GUARANTY BANCSHARES INC /TX/
Form 10-Q
May 15, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003.

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: 000-24235

GUARANTY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

TEXAS	**75-16516431**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 W. ARKANSAS
MT. PLEASANT, TEXAS 75455
(Address of principal executive offices, including zip code)

903-572-9881
(Registrant s telephone number, including area code)

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. |X| Yes |_| No

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 126-2 of the Exchange Act). |_| Yes |X| No

As of May 10, 2003, there were 2,921,928 shares of the registrant s Common Stock, par value $1.00 per share, outstanding.

GUARANTY BANCSHARES, INC.
INDEX TO FORM 10-Q

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
GUARANTY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)
(EXCEPT SHARE AMOUNTS)

	March 31, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 19,172	$ 18,244
Federal funds sold	125	1,530
Securities available-for-sale	118,043	106,992
Loans held for sale	2,422	5,727
Loans, net of allowance for loan losses of $3,781 and $3,692	358,737	356,196
Premises and equipment, net	13,414	13,565
Other real estate	1,716	1,111
Accrued interest receivable	2,875	3,002
Goodwill	2,338	2,338
Other assets	9,376	9,263
Total assets	$ 528,218	$ 517,968
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 68,765	$ 68,514
Interest-bearing	357,221	356,436

	March 31, 2003	December 31, 2002
Total deposits	425,986	424,950
Federal Home Loan Bank advances	52,679	42,763
Long-term debt	10,000	10,000
Accrued interest and other liabilities	4,472	5,611
Total liabilities	493,137	483,324
Shareholders equity		
Preferred stock, $5.00 par value, 15,000,000 shares authorized, no shares issued		
Common stock, $1.00 par value, 50,000,000 shares authorized, 3,252,016 issued	3,252	3,252
Additional paid-in capital	12,725	12,725
Retained earnings	22,184	21,149
Treasury stock, 330,088 and 320,088 shares at cost	(3,981)	(3,820)
Accumulated other comprehensive income	901	1,338
Total shareholders equity	35,081	34,644
Total liabilities and shareholders equity	$ 528,218	$ 517,968

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended March 31, 2003	2002
Interest income		
Loans, including fees	$ 5,955	$ 5,943
Securities	1,074	1,088
Federal funds sold and other temporary investments	13	49
Total interest income	7,042	7,080
Interest expense		
Deposits	2,115	2,620
FHLB advances and federal funds purchased	465	336
Long-term debt	249	184
Total interest expense	2,829	3,140

	Three Months Ended March 31,	
Net interest income	4,213	3,940
Provision for loan losses	375	250
Net interest income after provision for loan losses	3,838	3,690
Noninterest income		
Service charges	683	644
Other operating income	562	353
Realized gain on available-for-sale securities	141	37
Total noninterest income	1,386	1,034
Noninterest expense		
Employee compensation and benefits	2,339	2,107
Occupancy expenses	495	474
Other operating expenses	1,118	909
Total noninterest expenses	3,952	3,490
Earnings before income taxes	1,272	1,234
Provision for income taxes	237	252
Net earnings	$ 1,035	$ 982
Basic earnings per common share	$ 0.35	$ 0.33
Diluted earnings per common share	$ 0.35	$ 0.33

See accompanying notes to consolidated financial statements.

GUARANTY BANCHSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS EQUITY
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31,	
	2003	**2002**
Balance at beginning of period	$ 34,644	$ 31,827
Net income	1,035	982
Purchases of treasury stock	(161)	(130)
Change in unrealized (loss) gain on securities available for sale, net of tax	(437)	(111)
Balance at end of period	$ 35,081	$ 32,568

	Three Months Ended March 31,	

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net cash provided by operating activities	$ 4,323	$ 4,929
Cash flows from investing activities:		
Securities available for sale:		
Purchases	(52,359)	(19,155)
Sales	24,542	4,223
Maturities, calls, and principal repayments	15,844	8,086
Net increase in loans	(3,679)	(6,238)
Purchases of premises and equipment	(100)	(93)
Proceeds from sale of premises, equipment and other real estate	161	75
Net change in federal funds sold	1,405	(6,810)
Net cash used by investing activities	(14,186)	(19,912)
Cash flows from financing activities:		
Net change in deposits	1,036	11,695
Net change in short-term FHLB advances	10,000	
Repayment of long-term FHLB advances	(84)	(81)
Purchase of treasury stock	(161)	(130)
Net cash provided from financing activities	10,791	11,484
Net change in cash and cash equivalents	928	(3,500)
Cash and cash equivalents at beginning of period	18,244	15,410
Cash and cash equivalents at end of period	$ 19,172	$ 11,910
Supplemental disclosures:		
Cash paid for income taxes	$	$ 680
Cash paid for interest	2,829	3,140
Significant non-cash transactions:		
Transfers from loans to real estate owned	$ 763	$ 390

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net earnings	$ 1,035	$ 982
Other comprehensive income:		
Unrealized loss on available for sale securities arising during the period	(521)	(132)
Reclassification adjustment for amounts realized on securities sales included in net earnings	(141)	(37)
Net unrealized loss	(662)	(169)
Tax effect	225	58
Total other comprehensive loss	(437)	(111)
Comprehensive income	$ 598	$ 871

See accompanying notes to consolidated financial statements

GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Guaranty Bancshares, Inc. (the Company) and its wholly-owned subsidiaries Guaranty (TX) Capital Trust I, Guaranty (TX) Capital Trust II, and Guaranty Financial Corp., Inc., which wholly owns Guaranty Bond Bank (the Bank). Guaranty Bond Bank has three wholly owned non-bank subsidiaries, Guaranty Leasing Company, Guaranty Company and GB Com, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete presentation of financial position. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis, and all such adjustments are of a normal recurring nature. These financial statements and the notes thereto should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on March 14, 2003. The Company has consistently followed the accounting policies described in the Annual Report in preparing this Form 10-Q. Operating results for the three months ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

In preparation of the accompanying unaudited consolidated financial statements, management is required to make estimates and assumptions, which are based on information available at the time such estimates and assumptions are made. These estimates and assumptions affect the amounts reported in the accompanying unaudited consolidated financial statements. Accordingly, future results may differ if the actual amounts and events are not the same as the estimates and assumptions of management. The collectability of loans, fair value of financial instruments, other real estate values and status of contingencies are particularly subject to change.

NOTE 2. EARNINGS PER SHARE

Earnings per share is computed in accordance with Statement of Financial Accounting Standards No. 128, which requires dual presentation of basic and diluted earnings per share (EPS) for entities with complex capital structures. Basic EPS is based on net earnings divided by the weighted-average number of shares outstanding during the period. Diluted EPS includes the dilutive effect of stock options granted using the treasury stock method.

	Three Months Ended March 31,	
	2003	**2002**
	(Unaudited)	
Weighted-average common shares used in basic EPS	2,922,484	3,003,872
Potential dilutive common shares	28,098	14,501
Weighted-average common and potential dilutive common shares used in dilutive EPS	2,950,582	3,018,373

NOTE 3. STOCK OPTIONS

In 2000, the Company granted nonqualified stock options to certain executive officers of the Company and the Bank under the Company s 1998 Stock Incentive Plan. The grants consisted of eight-year options to purchase 89,500 shares at an exercise price of $9.30 per share, which was the market price of the Company s stock on the date the options were granted. In February

2002, the Company granted eight-year options to purchase 20,000 shares at an exercise price of $12.50 per share, which was the market price of the Company s stock on the date the options were granted. The options fully vest and become exercisable in five equal installments commencing on the first anniversary of the date of grant and annually thereafter. At March 31, 2003, options for 2000 shares have been exercised and 893,500 options remain available for future grant under the 1998 Stock Incentive Plan.

In accordance with a new accounting standard, *SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123,* the Company transitioned to the fair value method of accounting for stock-based compensation during 2002 using the modified prospective method prescribed by the standard. Under the modified prospective method, the Company began recognizing stock-based employee compensation expense from the beginning of 2002 as if the fair value method had been used to account for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. The fair value of options granted is determined using the Black-Scholes option valuation model. Stock-based employee compensation expense totaled approximately $13,000 and $6,000 for the three months ended March 31, 2003 and 2002, respectively. Under the modified prospective method, no stock-based employee compensation expense is recognized for periods prior to adoption.

The weighted-average fair value per share of options granted during 2002 was $4.09. The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 2.24%; expected volatility of 28.7%; risk-free interest rate of 5.0%, and an expected life of 8.00 years. There were no options granted or exercised in the three months ended March 31, 2003.

NOTE 4. COMMITMENT AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with accounting principles generally accepted in the United States of America, are not included in the consolidated balance sheets. These transactions are referred to as off-balance sheet commitments. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and letters of credit, which involve elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Customers use credit commitments to ensure that funds will be available for working capital purposes, for capital expenditures and to ensure access to funds at specified terms and conditions. Substantially all of the Company s commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company s policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

Outstanding commitments and letters of credit are approximately as follows (dollars in thousands):

	Contract or Notional Amount	
	March 31, 2003	**December 31, 2002**
	(Unaudited)	
Commitments to extend credit	$ 24,583	$ 27,838
Letters of credit	1,161	1,140

The Company is subject to various claims and legal actions occurring in the normal course of business. The Company accrues for estimated losses in the accompanying financial statements for those matters where management believes the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable. After consultation with legal counsel, management currently believes the outcome of outstanding legal proceedings, claims and litigation involving the Company will not have a material adverse effect on the Company s business, financial condition or results of operation.

In November 1998, Guaranty Leasing was informed by the Internal Revenue Service (the Service) that it has taken the position that certain losses taken by one of the three Partnerships during 1994, 1995 and 1996 of $302,000, $410,000 and $447,000, respectively, would be disallowed. In October 2001, Guaranty Leasing was informed by the Service that it has taken the position that certain losses taken by the Partnership during 1997 of $487,000 would also be disallowed. In September 2002, the Company received from the Service a Notice of Final Partnership Administrative Adjustment (FPAA) disallowing these deductions. Based upon the advice of counsel, the Company believes that it has correctly reported these transactions for tax purposes and that it has obtained appropriate legal, accounting and appraisal opinions and authority to support its positions. However, as of December 31, 2002, the Company had recorded and expensed the tax affect of the disallowed deductions. On February 3, 2003, the Company filed a petition to begin the process to litigate the matter in the United States District Court for the Eastern District of Texas. Any final determination with respect to the Partnership will be binding on the Company. Should the Service pursue an investigation of and ultimately disallow the related tax deductions taken during the remaining years of the above partnership as well as the other two partnerships, the Company would be required to recognize an additional maximum tax liability of approximately $3.9 million plus possible penalty and interest. The Company is actively contesting the position of the Service in connection with this matter, and will take appropriate steps necessary to protect its legal position. During 2002, the Company sold its ownership in one of the partnerships and dissolved the other two, therefore no additional deductions have been taken in 2003.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this Quarterly Report on Form 10-Q include forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the Safe Harbor created by those sections. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the following factors: competitive pressure in the banking industry significantly increasing; changes in the interest rate environment reducing margins; general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality and an increase in the provision for possible loan losses; changes in the regulatory environment; changes in business conditions; volatility of rate sensitive deposits; operational risks including data processing system failures or fraud; asset/liability, matching risks and liquidity risks; and changes in the securities markets and the factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission.

These risks and uncertainties are beyond the Company s control and, in many cases, the Company cannot predict the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. When used in this document, the words believes, plans, expects, anticipates, intends, continue, may, will, should or the negative of such terms and similar expressions as they relate to the Company, its customers or its management are intended to identify forward-looking statements.

GENERAL OVERVIEW

Guaranty Bancshares, Inc. (the Company) is a registered bank holding company that derives substantially all of its revenues and income from the operation of its subsidiary, Guaranty Bond Bank (the Bank). The Bank is a full service bank that provides a broad line of financial products and services to small and medium-sized businesses and consumers through ten banking locations in the Texas communities of Mount Pleasant (two offices), Bogata, Commerce, Deport, Paris, Pittsburg, Sulphur Springs, Talco and Texarkana. The Company also maintains an office in Fort Stockton, Texas that limits its product offerings to loans and time deposits.

FINANCIAL OVERVIEW

Net earnings available to common shareholders for the three months ended March 31, 2003 were $1.0 million or $0.35 per share compared with $982,000 or $0.33 per share for the three months ended March 31, 2002, an increase of $53,000 or 5.4%. The increase is due primarily to an increase in net interest income of $273,000 or 6.9%, an increase in other operating income of $209,000 or 59.1% and an increase of realized gain on sale of securities of $104,000 or 281%, which increases were offset by an increase in noninterest expenses of $462,000 or 11.7%.

Gross loans decreased to $364.9 million at March 31, 2003, from $365.6 million at December 31, 2002, a decrease of $675,000 or 0.2%. Total assets increased to $528.2 million at March 31, 2003, compared with $518.0 million at December 31, 2002. The increase of $10.3 million in total assets is primarily in cash and securities available for sale which increased $928,000 and $11.1 million, respectively offset by decreases in federal funds sold and gross loans of $1.4 million and $675,000 respectively. The net increase in assets resulted from an increase in deposits of $1.0 million and an increase in Federal Home Loan Bank (FHLB) advances of $9.9 million. Total deposits increased to $426.0 million at March 31, 2003 compared with $425.0 million at December 31, 2002. This increase comes primarily from an increase in certificate of deposits of $2.6 million or 1.1%, partially offset by a net decrease in NOW, savings, and money market accounts of $1.9 million or 1.6%.

Total shareholders equity was $35.1 million at March 31, 2003, representing an increase of $437,000 or 1.3% from December 31, 2002. This increase is due to the earnings for the period of $1.0 million partially offset by a decrease in accumulated other comprehensive income of $437,000 and the purchase of 10,000 shares of treasury stock at a cost of $161,000.

RESULTS OF OPERATIONS

Interest Income

Interest income for the three months ended March 31, 2003 was $7.0 million, a decrease of $38,000 or 0.5% compared with the three months ended March 31, 2002. The decrease in interest income is due primarily to lower yields on earning assets partially offset by an increase in the average volume of earning assets. Average loans were $361.5 million for the three months ended March 31, 2003, compared with $330.9 million for the three months ended March 31, 2002, an increase of $30.6 million or 9.3%. Average securities were $108.9 million for the three months ended March 31, 2003, compared with $79.5 million for the three months ended March 31, 2002, an increase of $29.4 million or 36.9%. Average federal funds sold were $4.5 million for the three months ended March 31, 2003, compared with $12.7 million for the three months ended March 31, 2002, a decrease of $8.2 million or 64.6%. Growth in the average volume of interest-earning assets was primarily funded by the growth in deposits for the period and an increase in FHLB advances. The decrease in interest income are primarily due to a decrease in the average yield earned on interest-earning assets from 6.79% during the three months ended March 31, 2002 to 6.01% during the three months ended March 31, 2003.

Interest Expense

Interest expense on deposits and other interest-bearing liabilities was $2.8 million for the three months ended March 31, 2003, compared with $3.1 million for the three months ended March 31, 2002, a decrease of $311,000 or 9.9%. The decrease in interest expense is due primarily to a lower yield in average interest-bearing liabilities from 3.48% for the three months ended March 31, 2002, to 2.75% for the three months ended March 31, 2003. The decrease was partially offset by growth in the average volume of interest-bearing liabilities and FHLB advances. Average interest-bearing deposits were $360.0 million for the three months ended March 31, 2003, compared with $326.1 million for the three months ended March 31, 2002, an increase of $33.9 million or 10.4%. Average FHLB advances were $47.1 million for the three months ended March 31, 2003 compared with $33.0 million for the three months ended March 31, 2002, an increase of $14.0 million or 42.5%. Average long-term debt increased from $7.0 million for the three months ended March 31, 2002 to $10.0 million for the three months ended March 31, 2003 due to the issuance of $3.0 million in trust preferred securities by the Company in October 2002.

Net Interest Income

Net interest income was $4.2 million for the three months ended March 31, 2003 compared with $3.9 million for the three months ended March 31, 2002, an increase of $273,000 or 6.9%. The increase in net interest income resulted primarily from growth in average interest-earning assets to $474.9 million for the three months ended March 31, 2003, from $423.1 million for the three months ended March 31, 2002, an increase of $51.8 million or 12.2%, partially offset by an increase in total interest-bearing liabilities to $417.1 million for the three months ended March 31, 2003, from $366.2 million for the three months ended March 31, 2002, an increase of $51.0 million or 13.9%. The net interest margin decreased from 3.78% to 3.60% for the three months ended March 31, 2003 compared with the same three months period ended March 31, 2002. This decrease can be attributed to the fact that the percentage growth in average interest-earning liabilities exceeded the percentage growth in average interest-bearing assets, thereby causing the ratio of average interest-earning assets to average interest-bearing liabilities to decrease. Additionally, the average rate paid on interest-bearing assets decreased at a faster rate than the average rate earned on interest-earning liabilities due to the Bank s positive gap position in a falling interest rate environment.

The Company s net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a volume change. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a rate change. The following tables set forth, for each category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding, the interest earned or paid on such amounts, and the average rate earned or paid for the three months ended March 31, 2003 and 2002, respectively. The tables also set forth the average rate earned on total interest-earning assets, the average rate paid on total interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The net interest spread is the difference between the average rate earned on total interest-earning assets less the average rate paid on total interest-bearing liabilities. The net interest margin is net interest income as a percentage of average interest-earning assets.

	Three Months Ended March 31,					
	2003			2002		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands) (Unaudited)					
Assets						
Interest-earning assets						
Loans	$ 361,505	$ 5,955	6.68%	$ 330,859	$ 5,943	7.28%
Securities	108,890	1,074	4.00%	79,517	1,088	5.55%
Federal funds sold	4,509	13	1.17%	12,723	49	1.56%
Interest-bearing deposits in other financial institutions	42		1.70%	37		1.70%
Total interest-earning assets	474,946	7,042	6.01%	423,136	7,080	6.79%
Less allowance for loan losses	(3,666)			(3,354)		
Total interest-earning assets, net of allowance	471,280			419,782		
Non-earning assets:						
Cash and due from banks	16,339			13,363		

	Three Months Ended March 31,					
Premises and equipment	13,520			13,569		
Interest receivable and other assets	18,072			17,028		
Other real estate owned	1,569			775		
Total assets	$ 520,780			$ 464,517		
Liabilities and shareholders equity						
Interest-bearing liabilities						
NOW, savings, and money market accounts	$ 115,823	$ 262	0.92%	$ 107,340	$ 403	1.52%
Time deposits	244,226	1,853	3.08%	218,782	2,217	4.11%
Total interest-bearing deposits	360,049	2,115	2.38%	326,122	2,620	3.26%
FHLB advances and federal funds purchased	47,075	465	4.01%	33,043	336	4.12%
Long-term debt	10,000	249	10.10%	7,000	184	10.66%
Total interest-bearing liabilities	417,124	$ 2,829	2.75%	366,165	$ 3,140	3.48%
Noninterest-bearing liabilities						
Demand deposits	63,984			60,766		
Accrued interest, taxes and other liabilities	4,746			4,946		
Total liabilities	485,854			431,877		
Shareholders equity	34,926			32,640		
Total liabilities and shareholders equity	$ 520,780			$ 464,517		
Net interest income		$ 4,213			$ 3,940	
Net interest spread			3.26%			3.31%
Net interest margin			3.60%			3.78%

The following tables present the dollar amount of changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguishes between the increase (decrease) related to outstanding balances and the volatility of interest rates. For purposes of these tables, changes attributable to both rate and volume that can be segregated have been allocated as follows (dollars in thousands):

	Three Months Ended March 31,		
	2003 vs. 2002		
	Increase (Decrease) Due to		
	Volume	Rate	Total
		(Unaudited)	
Interest-earning assets:			
Loans	$ 2,231	$ (2,219)	$ 12
Securities	1,630	(1,644)	(14)
Federal funds sold	(128)	92	(36)
Total increase (decrease) in interest income	3,733	(3,771)	(38)
Interest-bearing liabilities:			
NOW, savings, and money market accounts	129	(270)	(141)
Time deposits	1,046	(1,410)	(364)
Other borrowed funds	578	(449)	129
Trust preferred	320	(255)	65
Total increase (decrease) in interest expense	2,073	(2,384)	(311)
Increase (decrease) in net interest income	$ 1,660	$ (1,387)	$ 273

Provision for Loan Losses

Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management of the Company based on such factors as the industry diversification of the Company s commercial loan portfolio, the effect of changes in the local real estate market on collateral values, the results of recent regulatory examinations, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers, the amount of charge-offs for the period, the amount of nonperforming loans and related collateral security, and the evaluation of the Company s loan portfolio by an external loan review firm. The provision for loan losses for the three months ended March 31, 2003, is $375,000, compared with $250,000 for the three months ended March 31, 2002, an increase of $125,000 or 50.0%. The increase is due to the increase in average loans of 9.3% over the comparable three months period. Management believes increasing the allowance for loan losses is prudent as total loans, particularly higher-risk commercial, construction, and consumer loans, increase. The increase is also due to the unstable economic conditions.

Noninterest Income

The following table presents, for the periods indicated, the major categories of noninterest income (dollars in thousands):

	Three Months Ended March 31,	
	2003	2002
	(Unaudited)	
Service charges on deposit accounts	$ 683	$ 644
Fee income	256	173
Fiduciary income	41	39
Other noninterest income	265	141
Realized gain on securities	141	37
Total noninterest income	$ 1,386	$ 1,034

As the table above indicates, the Company s primary sources of recurring noninterest income are service charges on deposit accounts and fee income. Noninterest income for the three months ended March 31, 2003 increased $352,000 or 34.0% over the same period ended March 31, 2002. The increase in noninterest income for the three months ending March 31, 2003 is primarily due to the increase in gain on sale of securities realized in 2003 over 2002, an increase in service charges on deposit accounts created by an increase in the number of deposit accounts, and an increase in the sale of mortgage loans into the secondary market. In the three months ended March 31, 2003, the Company realized a gain on sale of mortgage-backed securities of $141,000 from the sale of $24.5 million of securities compared with a gain on the sale of mortgage-backed securities of $37,000 from the sale of $4.2 million of securities during the three months ended March 31, 2002. Disregarding the gain on sale of securities, the Company s increase in noninterest income was $248,000 or 24.9%. Fee income and other noninterest income increases were primarily the result of an increase in the volume of mortgage loans sold into the secondary market. This activity generated noninterest income of $229,000 for the three months ended March 31, 2003 compared with $44,000 for the three months ended March 31, 2002, an increase of $185,000 or 420.5%.

Noninterest Expenses

The following table presents, for the periods indicated, the major categories of noninterest expenses (dollars in thousands):

	Three Months Ended March 31,	
	2003	2002
	(Unaudited)	
Employee compensation and benefits	$ 2,339	$ 2,107
Non-staff expenses:		
Net bank premises expense	495	474
Office and computer supplies	82	68
Legal and professional fees	156	99
Advertising	72	71
Postage	48	46
FDIC insurance	17	17
Other	743	608

	Three Months Ended March 31,	
Total non-staff expenses	1,613	1,383
Total noninterest expenses	$ 3,952	$ 3,490

The increase in employee compensation and benefits for the three months ended March 31, 2003 is due primarily to normal salary increases and additional staff placement in the Mt. Pleasant, Texarkana and Paris locations to handle customer growth. The number of full-time equivalent employees was 220 and 193 at March 31, 2003 and March 31, 2002 respectively.

Other non-staff expenses increased $135,000 or 22.2% over the comparable three months period in 2002. Increases in other non-staff expenses were partially the result of increases in software support fees and ATM and debit card expenses.

Income Taxes

Income tax expense decreased $15,000 to $237,000 for the three months ended March 31, 2003 from $252,000 for the same period in 2002. The income stated on the consolidated statement of earnings differs from the taxable income due to tax-exempt income, the amount of non-deductible interest expense and the amount of other non-deductible expense.

FINANCIAL CONDITION

Loan Portfolio

Gross loans were $364.9 million at March 31, 2003, a decrease of $675,000 or 0.2% from $365.6 million at December 31, 2002. Loan growth occurred primarily in the commercial real estate and in construction and land development loans, offset by decreases in consumer, commercial and industrial loans. Average loans comprised 76.1% of total average interest-earning assets at March 31, 2003 compared with 78.2% at March 31, 2002.

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The following table summarizes the loan portfolio of the Company by type of loan as of March 31, 2003 and December 31, 2002 (dollars in thousands):

	March 31, 2003		December 31, 2002	
	Amount	Percent	Amount	Percent
	(Unaudited)			
Commercial and industrial	$ 57,847	15.85%	$ 58,661	16.05%
Agriculture	10,090	2.76	9,989	2.73
Real estate:				
Construction and land developm0	$ 21.60			
Second Quarter	40.00	16.00		
Third Quarter	19.92	10.16		
Fourth Quarter	23.68	12.40		
2007				

	March 31, 2003		December 31, 2002
First Quarter	15.44	10.56	
Second Quarter	14.40	9.60	
Third Quarter	11.28	7.20	
Fourth Quarter	10.80	5.76	
2008			
First Quarter	7.44	3.76	
Second Quarter (through May 21, 2008)	7.80	2.11	

We estimate that there were approximately 530 holders of our common stock as of May 21, 2008, which does not include an indeterminate number of stockholders whose shares may be held by brokers in street name.

DIVIDEND POLICY

We have never declared or paid any dividends on our capital stock. We currently intend to retain any future earnings to fund the development and expansion of our business, and therefore do not anticipate paying cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in financing instruments, and other factors our Board of Directors deems relevant.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2008

on an actual basis, which reflects our actual capitalization as of March 31, 2008 on a historical basis, giving effect to our eight-to-one reverse stock split that was approved by our stockholders at a meeting held May 15, 2008; and

on an as adjusted basis to give effect to our receipt of the estimated net proceeds from the sale of 7,000,000 units at the assumed offering price of $3.60 per unit, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	March 31, 2008	
	Actual	As Adjusted
	(in thousands, except share data)	
Cash and cash equivalents	$4,560	$ 27,504
Securities available for sale (2)	3,537	3,537
Stockholders equity (3):		
Common stock, par value $0.01 per share, 75,000,000 shares authorized, actual and as adjusted; 5,777,578 shares issued, actual; 12,777,578 shares issued, as adjusted (4)	58	128
Additional paid-in capital	132,449	155,323
Accumulated deficit	(108,253)	(108,253)
Accumulated other comprehensive income:		
Unrealized gain on securities available for sale, net of tax	(455)	(455)
Common stock in treasury, at cost, 1,005,092 shares	(13,754)	(13,754)
Total stockholders equity	$10,045	$ 32,989

(1) A $1.00 increase (decrease) in the assumed public offering price of $3.60 per unit, which is based on the last reported sale price of our common stock on The Nasdaq Global Market on May 21, 2008, would increase (decrease) total stockholders equity by $6.4 million, assuming the number of units offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us and after giving effect to our receipt of the estimated net proceeds.

(2) Represents shares of Plug Power held for sale by us, classified as current assets, and such amount reflects the fair value of these shares. Through the sale of Plug Power shares, we generated proceeds of $6.2 million during 2006 and $5.1 million during 2007 that we have used to fund the development and commercialization of our portable power source business.

(3)

The table includes adjustments in the number of shares of our issued common stock as a result of the reverse split of our common stock that was approved by our stockholders at a meeting held May 15, 2008, pursuant to which every eight shares of our common stock were combined into one share of our common stock.

(4) Excludes the following as of March 31, 2008:

172,521 shares of common stock reserved for future issuance under our equity incentive plans. As of March 31, 2008, there were 762,391 options outstanding and 625 shares of restricted stock issued under our equity incentive plans;

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378,472 shares of common stock issuable upon exercise of outstanding warrants as of March 31, 2008, with an exercise price of $18.16 per share; and

shares of common stock that will be issued upon exercise of warrants at an exercise price of $ per share sold as part of the units in this offering.

Please read the capitalization table together with the sections of this prospectus entitled Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus.

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DILUTION

If you purchase units in this offering, and assuming no value is attributed to the warrants, your interest will be diluted immediately to the extent of the difference between the assumed public offering price of $3.60 per unit and the as adjusted net tangible book value per share of our common stock immediately following this offering.

Our net tangible book value as of March 31, 2008 was $10.1 million, or approximately $2.11 per share. Net tangible book value per share represents our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding as of March 31, 2008.

Net tangible book value dilution per unit to new investors represents the difference between the amount per unit paid by purchasers in this offering and the as adjusted net tangible book value per share of common stock immediately after completion of this offering, assuming that no value is attributed to the warrants. After giving effect to our sale of 7,000,000 units in this offering at an assumed public offering price of $3.60 per unit, and after deducting underwriting discounts and commissions and estimated offering expenses, our as adjusted net tangible book value as of March 31, 2008 would have been $33.0 million, or $2.80 per share. This represents an immediate increase in net tangible book value of $0.69 per share to existing stockholders and an immediate dilution in net tangible book value of $0.80 per unit to purchasers of units in this offering, as illustrated in the following table:

Assumed public offering price per unit		$ 3.60
Net tangible book value per share as of March 31, 2008	$ 2.11	
Increase in net tangible book value per unit attributable to new investors	$ 0.69	
Adjusted net tangible book value per share as of March 31, 2008, after giving effect to this offering		$ 2.80
Dilution per unit to new investors		$ 0.80

A $1.00 increase (decrease) in the assumed public offering price of $3.60 per unit which is the last reported sale price of our common stock on The Nasdaq Global Market on May 21, 2008 would increase (decrease) (a) our as adjusted net tangible book value by approximately $6.4 million, (b) our as adjusted net tangible book value per share by $0.55, and (c) the dilution to new investors by $0.45 per unit, assuming no value is attributed to the warrants and that the number of units offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us and after giving effect to our receipt of the estimated net proceeds.

We may also increase or decrease the number of units we are offering. An increase (decrease) of 1,000,000 units in the number of units offered by us would increase (decrease) our as adjusted net tangible book value by approximately $3.6 million.

The above discussion and tables do not include the following:

172,521 shares of common stock reserved for future issuance under our equity incentive plans. As of March 31, 2008, there were 762,391 options outstanding and 625 shares of restricted stock issued under our equity incentive plans.

378,472 shares of common stock issuable upon exercise of outstanding warrants as of March 31, 2008, with an exercise price of $18.16 per share.

shares of common stock that will be issued upon exercise of warrants at an exercise price of $ per share sold as part of the units in this offering.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our summary consolidated financial data for the fiscal years ended December 31, 2005, 2006 and 2007, which was derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated balance sheet data as of March 31, 2007 and 2008 and the summary consolidated statements of operations data for each of the three months ended March 31, 2007 and 2008 have been derived from the unaudited consolidated financial statements included elsewhere in this prospectus. We derived the consolidated financial data for the years ended December 31, 2003 and 2004 from our audited consolidated financial statement that is not included in this prospectus. You should read the following summary consolidated financial data together with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, including the related notes thereto.

	Years Ended December 31,					Three Months Ended March 31,	
	2003	2004	2005	2006	2007	2007	2008
Statement of Operations Data (in thousands except share and per share data):							
Product revenue	$5,547	$7,530	$6,012	$7,667	$9,028	$1,701	$1,980
Gross profit on product revenue	3,165	4,653	3,631	4,767	5,598	963	1,140
Funded research and development revenue	2,311	1,040	1,829	489	1,556	615	173
Research and product development expenses	8,348	12,960	9,671	12,921	11,765	3,622	2,373
Operating loss	(8,709)	(13,592)	(15,098)	(17,737)	(13,349)	(4,500)	(3,678)
Net loss	$(559)	$(4,191)	$(15,094)	$(13,667)	$(9,575)	$(3,156)	$(3,187)
Net loss per share (basic and diluted)	$(0.16)	$(1.15)	$(3.93)	$(3.46)	$(2.01)	$(0.66)	$(0.67)
Weighted average common shares outstanding (basic and diluted)	3,456,999	3,645,147	3,842,201	3,952,793	4,763,547	4,754,868	4,771,861
Balance Sheet Data (in thousands):							
Cash and cash equivalents	$12,380	$22,545	$11,230	$14,545	$7,650	9,885	4,560
Securities available for sale (1)	44,031	17,678	18,947	10,075	4,492	8,184	3,537
Working capital	49,053	33,663	33,045	23,076	11,347	15,927	7,634

Current ratio	4.2:1	4.0:1	4.9:1	3.9:1	3.9:1	3.9:1	2.8:1
Total assets	65,838	66,830	41,267	33,811	18,716	26,310	14,812
Total current liabilities	16,761	8,826	8,222	7,071	3,866	5,448	4,170
Long-term obligations	24	1,149		3,664	904	2,883	572
Total stockholders equity	$48,266	$55,584	$32,916	$22,871	$13,803	17,839	10,045

(1) Represents shares of Plug Power held for sale by us, classified as current assets, except for 2004 when approximately $16.5 million shares were classified as restricted shares, and such amount reflects the fair value of these shares. Through the sale of Plug Power shares, we generated proceeds of $6.2 million during 2006 and $5.1 million during 2007 that we have used to fund the development and commercialization of our portable power source business.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements, which involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors including those discussed in Risk Factors and elsewhere in this prospectus.

Overview

We are developing and commercializing off-the-grid rechargeable power sources for portable electronics. We have developed a patented, proprietary direct methanol fuel cell technology platform called Mobion, which generates electrical power using up to 100% methanol as fuel. Our proprietary fuel cell power solution consists of two primary components integrated in an easily manufactured device: the direct methanol fuel cell power engine, which we refer to as our Mobion Chip, and methanol replacement cartridges. Our current Mobion Chip weighs less than one ounce and is small enough to fit in the palm of one s hand. The methanol used by the technology is fully biodegradable. We believe we are the only micro fuel cell developer to have demonstrated power density of over 50 mW/cm^2 with high energy efficiencies of 1.4 Wh/cc of methanol for handheld consumer electronic applications. For these reasons, we believe our technology offers a compelling alternative to current lithium-ion and similar rechargeable battery systems currently used by original equipment manufacturers and branded partners, or OEMs, in many handheld electronic devices, such as mobile phones (including smart phones) and mobile phone accessories, digital cameras, portable media players, PDAs, and GPS devices. We believe our platform will facilitate the development of numerous product advantages, including small size, environmental friendliness, and simplicity of design, all critical for commercialization in the consumer market, and can be implemented as three different product options: a compact external charging device, a snap-on or attached power accessory, or an embedded fuel cell power solution. We have strategic arrangements with Samsung Electronics, an OEM of mobile phones and mobile phone accessories, with Duracell, part of the Procter & Gamble Company, and with a global Japanese consumer electronics company. Our goal is to become a leading provider of portable power for handheld electronic devices and we intend to commercialize Mobion products beginning in 2009.

Our Mobion technology eliminates the need for active water recirculation pumps or the inclusion of water as a fuel dilutant. The water required for the electrochemical process is transferred internally within the Mobion Chip from the site of water generation on the air-side of the cell. This internal flow of water takes place without the need for any pumps, complicated re-circulation loops or other micro-plumbing tools. Our Mobion technology is protected by a patent portfolio that includes over 90 U.S. patent applications covering five key technologies and manufacturing areas.

We also design, manufacture, and sell high-performance test and measurement instruments and systems serving three markets: general dimensional gauging, semiconductor, and aviation. These products consist of: electronic, computerized gauging instruments for position, displacement and vibration applications for the design, manufacturing and test markets; semiconductor products for wafer characterization; and engine balancing and vibration analysis systems for military and commercial aircraft.

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Our cash requirements depend on numerous factors, including completion of our portable power source products development activities, our ability to commercialize our portable power source products, market acceptance of our portable power source products, and other factors. We expect to pursue the expansion of our operations through internal growth and strategic partnerships. Several key indicators of our liquidity are summarized in the following table:

	Years Ended December 31, (dollars in thousands)			Three Months Ended March 31,	
	2005	2006	2007	2007	2008
Cash and cash equivalents	$11,230	$14,545	$7,650	9,885	4,560
Securities available for sale	18,947	10,075	4,492	8,184	3,537
Working capital	24,465	20,820	11,347	15,927	7,634
Net loss	(15,094)	(13,667)	(9,575)	(3,156)	(3,187)
Net cash used in operating activities	(12,572)	(12,706)	(11,683)	(4,610)	(2,988)
Purchase of property, plant and equipment	(1,004)	(1,574)	(414)	(50)	(102)

From inception through March 31, 2008, we have incurred an accumulated deficit of $108.3 million and we expect to incur losses for the foreseeable future as we continue micro fuel cell product development and commercialization programs. We expect that losses will fluctuate from year to year and that such fluctuations may be substantial as a result of, among other factors, sales of securities available for sale as well as the operating results of our business.

Results of Operations

Results of Operations for the Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007.

Product Revenue. Product revenue in our test and measurement instrumentation business increased by $279,000, or 16.4%, to $2.0 million for the three months ended March 31, 2008 from $1.7 million for the three months ended March 31, 2007. The revenue increase was primarily a result of a $220,000 increase in commercial aviation sales, coupled with smaller increases in our semiconductor and general dimensional products.

As a result of general global economic conditions, our test and measurement instrumentation business is currently experiencing weaker than expected demand in Japan for photolithography equipment. This weakness in demand may negatively impact OEM capacitance sales over the remainder of 2008.

Information regarding government contracts included in product revenue is as follows:

Contract (1)	Expiration	Revenue For the Three Months Ended March 31, 2007	Revenue For the Three Months Ended March 31, 2008	Revenue Contract to Date March 31, 2008	Total Contract Orders Received to Date March 31, 2008
		(Dollars in thousands)			

$2.3 million Air Force New PBS-4100 Systems	07/28/2010 (2)	$	$	$ 1,596	$ 1,596
$8.8 million Air Force Retrofit and Maintenance of PBS-4100 Systems	06/19/2008 (3)	$ 346	$ 338	$ 7,703	$ 7,703

(1) Contract values represent maximum potential values and may not be representative of actual results.

(2) Date represents expiration of contract, including all three potential option extensions.

(3) Expiration date was extended during May 2008 from May 19, 2008 to June 19, 2008.

Funded Research and Development Revenue. Funded research and development revenue in our new energy business during 2008 decreased by $442,000, or 71.9%, to $173,000 during the three

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months ended March 31, 2008 from $615,000 during the three months ended March 31, 2007. The decrease in revenue was primarily a result of the completion of the SAFT America, Inc., or SAFT, contract during the first quarter of 2007, which accounted for $418,000 of revenue in 2007. Revenue during 2008 for the U.S. Department of Energy, or the DOE, contract, which had its funding reinstated during May 2007, increased by $170,000, while revenue recognized under the alliance agreement with Samsung Electronics Co., Ltd., or Samsung, decreased by $194,000 during 2008 over 2007 as a result of the contract s completion in 2007.

Information regarding our contracts included in funded research and development revenue is as follows:

Contract (1)	Expiration	Revenue Three Months Ended March 31, 2007	% of 2007 Total	Revenue Three Months Ended March 31, 2008	% of 2008 Total	Revenue Contract to Date March 31, 2008
			(dollars in thousands)			
$3.0 million DOE (2)	03/31/09	$ 3	0.5%	$ 173	100.0%	$ 2,019
$1.0 million Samsung (3)	07/31/07	194	31.5			875
$418,000 SAFT (4)	12/31/06	418	68.0			418
Total funded research and development revenue		$ 615	100.0%	$ 173	100.0%	$ 3,312

(1) Dates represent expiration of contract, not date of final billing.

(2) The DOE contract is a cost-share contract. DOE funding for this contract was suspended during January 2006 and reinstated during May 2007. During 2007, we received notifications from the DOE of funding releases totaling $1.0 million and also received an extension of the termination date for the contract from July 31, 2007 to September 30, 2008. During 2008, we received notifications of funding releases totaling $825,000 and also received an extension of the termination date for the contract from September 30, 2008 to March 31, 2009.

(3) The Samsung contract is a research and prototype contract. This contract included one up-front payment of $750,000 and two milestone payments of $125,000 each for the delivery of prototypes. The contract was amended on October 22, 2007 as we agreed to issue a credit in the amount of the last invoice in recognition of our continuing collaboration with Samsung. Therefore, revenue under this contract totaled $875,000.

(4) The SAFT contract is a fixed-price contract. This is a subcontract with SAFT under the U.S. Army CECOM contract. The purchase order received in connection with this subcontract was revised on November 14, 2006, eliminating one milestone. As a result, the contract value was reduced from $470,000 to $418,000 and the expiration date was extended from September 30, 2006 to December 31, 2006.

Cost of Product Revenue. Cost of product revenue in our test and measurement instrumentation business increased by $102,000, or 7.0%, to $840,000 during the three months ended March 31, 2008 from $738,000 during the three months ended March 31, 2007. As a percentage of product revenue, the quarterly cost of product revenue declined by one percentage point as a result of a more favorable product sales mix.

Gross profit as a percentage of product revenue increased by 0.9% to 57.5% during the three months ended March 31, 2008 from 56.6% during the three months ended March 31, 2007.

Funded Research and Product Development Expenses. Funded research and product development expenses in our new energy business increased by $132,000, or 13.8%, to $356,000 during the three months ended March 31, 2008 from $224,000 during the three months ended March 31, 2007. This change was primarily a result of costs for the DOE contract increasing by $351,000, reflecting its reinstatement during 2007, while cost for the Samsung contract decreased by $194,000, as that contract was completed during July 2007.

Unfunded Research and Product Development Expense. Unfunded research and product development expenses decreased by $1.4 million, or 40.6%, to $2.0 million during the three months ended March 31, 2008 from $3.4 million during the three months ended March 31, 2007. This decrease reflects a $1.5 million decrease in development costs in our new energy business related to (a) cost savings from the decision to suspend work on our high power program during March 2007, and (b) the DOE contract that resumed during May 2007, which increased funded research and product development expense, which were partially offset by the effects of the completion of work under the Samsung alliance agreement, which increased unfunded research and product development. This decrease was also partially offset by a $129,000 increase in product development expenses for our test and measurement instrumentation business, reflecting increased staffing and external product development costs focused on the development of our photovoltaic thickness module and certain redesigns of our general gauging and aviation solutions.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $162,000, or 6.6%, to $2.6 million during the three months ended March 31, 2008 from $2.5 million during the three months ended March 31, 2007. This increase was primarily a result of (a) a $715,000 increase related to decreases in liquidations to unfunded research and development costs, which was primarily due to the elimination of our high power program, partially offset by increased liquidations in connection with the DOE program, (b) a $400,000 decrease in administrative salaries and benefits as a result of our March 2007 restructuring, (c) a $266,000 decrease in severance costs, which was also attributable to the 2007 restructuring, (d) a $139,000 increase in salaries, benefits, and commissions, reflecting increased sales and marketing efforts in our test and measurement instrumentation business, (e) a $42,000 increase in non-cash equity compensation primarily related to performance grants, (f) a $78,000 decrease in depreciation costs, and (g) a $10,000 increase in other expenses, net.

Operating Loss. Operating loss decreased by $822,000, or 18.3%, to $3.7 million during the three months ended March 31, 2008 compared to the three months ended March 31, 2007 as a result of the factors noted above.

Gain on Derivatives. Our gain on derivative treatment of the freestanding warrants issued in conjunction with our December 2006 capital raise decreased by $636,000, or 65.6%, to $333,000 during the three months ended March 31, 2008 compared to $969,000 during the three months ended March 31, 2007. The decrease in derivative income was attributable to valuation changes of the underlying warrants using the Black-Scholes option-pricing model.

Income Tax (Expense) Benefit. Our income tax rate for both the three months ended March 31, 2007 and 2008 was 0.3%. These tax rates were primarily a result of losses generated by operations, changes in the valuation allowance, state true-ups, and permanent deductible differences for derivative valuations.

The valuation allowance against our deferred tax assets were $24.2 million at March 31, 2008 and $22.3 million at December 31, 2007. We determined that it was more likely than not that ultimate recognition of certain deferred tax assets would not be realized.

Results of Operations for the Year Ended December 31, 2007 Compared to December 31, 2006.

Product Revenue. Product revenue in our test and measurement instrumentation business increased by $1.4 million, or 17.8%, to $9.0 million for the fiscal year ended December 31, 2007 from $7.7 million for the fiscal year ended December 31, 2006. This performance was primarily the result of a $602,000 increase in activity by the U.S. Air Force, driven by the New PBS-4100 systems contract. Also contributing were increased purchases by our Japanese distributor (particularly OEM capacitance), as well as increased volume in semiconductor product shipments. Total product revenue for general dimensional gauging products increased $298,000, or 7.2%, to $4.5 million, while total product revenue for the segment s semiconductor products increased by $364,000, or 71.2%, to $875,000.

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In our test and measurement instrumentation business, during 2007 the U.S. Air Force accounted for $2.4 million, or 26.3%, of product revenue while during 2006, the U.S. Air Force accounted for $1.8 million, or 23.1%, of product revenue. Additionally, during 2007, Koyo Precision, our Japanese distributor, represented $2.5 million, or 27.7%, of product revenue while during 2006, Koyo Precision represented $1.8 million, or 22.9%, of product revenue.

Information regarding government contracts included in product revenue is as follows:

Contract (1)	Expiration	Revenue For The Year Ended December 31, 2006	Revenue For The Year Ended December 31, 2007	Revenue Contract to Date December 31, 2007	Total Contract Orders Received to Date December 31, 2007
		(dollars in thousands)			
$2.3 million Air Force New PBS-4100 Systems	07/28/2010 (2)	$	$1,596	$1,596	$1,596
$8.8 million Air Force Retrofit and Maintenance of PBS-4100 Systems	06/19/2008 (3)	$1,417	$738	$7,365	$7,365

(1) Contract values represent maximum potential values and may not be representative of actual results.

(2) Date represents expiration of contract, including all three potential option extensions.

(3) Expiration date was extended during December 2007 from December 20, 2007 to May 19, 2008, and in May 2008 it was extended from May 19, 2008 to June 19, 2008.

Funded Research and Development Revenue. Funded research and development revenue in our new energy business during 2007 increased $1.1 million, or 218.2%, to $1.6 million for the year ended December 31, 2007 from $489,000 for the year ended December 31, 2006. The increase in revenue was primarily the result of billings under the DOE contract, which had its funding reinstated during May 2007 after it had been suspended during 2006. This DOE funding resumption contributed an additional $613,000 to revenue during 2007. Revenue during 2007 also included $418,000 from the SAFT contract, for which revenue recognition had been deferred until the delivery under the contract was accepted during the first quarter of 2007. Revenue recognized under the Samsung alliance agreement increased $21,000 during 2007 over 2006.

Contract	Expiration (1)	For The Year Ended December 31, 2006 Revenue	For The Year Ended December 31, 2006 Percent	For The Year Ended December 31, 2007 Revenue	For The Year Ended December 31, 2007 Percent	Revenue Contract to Date December 31, 2007
		(dollars in thousands)				
$3.0 million DOE (2)	03/31/09	$ 62	12.7%	$ 675	43.4%	$ 1,846
$1.0 million Samsung (3)	07/31/07	427	87.3	448	28.8	875
$418,000 SAFT (4)	12/31/06			418	26.9	418

$15,000 NCMS (5)	06/30/07					15	0.9		15
Total		$	489	100.0%	$	1,556	100.0%	$	3,154

(1) Dates represent expiration of contract, not date of final billing.

(2) The DOE contract is a cost share contract. DOE funding for this contract was suspended during January 2006 and reinstated during May 2007. During 2007, we received notifications from the DOE of funding releases totaling $1.0 million and also received an extension of the termination date for the contract from July 31, 2007 to September 30, 2008. During February 2008, we received notification from the DOE of a funding release of $500,000, and during May 2008 we received notification of a funding release of $325,000.

(3) The Samsung contract is a research and prototype contract. This contract included one up-front payment of $750,000 and two milestone payments of $125,000 each for the delivery of

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prototypes. The contract was amended on October 22, 2007 as we agreed to issue a credit in the amount of the last invoice in recognition of our continuing collaboration with Samsung. Therefore, revenue under this contract totaled $875,000.

(4) The SAFT contract is a fixed price contract. This is a subcontract with SAFT under the U.S. Army CECOM contract. The purchase order received in connection with this subcontract was revised on November 14, 2006 eliminating one milestone. As a result, the contract value was reduced from $470,000 to $418,000 and the expiration date was extended from September 30, 2006 to December 31, 2006.

(5) This contract was a cost plus catalyst research contract with the National Center for Manufacturing Sciences, or NCMS.

Cost of Product Revenue. Cost of product revenue in our test and measurement instrumentation business increased by $530,000, or 18.3%, to $3.4 million during the year ended December 31, 2007 from $2.9 million during the year ended December 31, 2006. As a percentage of product revenue, the annual cost of product revenue remained relatively consistent with 2006, and this increase was consistent with the higher revenue during 2007.

Gross profit as a percentage of product revenue decreased by 0.2% to 62.0% during the year ended December 31, 2007, remaining relatively consistent with 2006.

Funded Research and Product Development Expenses. Funded research and development expenses in our new energy business increased $739,000, or 64.1%, to $1.9 million for the year ended December 31, 2007 from $1.2 million for the year ended December 31, 2006. While the active contracts were relatively consistent between periods, costs for the DOE contract increased $1.3 million, reflecting its reinstatement during May 2007, while costs for the Samsung contract increased by $22,000. These increases were partially offset by a decrease in costs for the SAFT contract of $576,000, as that contract was completed during the first quarter of 2007.

Unfunded Research and Product Development Expenses. Unfunded research and product development expenses decreased $1.9 million, or 16.1%, to $9.9 million for the year ended December 31, 2007 from $11.8 million for the year ended December 31, 2006. This decrease reflects a $2.2 million decrease in development costs related to (a) the DOE contract that resumed during May 2007, which related increase is reflected in funded research and product development expenses, and (b) cost savings from the decision to suspend work on our high power program during March 2007. This decrease was partially offset by a $317,000 increase in product development expenses in our test and measurement instrumentation business, reflecting increased staffing and external product development costs focused on the development of the division s new stand-alone measurement and data acquisition solution, stand-alone laser head, as well as other precision measurement solutions.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by $1.3 million, or 13.2%, to $8.7 million for the year ended December 31, 2007 from $10.1 million for the year ended December 31, 2006. This decrease was primarily the result of (a) a $387,000 decrease in non-cash stock-based compensation charges reflecting the difference between sign on and promotion grants during 2006 compared with primarily annual compensation grants during 2007 and the reversal of expense during 2007 related to certain cancelled executive stock-based performance grants where performance goals were not met, (b) a $528,000 decrease in outside services, including audit, legal, and consulting fees, (c) a $345,000 decrease in recruiting and relocation costs, (d) a $178,000 increase in severance costs attributable to employees terminated as a result of our March 2007 restructuring, (e) a $632,000 decrease in wages and benefits, which was also attributable to our March 2007 restructuring, (f) a $227,000 decrease in other operating expenses, primarily insurance and laboratory operating fees, (g) a $647,000 increase related to a decrease in allocations of expense from SG&A to funded and unfunded research and development costs for overhead and other costs allocable to research and development programs, and (h) a $40,000 savings in other expenses, net.

Operating Loss. Operating loss for the year ended December 31, 2007 compared with the operating loss for the year ended December 31, 2006 decreased by $4.4 million to $13.3 million, a 24.7% decrease, as a result of the factors noted above.

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Gain on Sale of Securities Available for Sale. The gain on sale of securities available for sale for the year ended December 31, 2007 was $2.5 million compared with a gain of $4.3 million for the year ended December 31, 2006. During 2007, we sold 1,452,770 shares of Plug Power common stock at a weighted average price of $3.53 per share, with gross proceeds to us of $5.1 million.

Gain (loss) on Derivatives. We recorded a gain on derivative accounting of $3.0 million for the year ended December 31, 2007 and a gain of $182,000 on derivative accounting for the year ended December 31, 2006. Both the 2007 and 2006 gains are the result of derivative treatment of the freestanding warrants issued to investors in conjunction with our December 2006 capital raise.

Income Tax (Expense) Benefit. Our income tax rate for the year ended December 31, 2007 was 33%, while the income tax rate for the year ended December 31, 2006 was 15%. These tax rates were primarily the result of losses generated by operations, changes in the valuation allowance, state true-ups upon tax return filings, permanent deductible differences for the derivative valuation, and disproportionate effects of reclassification of gains on Plug Power security sales included in operating loss.

The valuation allowance against our deferred tax assets at December 31, 2007 was $22.3 million and at December 31, 2006 was $18.9 million. We determined that it was more likely than not that the ultimate recognition of certain deferred tax assets would not be realized.

Results of Operations for the Year Ended December 31, 2006 Compared to December 31, 2005.

Product Revenue. Product revenue in our test and measurement instrumentation business increased by $1.7 million, or 27.5%, to $7.7 million for the year ended December 31, 2006 from $6.0 million for the year ended December 31, 2005. This performance was primarily the result of (a) an increase of $1.5 million, or 55.0%, in dimensional gauging sales, particularly direct capacitance sales through our Japanese distributor, (b) increases in semiconductor sales of $200,000, as 18 manual, one automatic, and one semi-automated metrology tool systems were sold during the year, compared to seven manual, one semi-automated, and four OEM systems during 2005, (c) commercial aviation equipment sales increases of $539,000, and (d) lower revenue from the U.S. Air Force of $611,000 as a result of fewer purchases of new equipment and reduced activity under the existing repair contract.

In our test and measurement instrumentation business, the U.S. Air Force accounted for $1.8 million, or 23.1%, of product revenue during the year ended December 31, 2006 compared with $2.4 million, or 39.7% of product revenue during the year ended December 31, 2005. During 2006, Koyo Precision, our Japanese distributor, represented $1.8 million, or 22.9%, of product revenue.

Information regarding government contracts included in product revenue is as follows:

Contract (1)	Expiration	Revenue Year Ended December 31, 2005	Revenue Year Ended December 31, 2006	Revenue Contract to Date December 31, 2006	Total Contract Orders Received to Date December 31, 2006
				(dollars in thousands)	
	06/19/2008 (1)	$ 1,552	$ 1,417	$6,627	$ 6,637

$8.8 million Air Force
Retrofit and Maintenance of
PBS-4100 Systems

(1) Expiration date was extended from December 20, 2007 to May 19, 2008, and in May 2008 it was extended from May 19, 2008 to June 19, 2008.

Funded Research and Development Revenue. Funded research and development revenue in our new energy business decreased $1.3 million, or 73.3%, to $489,000 for the year ended December 31, 2006 from $1.8 million for the year ended December 31, 2005. The decrease in revenue was primarily

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the result of the suspension of previously approved DOE funding for 2006 and the completion of other programs that were active in 2005, including programs with the New York State Energy Research and Development Authority, the Army Research Labs, the Marine Corps, the Cabot Superior Micro Powders subcontract with the National Institute of Standards and Technology, and Harris. This decrease was partially offset by $427,000 of revenue recognized from the Samsung alliance agreement during 2006.

Information regarding government and private company development contracts included in funded research and development revenue is as follows:

Contract	Expiration (1)	For The Year Ended December 31, 2005 Revenue	For The Year Ended December 31, 2005 Percent	For The Year Ended December 31, 2006 Revenue	For The Year Ended December 31, 2006 Percent	Revenue Contract to Date December 31, 2006
		(dollars in thousands)				
$3.0 million DOE (2)	03/31/09	$ 930	50.8%	$ 62	12.7%	$ 1,171
$1.3 million NYSERDA (3)	06/30/06	329	18.0			1,135
$1.0 million Samsung (4)	07/31/07			427	87.3	427
$418,000 SAFT (5)	12/31/06					
$250,000 ARL	09/30/05	250	13.7			250
$210,000 NIST (6)	06/30/05	100	5.5			210
$150,000 Harris (7)	06/25/04	150	8.2			150
$70,000 Marine Corps	03/31/05	70	3.8			70
Total		$ 1,829	100.0%	$ 489	100.0%	$ 3,413

(1) Dates represent expiration of contract, not date of final billing.

(2) The DOE contract is a cost-share contract. DOE funding for this contract was suspended during January 2006 and reinstated during May 2007. During 2007, we received notifications from the DOE of funding releases totaling $1.0 million and also received an extension of the termination date for the contract from July 31, 2007 to September 30, 2008. During February 2008, we received notification from the DOE of a funding release of $500,000, and during May 2008 we received notification of a funding release of $325,000.

(3) The total contract value for this cost shared contract is $1.3 million consisting of four Phases: Phase I for $500,000 was from March 12, 2002 through September 30, 2003; Phase II for $200,000 was from October 28, 2003 through October 31, 2004; Phase III for $348,000 was from August 23, 2004 through August 31, 2005; and Phase IV for $202,000 which commenced on December 14, 2004 and expired on June 30, 2006. Phases I, II, and III have been completed, while Phase IV expired before it was completed.

(4) The Samsung contract is a research and prototype contract. This contract included one up-front payment of $750,000 and two milestone payments of $125,000, each for the delivery of prototypes. The contract was amended on October 22, 2007 as we agreed to issue a credit in the amount of the last invoice in recognition of our continuing collaboration with Samsung. Therefore, revenue under this contract totaled $875,000.

(5) Represents a fixed price subcontract with SAFT under the U.S. Army CECOM contract. The purchase order received in connection with this subcontract was revised on November 14, 2006 eliminating one milestone. As a result, the contract value was reduced from $470,000 to $418,000 and the expiration date was extended from September 30 to December 31, 2006.

(6) Represents a fixed price subcontract with CSMP under NIST and includes the original contract for $200,000 and a contract amendment for $10,000.

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(7) Represents a fixed price contract that includes the original contract for $200,000, an amendment for $50,000, and a 2005 amendment reducing the contract by $100,000.

Cost of Product Revenue. Cost of product revenue in our test and measurement instrumentation business increased by $519,000, or 21.8%, to $2.9 million for the year ended December 31, 2006 from $2.4 million for the year ended December 31, 2005. This increase is consistent with higher product revenue during 2006 compared with 2005.

Gross profit as a percentage of product revenue increased by 1.8% to 62.2% for the year ended December 31, 2006. The improvement in gross margin during 2006 was primarily the result of a five point rise in average margins on capacitance product sales resulting from higher sales volume and improved pricing strategies.

Funded Research and Product Development Expenses. New energy funded research and development expenses decreased by $2.4 million, or 67.6%, to $1.2 million for the year ended December 31, 2006 from $3.6 million for the year ended December 31, 2005. The decreased costs were attributable to active contracts during 2005, which were no longer active during 2006. During 2006, we had active contracts with Samsung, DOE, and SAFT, while during 2005 we had active contracts with DOE, NYSERDA, SAFT, NIST, ARL, and the Marine Corps.

Unfunded Research and Product Development Expenses. Unfunded research and product development expenses increased by $5.7 million, or 92.4%, to $11.8 million for the year ended December 31, 2006 from $6.1 million for the year ended December 31, 2005. This increase reflected a $5.4 million increase in our new energy business related to increased internal costs for the development of micro fuel cell systems and costs in connection with developing prototypes and product intent prototypes, including a $512,000 non-cash charge for share-based compensation resulting from the adoption of SFAS No. 123R, which requires that the fair value of share-based compensation be expensed. This increase also included a $208,000 increase in product development expenses in our test and measurement instrumentation business for projects related to the development of a glass thickness gauge, improvements to the portable engine vibration and balancing system, and updated industrial balancing software.

Selling, General and Administrative Expense. Selling, general and administrative expenses decreased by $815,000, or 7.5%, to $10.1 million for the year ended December 31, 2006 from $10.9 million for the year ended December 31, 2005. This decrease was primarily the result of (a) an $892,000 increase in non-cash equity compensation charges resulting from the adoption of SFAS No. 123R, which required that the fair value of share-based compensation be expensed, (b) a $1.1 million decrease in salaries and engineering management costs, partially a result of an increase in costs directly charged to research and product development and the elimination of the government systems group during the second quarter of 2005, (c) a $640,000 decrease related to increases in liquidations to unfunded research and development costs, which was a result of having charged more time to internal development projects for low power and high power technology platform developments, the development of prototypes for Samsung, and the development of the Mobion 30M product, (d) a $259,000 decrease in the Los Alamos National Laboratory license fees as a result of an amendment of the license agreement, which resulted in reduced minimum annual license payments, (e) a $152,000 decrease in depreciation costs primarily related to the renewal of the lease on our main office, (f) a $104,000 increase in commission costs at MTI Instruments, (g) a $131,000 increase in incentive compensation primarily related to new executive employment agreements, (h) a $261,000 increase in marketing costs as MTI Micro raised its emphasis on marketing and business development and MTI Instruments underwent a major rebranding campaign during 2006, and (i) a $39,000 decrease in other expenses, net.

Operating Loss. Operating loss increased by $2.6 million, or 17.5%, to $17.7 million for the year ended December 31, 2006 compared with the year ended December 31, 2005 as a result of the factors noted above.

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Gain on Sale of Securities Available for Sale. The gain on sale of securities available for sale for the year ended December 31, 2006 was $4.3 million compared with $10.1 million for the year ended December 31, 2005. During the year ended December 31, 2006, we sold 1,103,500 shares of Plug Power common stock at a weighted average price of $5.66 per share, with gross proceeds to us of $6.2 million.

On June 24, 2005, Fletcher International Ltd., or Fletcher, notified us of its election to exercise in full its right to purchase from us an amount of common stock of Plug Power. As a result of this election, Fletcher purchased 1,799,791 shares of Plug Power common stock from us at a price of $0.7226 per share, with proceeds to us of $1.3 million. In connection with this exercise, we recognized a loss on this embedded derivative immediately prior to exercise of $7.2 million and a gain on the sale of Plug Power common shares of $9.6 million.

*Gain (loss) on Derivative*s. We recorded a gain on derivative accounting of $182,000 for the year ended December 31, 2006 and a loss of $10.4 million on derivative accounting for the year ended December 31, 2005. The 2006 gain was the result of derivative treatment of the freestanding warrants issued in conjunction with our December 2006 capital raise, while the 2005 result related to an embedded derivative for the purchase of Plug Power common stock, which was issued as part of the 2004 private placement transaction. The warrant derivative was valued using the Black-Scholes Pricing model, as was the embedded derivative prior to its exercise on June 24, 2005. Upon exercise, the embedded derivative was valued at its intrinsic value.

Income Tax (Expense) Benefit. Our income tax expense rate for the year ended December 31, 2006 was 15%, while the income tax expense rate for the year ended December 31, 2005 was 11%. These tax rates were primarily the result of losses generated by operations, changes in the valuation allowance, and disproportionate effects of reclassification of gains on Plug Power security sales included in operating loss.

The valuation allowance against our deferred tax assets at December 31, 2006 was $18.8 million and at December 31, 2005 was $10.9 million. We determined that it was more likely than not that the ultimate recognition of certain deferred tax assets would not be realized.

Quarterly Results of Operations

The following table presents unaudited quarterly financial information for each of the 12 quarters ended March 31, 2008. We believe this information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The quarterly operating results

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are not necessarily indicative of results for any future periods. Quarter-to-quarter comparisons should not be relied upon as indicators of future performance. Our operating results are subject to quarterly fluctuations as a result of a number of factors.

	2005			2006				2007		
June 30	Sep. 30	Dec. 31	Mar. 31	June 30	Sep. 30	Dec. 31	Mar. 31	June 30	Sep. 30	De
				(dollars in thousands, except per share data)						
$1,285	$1,428	$1,896	$1,513	$1,700	$1,693	$2,761	$1,701	$2,275	$2,196	$
768	865	1,197	974	974	1,043	1,776	963	1,348	1,348	
380	792	333	45	93	173	178	615	353	357	
2,913	2,093	2,005	2,560	3,252	3,557	3,552	3,622	2,872	2,677	
(4,273)	(2,623)	(3,633)	(4,601)	(4,961)	(4,200)	(3,975)	(4,500)	(3,500)	(2,688)	
$(2,793)	$(1,909)	$(4,338)	$(3,431)	$(3,222)	$(3,678)	$(3,336)	$(3,156)	$(2,487)	$(2,481)	$
$(0.73)	$(0.50)	$(1.12)	$(0.89)	$(0.82)	$(0.93)	$(0.82)	$(0.66)	$(0.52)	$(0.52)	

Liquidity and Capital Resources

We have incurred significant losses as we continue to fund the development and commercialization of our portable power source business. We expect that losses will fluctuate from year-to-year and that such fluctuations may be substantial as a result of, among other factors, sales of securities available for sale, our operating results, the availability of equity financing, including warrants issued in connection with the December 2006 capital raise, and the ability to attract government funding resources to offset research and development costs. As of March 31, 2008, we had an accumulated deficit of $108.3 million. During the three months ended March 31, 2008, our results of operations resulted in a net loss of $3.2 million and cash used in operating activities totaling $3.0 million. This cash use in 2008 was funded primarily by cash and cash equivalents on hand as of December 31, 2007 of $7.7 million. We expect to continue to incur losses as we seek to develop and commercialize our portable power source products. We expect to continue funding our operations from current cash and cash equivalents, the sales of securities available for sale, proceeds, if any, from equity financings, including warrants issued in connection with the December 2006 capital raise, and government funding. We expect to spend approximately $11.7 million on research and development of Mobion technology and $1.8 million in research and development on our test and measurement instrumentation products during 2008.

Additional financing may not be available to us on acceptable terms, if at all. Cash used to support operations is expected to total approximately $11.8 million, and cash used for capital expenditures is expected to total approximately $1.1 million. Capital expenditures will consist of purchases of manufacturing and laboratory equipment, software, computer equipment, and furniture. Proceeds from our sale of securities available for sale are subject to fluctuations in the market value of Plug Power Inc., or Plug Power. We may also seek to supplement our resources through additional equity offerings, sales of assets (including MTI Instruments). Additional government revenue could also provide more resources.

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As of March 31, 2008, we owned 1,137,166 shares of Plug Power common stock. Potential future sales of Plug Power securities will generate taxable income or loss, which is different from book income or loss, as a result of the tax bases in these assets being significantly different from their book bases. Book and tax bases as of March 31, 2008 were as follows:

Security	Shares Held	Average Book Cost Basis	Average Tax Cost Basis
Plug Power	1,137,166	$ 1.78	$ 0.96

Plug Power stock is currently traded on The Nasdaq Global Market and is therefore subject to stock market conditions. When acquired, these securities were unregistered. Our Plug Power securities are considered restricted securities as defined under the securities laws and may not be sold in the future without registration under the Securities Act of 1933, as amended, unless in compliance with an available exemption from registration. While our Plug Power shares remain restricted securities, these shares are now freely transferable in accordance with Rule 144(d) under the Securities Act of 1933, subject to the limitations associated with such rule.