer to the planned launch of our first DMFC product at the end of 2004.

We made important technical advances in the performance and manufacturability of our proprietary DMFC system, and continued to add patent applications to our intellectual property portfolio. These patent applications reflect the significant technical progress we have made developing a proprietary system that we believe is unique in the field and offers a number of performance and manufacturing improvements. We have also made significant business progress.

In January 2003, as part of our strategy to enter the industrial market, we announced a joint development and supply agreement with Intermec Technologies Corporation, a global leader in the development, manufacture and integration of automated data collection and ruggedized, portable computing systems. Since then, we have worked closely with Intermec to integrate our proprietary DMFC systems into their future product plans. We intend to begin shipping our first DMFC product to Intermec by the end of 2004 to support Intermec’s launch of micro fuel cell-powered industrial RFID tag readers—a new technology to identify, record and track inventoried goods.

In September 2003, MTI Micro entered into a strategic alliance agreement with The Gillette Company. This agreement supports MTI Micro’s strategy of providing a total DMFC solution for a broad range of consumer electronics products. As part of this agreement, MTI Micro, Gillette and Gillette’s Duracell division intend to work together to develop and commercialize a complete solution to power future mass market, low-power, portable consumer devices such as PDAs, digital cameras, portable CD players and cell phones. MTI Micro is responsible for the development of the DMFC, Gillette for fuel refills and we share responsibility for testing and assuring compatibility. The agreement also outlines a plan for manufacturing and distribution, Gillette’s equity investment in MTI Micro, and a structure for joint technology licensing.

As part of our strategy to enter the military markets, in October 2003, we entered into a second agreement with the Harris Corporation to develop DMFCs for military communications devices including Harris’ tactical handheld radios. Through working with Harris, we see that our DMFC technology has direct...
MTI Instruments is involved in the design, manufacture and sale of advanced metrology products and has three product groups: non-contact gaging, semiconductor metrology tools, and jet engine balancing systems. These high-performance, non-contact test and measurement instruments and systems are designed to help increase efficiency and productivity during a range of production and quality control processes, and are currently used by over 200 companies worldwide in the electronics, semiconductor, automotive, bioengineering, aerospace and aviation fields.

MTI Instruments is beginning to realize our vision of being a leader in the development of a new energy source for portable electronics. Back in 2000, we determined the growing market in portable electronics would require improved power sources, and we identified DMFCs as the best response to that need. In 2001, we began developing our proprietary DMFCs. In 2002, we focused on developing a series of system platforms capable of responding to a range of portable power needs for industrial, military and consumer markets. In 2003, we focused on advancing the manufacturability of our systems—with dedicated internal teams working on products for each of the three markets. We also focused on adding best-in-class partners such as Harris, Intermec, and Gillette/Duracell, who joined DuPont in working with us on commercialization. And in 2004, with our dedicated team, our proprietary technology, our best-in-class partners and our financial resources, we are preparing to enter the market with the first in a series of DMFC products for the wireless world of the future.

MTI INSTRUMENTS Precision measurement tools for industry and science

- MTI Instruments showed gains in product revenue during the first nine months of 2003. Then product revenue dropped slightly for the fourth quarter but still showed an increase for the year, due primarily to aggressive market development and increased sales of aviation systems. Semiconductor product sales were also slightly higher, reversing a trend since 2001 when a deep downturn in the industry began to erode demand for our metrology products.

  During 2004 we are focusing on the execution of a multi-year plan of revenue growth across all product lines at MTI Instruments. We believe MTI Instruments is well positioned for an upturn in the semiconductor market, if it occurs, with an advanced line of semiconductor products and an active presence in the market. The aviation line is also well positioned for growth, based on new products and anticipated orders for jet engine balancing systems under two multi-year, multi-million dollar contracts with the U.S. Air Force.

  We are proud of the team at MTI Instruments and its ability to respond quickly and successfully to market challenges. Seeing our current market opportunities, product portfolio, competitive advantages and, above all, the caliber and cohesiveness of our people, we believe 2004 should be a year of strong performance for MTI Instruments.
**Annual Meeting.** The annual meeting of shareholders will be held at 10:00 am on Thursday, June 24, 2004 at The Century House, 997 New Loudon Road, Latham, New York.

**Shareholder and Financial Information.** To expedite requests regarding misplaced stock certificates, address changes, or the consolidation of accounts, shareholders are asked to contact the Transfer Agent: American Stock Transfer & Trust Company Isaac Kagan 59 Maiden Lane New York, NY 10038 800-937-5449

**MTI Online.** Stockholders of MTI automatically receive the Company's annual report and proxy solicitation material enabling them to vote at the annual meeting. The 2003 annual report, 10-K and other investor information can be viewed online at Mechanical Technology's website: www.mechtech.com

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### Financial Highlights

#### Consolidated Statements of Earnings Data

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Product revenue</td>
<td>$ 5,547</td>
<td>$ 5,362</td>
<td>$ 1,246</td>
<td>$ 7,298</td>
<td>$ 5,558</td>
<td>$ 12,895</td>
</tr>
<tr>
<td>Funded research and development revenue</td>
<td>2,311</td>
<td>1,573</td>
<td>90</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain (loss) on sale of securities available for sale, net</td>
<td>7,483</td>
<td>(444)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain on sale of holdings, net</td>
<td>-</td>
<td>6,369</td>
<td>-</td>
<td>28,838</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain on exchange of securities</td>
<td>-</td>
<td>8,006</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain on sale of subsidiary</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,262</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(418)</td>
<td>(8,127)</td>
<td>(15,433)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(Loss) income from continuing operations before income taxes, equity in holdings' losses and minority interests</td>
<td>(1,731)</td>
<td>(1,569)</td>
<td>(17,161)</td>
<td>20,736</td>
<td>(4,917)</td>
<td>(1,329)</td>
</tr>
<tr>
<td>Income tax benefit (expense)</td>
<td>669</td>
<td>636</td>
<td>6,788</td>
<td>(7,524)</td>
<td>1,927</td>
<td>(37)</td>
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<tr>
<td>Equity in holdings' losses, net of taxes</td>
<td>-</td>
<td>(6,671)</td>
<td>(3,316)</td>
<td>(17,072)</td>
<td>(15,849)</td>
<td>(9,363)</td>
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<tr>
<td>Minority interests in losses of consolidated subsidiary</td>
<td>490</td>
<td>418</td>
<td>104</td>
<td>123</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Loss from continuing operations</td>
<td>(572)</td>
<td>(7,186)</td>
<td>(13,585)</td>
<td>(3,737)</td>
<td>(18,839)</td>
<td>(10,729)</td>
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<tr>
<td>Income from discontinued operations, net of taxes</td>
<td>13</td>
<td>225</td>
<td>-</td>
<td>-</td>
<td>243</td>
<td>41</td>
</tr>
<tr>
<td>Cumulative effect of accounting change for derivative financial instruments for Company's own stock, net of tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,468</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Cumulative effect of accounting change for derivative financial instruments, net of tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6,110</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net (loss) income</td>
<td>$ (559)</td>
<td>$ (6,961)</td>
<td>$ (13,585)</td>
<td>$ 3,841</td>
<td>$ (18,596)</td>
<td>$ (10,688)</td>
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</tbody>
</table>

#### Basic and Diluted (Loss) Earnings Per Share

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</thead>
<tbody>
<tr>
<td>Loss from continuing operations</td>
<td>$ (0.02)</td>
<td>$ (0.21)</td>
<td>$ (0.38)</td>
<td>$ (0.10)</td>
<td>$ (0.54)</td>
<td>$ (0.31)</td>
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<tr>
<td>Income from discontinued operations</td>
<td>-</td>
<td>0.01</td>
<td>-</td>
<td>-</td>
<td>0.01</td>
<td>-</td>
</tr>
<tr>
<td>Cumulative effect of accounting change for derivative financial instruments for Company's own stock</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.17</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Cumulative effect of accounting change for derivative financial instruments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(Loss) earnings per share</td>
<td>$ (0.02)</td>
<td>$ (0.20)</td>
<td>$ (0.38)</td>
<td>$ 0.11</td>
<td>$ (0.53)</td>
<td>$ (0.31)</td>
</tr>
</tbody>
</table>

#### Balance Sheet Data:

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>$ 42,426</td>
<td>$ 36,681</td>
<td>$ 11,909</td>
<td>$ 13,833</td>
<td>$ (23,151)</td>
<td>$ 18,662</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>44,031</td>
<td>37,332</td>
<td>5,734</td>
<td>6,704</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Holdings, at equity</td>
<td>-</td>
<td>-</td>
<td>38,937</td>
<td>47,197</td>
<td>64,356</td>
<td>8,710</td>
</tr>
<tr>
<td>Total assets</td>
<td>65,838</td>
<td>52,384</td>
<td>56,348</td>
<td>71,257</td>
<td>77,016</td>
<td>31,780</td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>24</td>
<td>24</td>
<td>4,406</td>
<td>8,453</td>
<td>2,852</td>
<td>597</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>48,266</td>
<td>40,748</td>
<td>47,608</td>
<td>54,047</td>
<td>45,029</td>
<td>27,786</td>
</tr>
</tbody>
</table>

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**SHAREHOLDER INFORMATION**

**NASDAQ: MKTY**

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1 Earnings per share information has been retroactively adjusted to reflect both the April 3, 2000 3-for-1 and the April 30, 1999 3-for-2 stock splits.
Mechanical Technology
Board of Directors

Dale W. Church
Chairman and
Chief Executive Officer
Mechanical Technology

Edward A. Dohring
Retired President
SVG Lithography Systems Inc.

David B. Eisenhaure
President, Chief Executive
Officer and Chairman
SatCon Technology Corporation

E. Dennis O'Connor
Patent Attorney
Retired Director of New
Products and Technologies
Masco Corporation

Dr. Walter L. Robb
President
Vantage Management, Inc.
Retired Senior Vice President
for Corporate Research
and Development
General Electric Company

Dr. Beno Sternlicht
President
Benjosh Management Assoc.
Co-Founder
Mechanical Technology

Steven N. Fischer
Chairman
Urbach Kahn & Werlin
Advisors, Inc.

Mechanical Technology
Corporate Officers and
Management

Dale W. Church
Chairman and
Chief Executive Officer

Catherine S. Hill
Vice President and
General Counsel

Cynthia A. Scheuer
Vice President and
Chief Financial Officer

Other Key Employees

Dr. William P. Acker
President and
Chief Executive Officer
MTI MicroFuel Cells Inc.

Juan Becerra
Vice President
Product Development
MTI MicroFuel Cells Inc.

Dr. Shimshon Gottesfeld
Vice President and
Chief Technology Officer
MTI MicroFuel Cells Inc.

Alan Soucy
Chief Operating Officer
MTI MicroFuel Cells Inc.

Denis P. Chaves
Vice President and
General Manager
MTI Instruments, Inc.

Frederick Jones
Director of Finance
and Administration
MTI Instruments, Inc.

Operating Companies

MTI MicroFuel Cells Inc.

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OR TOLL FREE: 800-828-8210
FX: 518-833-2223
WEB: mtimicrofuelcells.com
EMAIL: mtimicro@mechtech.com

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