

SECURITIES AND EXCHANGE COMMISSION

FORM S-2

Registration of securities

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FILER

MECHANICAL TECHNOLOGY INC

CIK: **64463** | IRS No.: **141462255** | State of Incorporation: **NY** | Fiscal Year End: **0930**
Type: **S-2** | Act: **33** | File No.: **333-59559** | Film No.: **98669452**
SIC: **3829** Measuring & controlling devices, nec

Mailing Address
968 ALBANY SHAKER RD
LATHAM NY 12110

Business Address
968 ALBANY-SHAKER RD
LATHAM NY 12110
5187852211

Approximate date of proposed sale to the public: As soon as possible after effective date.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-2
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

MECHANICAL TECHNOLOGY INCORPORATED (Exact name of registrant as specified in its charter)	14-1462255 (I.R.S. Employer Identification Number)
New York (State or other jurisdiction of incorporation or organization)	968 Albany-Shaker Road Latham, NY 12110 (518) 785-2211 (Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)
Cynthia A. Scheuer Mechanical Technology Incorporated 968 Albany-Shaker Road Latham, NY 12110 (518) 785-2211 (Name, address, including zip code, and telephone number, including area code, of agent for service)	Copies of all communications to: Catherine S. Hill, Esq. Whiteman Osterman & Hanna One Commerce Plaza Albany, NY 12260

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended ("Securities Act"), other than securities offered only in connection with dividend or reinvestment plans, check the following box. []

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this Form, check the following box. [X]

If this Form is filed to register additional securities or an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

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CALCULATION OF REGISTRATION FEE

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Title of Each Class of Securities to be Registered	Amount to be registered	Proposed Maximum Offering Price per Share(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock			\$6,000,000	\$1,770
Total			\$6,000,000	\$1,770

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(1) Common Stock price per share calculated in accordance with Rule 457(c) of the Securities Act using the proposed maximum aggregate Offering Price.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED JULY 22, 1998

PROSPECTUS

MECHANICAL TECHNOLOGY INCORPORATED

RIGHTS TO PURCHASE _____ SHARES OF COMMON STOCK

Mechanical Technology Incorporated ("MTI" or the "Company"), at no charge to its stockholders, is distributing to holders of record of shares of its common stock, \$1.00 par value per share (the "Common Stock"), as of the close of business on August 12, 1998 (the "Record Date"), non-transferable subscription rights (the "Rights") to purchase additional shares of Common Stock (the "Basic Subscription Privilege") at an exercise price of \$_____ per share (the "Exercise Price"). Stockholders will receive one Right for each _____ shares of Common Stock held on the Record Date. Each Right will entitle its holder (a "Holder") to purchase one share of Common Stock (collectively the "Underlying Shares"). No fractional shares of Common Stock will be sold, and fractional interests will be rounded up. Upon exercise of the Basic Subscription Privilege, a Holder will also be entitled to purchase at the Exercise Price a pro-rata portion of any Underlying Shares that are not otherwise subscribed for pursuant to the exercise of the Basic Subscription Privilege (the "Oversubscription Privilege"; collectively, with the Basic Subscription Privilege, and the sale of shares of Common Stock in connection therewith, the "Offering").

THE RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON SEPTEMBER 24, 1998, unless extended by the Company (such date, as it may be extended on one or more occasions, is referred to herein as the "Expiration Date"). In no event will the Expiration Date be extended beyond November 30, 1998. If the Company elects to extend the term of the Rights, it will issue a press release to such effect not later than the first day The Nasdaq National Market is open for trading following the most recently announced Expiration Date. Funds provided in payment of the Exercise Price will be held by the American Stock Transfer & Trust Company, as the Subscription Agent, until the closing, which will occur promptly following the Expiration Date. The exercise of Rights is irrevocable once made, and no interest will be paid on funds held for Holders exercising their Rights.

Since August 1994, the Company's Common Stock has been traded on the over-the-counter market and is listed under the symbol MKTY on the OTC Bulletin Board. MTI has filed a registration statement with the Securities and Exchange Commission ("SEC") covering the shares of Common Stock to be issued upon exercise of the Rights. On July 17, 1998, the closing bid price of the Common Stock as reported on the OTC Bulletin Board was \$7.25 per share.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING MADE HEREBY, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR BY ANY OTHER PERSON. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE THEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SHARES TO ANY PERSON OR BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION MAY NOT LAWFULLY BE MADE.

YOU SHOULD CAREFULLY CONSIDER THE INFORMATION REGARDING THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE COMMON STOCK OF MECHANICAL TECHNOLOGY INCORPORATED THAT ARE DISCUSSED UNDER THE CAPTION "RISK FACTORS" BEGINNING ON PAGE 12.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY STATE.

	EXERCISE AND OFFER PRICE	PROCEEDS TO THE COMPANY (1)
Per Share	\$ _____	Max. \$ _____

Total | \$6,000,000 | Max. \$ _____ |

(1) Includes deduction of an estimated (\$155,770) in expenses, including legal, accounting, investment advisor and distribution expenses.

THE DATE OF THIS PROSPECTUS IS JULY 22, 1998.

PROSPECTUS SUMMARY

The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information and consolidated financial statements, including the related notes, appearing elsewhere and incorporated by reference herein.

THE COMPANY

During the last two and a half years, MTI has undergone significant change. In May 1996, First Albany Companies, Inc. ("FAC") acquired a substantial interest in MTI and led a series of financial and strategic transactions that have significantly changed MTI's operations and fiscal well-being. In July 1996, MTI received an infusion of capital through a private placement of its Common Stock. In December 1996, MTI and FAC succeeded in restructuring a significant outstanding debt of the Company by swapping the debt for Common Stock. This allowed the Company to receive an unqualified opinion in 1996 from its Independent Auditors, Coopers & Lybrand, L.L.P., for the first time since 1992. On June 27, 1997, the Company transferred a portion of the Technology Division to Plug Power, L.L.C. ("Plug Power") to form a joint venture between the Company and Edison Development Corp. ("EDC"). Plug Power has focused exclusively on the research and development of an economically viable Proton Exchange Membrane ("PEM") fuel cell. On September 30, 1997, the Company sold all of the assets of its L.A.B. Division to Noonan Machine Company of Franklin Park, Illinois. The proceeds from this sale were used to pay down outstanding debt and build working capital. On March 31, 1998, the Company sold the remainder of its Technology Division to a subsidiary of Foster-Miller, Inc., a Waltham, Massachusetts-based technology company. These divestitures have enabled the Company to better focus on its profitable test and measurement business.

Today, MTI is a very different Company, substantially streamlined in focus, but with many challenges remaining. MTI is a manufacturer of advanced test and measurements products that combine precision sensing capabilities with proprietary software and systems to serve a variety of applications for commercial and military customers. The Company has two principal business units: the Advanced Products Division ("Advanced Products"), which produces sensing instruments and computer-based balancing systems, and Ling Electronics, Inc. ("Ling"), a developer and manufacturer of vibration test systems and power conversion products. MTI is

also a member of Plug Power, which hopes to be the first commercial manufacturer of PEM fuel cells for residential and other applications.

Advanced Products has two general product families: non-contact sensing instrumentation and computer-based balancing systems. The non-contact sensing instrumentation products utilize fiber optic, laser and capacitance technology to perform high precision position measurements for product design and quality control inspection requirements, primarily in the semiconductor and computer disk drive industries. Some of these products bear the trademarks FOTONIC and ACCUMEASURE, which are recognized in the industry worldwide. Advanced Products's computer-based aircraft engine balancing systems include an on-wing jet engine balancing system used by both commercial and military aircraft fleet maintenance personnel. This product provides trim balancing and vibration analysis in the field or in test cells.

Ling, of Anaheim, California, designs, manufactures, and markets electro-dynamic vibration test systems, high-intensity-sound transducers, power conversion equipment and power amplifiers used to perform reliability testing and stress screening during product development and quality control. This mode of testing is used by industry and the military to reveal design and manufacturing flaws in a broad range of precision products, from satellite parts to computer components. Recent Ling products for power and frequency conversion and "clean power" applications include systems capable of output up to 432 kVA.

The Company believes that the test and measurement industry will undergo substantial consolidation in the near future. The challenges facing MTI today are similar to those facing other smaller companies in industries where consolidation is a part of

the landscape. The Company believes that consolidation may become a competitive necessity and that Advanced Products and Ling are well-positioned to combine with complementary, synergistic businesses to enhance and expand product offerings and increase profitability and market position. Accordingly, the Company is actively exploring strategic acquisitions and alliances for these business units.

Mechanical Technology Incorporated was incorporated in New York in 1961. Unless the context otherwise requires, registrant, "Company" and "MTI" refer to Mechanical Technology Incorporated and its subsidiaries. The Company's principal executive offices are located at 968 Albany-Shaker Road, Latham, New York 12110 and its telephone number is (518) 785-2211.

RECENT DEVELOPMENTS

On July 15, 1998, the Company received a commitment from KeyBank National Association ("KeyBank") to lend the Company \$4 million in a working capital line of credit at an interest rate of LIBOR plus 250 basis points, and \$1 million in an equipment loan/lease line of credit at an interest rate of LIBOR plus 275 basis points, both of which expire January 31, 2000. Additionally, KeyBank has agreed to issue a \$6 million direct pay letter of credit to enhance the \$6 million Industrial Development Revenue Bonds ("IDR Bonds") to be issued on the Company's behalf on or about August 30, 1998. The loan commitment requires the Company to meet certain covenants, including a fixed charge coverage and leverage ratio. Further, if certain performance standards are achieved, the interest rates on the debt may be reduced. The commitment letter also requires the Company to grant a first lien on all consolidated assets of the Company exclusive of Plug Power, a first mortgage on all land and buildings owned by the Company and a first lien on any equipment purchased by the Company. See "Risk Factors--Need for Immediate Financing."

The Industrial Development Agency for the Town of Colonie ("IDA") has agreed to issue \$6 million in IDR Bonds on behalf of the Company to assist in the construction of a new building for Advanced Products and MTI's corporate staff and renovation of existing buildings to be leased to Plug Power (the "Project"). The Project is due to be completed as of December 1998. The IDA will issue Industrial Development Revenue Notes to FAC, which will underwrite the sale of the IDR Bonds to the public. The bond proceeds will be deposited with a trustee for the bondholders. MTI may draw down on the bond proceeds to cover qualified Project costs. The bond closing is expected to be completed on or about August 30, 1998. FAC will receive no fees for underwriting the IDR Bonds, but will be reimbursed for its out of pocket costs. See "Risk Factors--Immediate Need for Financing" and "Risk Factors--Conflict of Interest."

On April 15, 1998, EDC contributed an additional \$2.25 million in cash to Plug Power. MTI contributed a below-market lease for office and manufacturing facilities in Latham, New York, valued at \$2 million and purchased a one year option to match EDC's remaining \$250,000 contribution. In May 1998, EDC contributed an additional \$2 million to Plug Power and MTI purchased a one year option to match the contribution. MTI's options mature in April 1999 (\$250,000) and May 1999 (\$2 million). See "Risk Factors--Plug Power-Investment in Plug Power" and "Risk Factors--Plug Power-Recognition of Plug Power Losses."

Plug Power anticipates that it will need at least \$4 million in additional capital to cover expenditures through December 31,

1998, and significant additional capital thereafter. EDC and MTI are currently considering additional cash contributions and/or loans to Plug Power to cover this anticipated need. In addition, Plug Power continues to pursue strategic partners and additional sources of capital. Plug Power is negotiating currently with several strategic partners. There is no assurance, however, that Plug Power will successfully conclude any transactions with strategic partners or find other sources of capital. If other sources of funding cannot be found, MTI will be faced with contributing and/or lending additional capital to Plug Power or dilution of its interest in Plug Power. If EDC and the Company stop funding Plug Power and no additional sources of capital are found, Plug Power will not be able to continue as a going concern. See "Risk Factors--Inability to Raise Sufficient Proceeds"; "Risk Factors--Plug Power-Investment in Plug Power" and "Risk Factors--Plug Power-Recognition of Plug Power Losses."

THE OFFERING

Description of the Offering

If you hold MTI Common Stock on August 12, 1998, you will receive one non-transferable right to purchase MTI Common Stock for every _____ shares of MTI Common Stock you own. Fractional Rights will be rounded up to the next whole number in determining the number of Rights to be issued to stockholders. Each right entitles you to purchase one share of MTI's Common Stock at a purchase price of \$ _____ ("Exercise Price"). MTI is offering _____ shares of Common Stock for purchase through the exercise of Rights ("Underlying Shares"). See "Offering--The Rights."

Basic Subscription Privilege

Holders are entitled to purchase, at the Exercise Price, one share of Common Stock for each Right held. See "Offering--The Rights", "Offering--Subscription Privileges--Basic Subscription Privilege" and "Offering--No Revocation."

Oversubscription Privilege

Each Holder who elects to exercise his or her Basic Subscription Privilege may also subscribe at the Exercise Price for Underlying Shares, if any, remaining unissued after satisfaction of all subscriptions pursuant to the Basic Subscription Privilege. If an insufficient number of Underlying Shares is available to satisfy fully all elections to exercise the Oversubscription Privilege, the available Underlying Shares will be allocated on a pro-rata basis among Holders who exercise their Oversubscription Privilege based on the respective numbers of

Underlying shares subscribed for by such Holders pursuant to the Basic Subscription Privilege. See "Offering--The Rights", "Offering--Subscription Privileges--Oversubscription Privilege" and "Offering--No Revocation".

Exercise Price

If you wish to exercise your Rights to purchase Common Stock, the Exercise Price will be \$ _____ per share of Common Stock. See "Risk Factors--Determination of Exercise Price" and "Determination of Exercise Price."

When You Can Exercise Your Rights

The Rights will only be exercisable from the period beginning on _____, 1998, and ending on September 24, 1998 at 5:00 p.m.,

New York City time, unless extended by the Company from time to time. See "Offering--Expiration Date."

Number of Shares of
Common Stock Offered in
the Offering

_____ shares.

Record Date

August 12, 1998.

Expiration Date

September 24, 1998,
unless extended by the
Company from time to
time, provided that the
Expiration Date shall
not be later than
November 30, 1998,
unless the Board of
Directors determines
that a material event
has occurred that
necessitates one or more
further extensions of
the Rights to permit
adequate disclosure of
information concerning
such event to Holders.
If the Company elects to
extend the term of the
Rights, it will issue a
press release to such
effect not later than
the first day

on which The Nasdaq National Market is open
for trading following the most recently
announced Expiration Date. In the event the
Company elects to extend the term of the
Offering by more than 14 calendar days, it
will, in addition, cause written notice of
such extension to be sent promptly to all
Holders of record on the Record Date. See
"Offering--Expiration Date."

Procedure for Exercising
Rights

Rights may be exercised by properly completing
the certificate evidencing such Rights
(the "Subscription Certificate") and
forwarding such Subscription Certificate
(or following the Guaranteed Delivery
Procedures, as defined below) to the
Subscription Agent on or prior to the Expiration
Date, together with payment in full of the
Exercise Price for each Underlying Share
subscribed for pursuant to the Subscription
Privileges. If the mail is used to forward
Subscription Certificates and/or payment,
insured, registered mail should be used. The
exercise of a Right may not be revoked or
amended. If time does not permit a Holder of
a Right to deliver its Subscription Certificate
to the Subscription Agent on or before the
Expiration Date, such Holder should make use of
the Guaranteed Delivery Procedures described
under "Offering--Exercise of Rights." Please
note that funds paid by uncertified personal
check may take at least five business days to
clear. Accordingly, Holders who wish to pay
the Exercise Price by means of uncertified
personal check

should make payment sufficiently in advance
of the Expiration Date to ensure that such
payment is received and clears by such date.
Holders should consider payment by means of
certified or cashier's check, money order or
wire transfer of funds. See "Offering--Exercise
of Rights" and "Offering--Over/Underpayment of
Exercise Price."

Persons Holding Shares,

Persons holding shares of Common Stock and

or Wishing to Exercise
Rights Through Others

receiving the Rights distributable with respect to such shares through a broker, dealer, commercial bank, dealer, commercial bank, trust company or other nominee, as well as persons holding certificates of Common Stock personally who would prefer to have such institutions effect transactions relating to the Rights on their behalf, should give timely instructions to their broker, dealer, commercial bank, trust company or other nominee and request it to effect the transactions for them. See "Offering--Exercise of Rights" and "Offering--Exercise of Rights Through Third Parties."

Closing and Issuance of
Common Stock

The closing will occur and certificates representing Underlying Shares will be delivered to subscribers as soon as practicable after the Expiration Date and after all prorations have been effected. See "Offering--Subscription Privileges" and "Offering--Delivery of Subscription Certificates." No Underlying Shares will be issued until the closing. Funds delivered to the Subscription Agent for the exercise of Subscription Privileges will be held in escrow by the Subscription Agent until the

closing. No interest will be paid to Holders on funds held by the Subscription Agent. In the case of Holders exercising Oversubscription Privileges, any excess funds will be returned to the Holders as soon as practical following the closing.

Common Stock to be
Outstanding After the
Offering

After this Offering, assuming all Rights are subscribed for, _____ shares of Common Stock will be outstanding (not including 249,965 shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$3.42 per share, of which options to purchase 99,465 shares of Common Stock were exercisable as of June 26, 1998).

How We Intend to Use the
Proceeds

It is anticipated that the net proceeds to the Company will be approximately \$6 million if all of the Underlying Shares are purchased in the Offering. If less than all of the Underlying Shares are purchased, the proceeds will be correspondingly reduced. See "Risk Factors-- Inability to Raise Sufficient Proceeds." The specific uses of the net proceeds from this Offering has not been determined. The Company currently intends to use at least a portion of the proceeds from the Offering for further investment into or loans to Plug Power. The Company may also use the proceeds of the Offering for acquisitions, efforts to increase market share, working capital, general corporate purposes and other capital expenditures. See "Risk Factors--Discretion in Application of Proceeds" and "Use of Proceeds."

Subscription Agent

American Stock Transfer & Trust Company. See "Offering--Subscription Agent."

Statements in this Prospectus or in documents incorporated herein by reference that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future revenues, expenses and profits. These forward looking statements are subject to known and unknown risks, uncertainties or other factors that may cause the actual results of the Company to be materially different from the historical results or from any results expressed or implied by the forward looking statements. Such risks and factors include, but are not limited to, those discussed below under "Risk Factors" and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in MTI's Form 10-Q for the quarter ended March 27, 1998, attached hereto as Exhibit 13.1. All cautionary statements made in this Prospectus should be read as being applicable to all related forward-looking statements wherever they appear.

RISK FACTORS

An investment in the Common Stock being offered by this Prospectus involves a high degree of risk. In addition to the other information contained in this Prospectus or incorporated herein by reference, prospective investors should carefully consider the following risk factors before purchasing the Common Stock offered by this Prospectus.

Discretion in Application of Proceeds

The Company has not determined the specific uses of the net proceeds of this Offering. The Company currently intends to use at least a portion of the proceeds of the Offering for further investments into or loans to Plug Power. The Company may also use the proceeds of the Offering for acquisitions, efforts to increase market share, working capital, general corporate purposes and other capital expenditures. The specific uses of the proceeds will be at the complete discretion of the Company and may be allocated from time to time based on a variety of circumstances. There can be no assurance that the Company will deploy the proceeds in a manner that will enhance the financial condition of the Company.

Inability to Raise Sufficient Proceeds

There is no assurance that the Company will raise the full amount of funds sought through this Offering. Failure to raise sufficient funds through this Offering will severely limit the Company's ability to make further investments into or loans to Plug Power or to make acquisitions or otherwise increase the market share of its core businesses.

Plug Power

Investment in Plug Power

Plug Power currently needs and will continue to need substantial additional capital. To date, EDC and MTI have contributed approximately \$16 million worth of cash and other assets to Plug Power. See "Recent Developments." Plug Power estimates that it will need an investment of at least \$4 million prior to December 31, 1998 to fulfill its current commitments. MTI does not believe it can fund its share of Plug Power's capital needs unless Plug Power attracts other investors. If EDC and MTI stop funding Plug Power and no additional sources of capital are found, Plug Power will not be able to continue as a going concern. If EDC and/or other investors fund Plug Power, MTI's interest in Plug Power will suffer substantial dilution unless MTI is able and willing to match such contributions.

Recognition of Plug Power Losses

MTI has recorded its proportionate share of Plug Power's losses only to the extent of MTI's recorded investment in Plug Power, which has been written down to zero as of March 28, 1998. Future investments into or loans to Plug Power may result in the Company's recognition of losses to the full extent of such investment or loans. Recording of its proportionate share of Plug Power losses will likely result in the Company reporting significant losses in the future, which is likely to have a substantial adverse impact on the market price for the Company's Common Stock.

Plug Power Research and Development

Plug Power is engaged in the research and development of an economically viable PEM fuel cell. Plug Power faces intense competition from a number of companies, including at least one competitor that is significantly larger with significantly greater resources. Substantial research and development on the PEM fuel cell remains to be completed. There is no assurance that Plug Power will ever successfully complete such research and development and if they do, that their competitors will not do so more quickly or more effectively. Further, there can be no assurance that any product that Plug Power may ultimately produce will find a market.

History of Plug Power Losses

Since its inception on June 27, 1997, Plug Power has incurred substantial losses as follows:

	(000's)
For the period June 27, 1997 (inception) to September 30, 1997	\$ 630
For the nine months ended June 26, 1998	\$6,019

Plug Power will continue to sustain significant losses until it can produce sufficient revenues to cover its costs. MTI expects that such revenues will not be generated until it cost-effectively produces and sells PEM fuel cells to the public. There can be no assurance as to when, or if Plug Power may ever sell PEM fuel cells to the public on a profitable basis.

Immediate Need for Financing

On July 15, 1998, the Company received a letter of commitment from KeyBank whereby KeyBank agreed to provide a \$4 million working capital line of credit and a \$1 million equipment loan/lease line, both of which will expire January 31, 2000. Additionally, KeyBank has agreed to issue a \$6 million direct pay letter of credit to enhance the \$6 million IDR Bonds to be issued on the Company's behalf on or about August 30, 1998. There can be no assurance that the Company and KeyBank will come to terms on the final agreements contemplated by the commitment letter, or that the terms of such financing will be favorable to the Company. There is also no assurance that the Company will be able to sell the \$6 million in IDR Bonds to the public. If the Company cannot obtain the financing described above, the failure to do so will have a material adverse effect on the Company's business and operating results.

Conflict of Interest

George McNamee is Chairman of the Board of Directors of each of FAC, MTI and Plug Power, and is also Chief Executive Officer of MTI and Co-Chief Executive Officer of FAC. Beno Sternlicht and Walter Robb are members of the Board of Directors of MTI and Plug Power. Alan Goldberg is a member of the Board of Directors of FAC and MTI and Co-Chief Executive Officer of FAC. FAC owns 34% of the outstanding Common Stock of MTI. These interrelationships create the potential for conflicts of interest to arise in connection with the exercise by MTI's directors of their respective fiduciary duties.

Discontinued Operations; Change in Strategy

Since 1996, MTI has shifted its focus from research and development to product development, marketing and sales. With the sale of the remainder of the Technology Division to a subsidiary of Foster-Miller, Inc. in March 1998 (see Note 4, "Discontinued Operations" in MTI's Form 10-Q for the quarter ended March 27, 1998, attached hereto as Exhibit 13.1), MTI has completed its planned sale of non-core businesses and is now prepared to explore strategic acquisitions and alliances for its two core businesses, Advanced Products and Ling. There can be no assurance that any acquisitions or strategic alliances will be made, or if such acquisitions or alliances are made that they will have a positive impact on the Company's business and results of operations in the short or long term.

Dilution; Discount from Market Price

Holders who do not exercise their Subscription Privileges in full will realize a dilution in their percentage voting interest and ownership interest in future net earnings, if any, of the Company to the extent that Rights are exercised by other Holders. The Exercise Price represents a _____% discount from the market price and could result in a reduction in the market price for the Common Stock.

Substantial Immediate Dilution

Assuming all Underlying Shares are subscribed for in connection with this Offering, a purchaser of Common Stock in this Offering will experience immediate and substantial dilution of approximately \$_____ in net tangible book value per share because the Exercise Price of the Common Stock (\$_____) exceeds the \$_____ pro-forma net tangible book value per share at March 27, 1998 of the Company's Common Stock after giving effect to the Offering.

Determination of Exercise Price

The Exercise Price of the Common Stock was determined by the independent Consulting and Investment Banking firm of Schwartz Heslin Group, Inc. The Exercise Price does not necessarily bear any relationship to the prices at which shares of Common Stock have traded in the market or in private transactions, or to the Company's earnings, assets, book value, financial condition or any other recognized criterion of value. There can be no assurance that the value of the Common Stock will not decline below the Exercise Price.

Attraction and Retention of Technical Employees

The Company believes that its future success will depend in large part upon its ability to attract, retain and motivate highly skilled employees, particularly technical employees. These employees are likely to remain in limited supply for the foreseeable future. There can be no assurance that the Company will be able to attract and retain sufficient numbers of highly skilled technical employees. The loss of a significant number of the Company's technical employees could have a material adverse effect on the Company.

Competition

The Company faces intense competition from at least several companies, many of which are larger than MTI and have greater financial resources. While Advanced Products and Ling each have a major share of their respective markets, the Company does not consider either of them to be dominant within its industry. The primary competitive considerations in the Company's businesses are: product quality and performance; price; and timely delivery. These competitive pressures have restrained, and can be expected in the future to restrain the growth and profitability of the Company's businesses, which could have a material adverse effect on the value of the Common Stock.

Economic Events in Asia

The Company's operations may be affected by unfavorable financial and economic conditions in Asia, which are outside of the control of the Company. Recent economic events in Asia have had a material adverse effect on currency fluctuations and spending in such areas. The Company's operating results may be adversely affected by such crises due to the potential for significant decreases in demand for the Company's products and services, the potential for foreign governments to implement prohibitions and limitations on U.S. companies, and the potential for foreign currency losses. Such events could

have an adverse effect on the market value of the Common Stock.

Additional Capital Requirements

Management expects that the future growth and development of the Company's business will require additional capital. There can be no assurance that the Company will be able to obtain additional capital when necessary, or that the terms on which any capital investment can be obtained will be favorable to the Company. If the Company cannot obtain capital on satisfactory terms, the failure to obtain such financing will have a material adverse effect on the Company's business and operating results.

Control by Existing Holders of Common Stock

The members of the Company's present Board of Directors directly or indirectly own more than 48% of the Company's outstanding Common Stock. As a result, it is unlikely that investors who purchase the shares of Common Stock offered hereby will be able to obtain representation on the Company's Board of Directors (unless they first obtain the support of the shareholders on the existing Board), or otherwise exercise any control or influence over the Company's management. Furthermore, the substantial shareholdings by members of the present Board of Directors make it unlikely that an independent third party could effect a change in control of the Company without the consent of the Board, thereby effectively insulating the Company's Board of Directors and management from objections and challenges by shareholders to actions taken by the Board and management in the conduct of the Company's business and the formulation of its business objectives, strategies and policies. This could have an adverse effect on the market value of the Common Stock.

No Assurance of Public Market for Common Stock

In August 1994, the Company was removed from The Nasdaq National Market System and commenced trading on the OTC Bulletin Board. The Company intends to apply for re-listing on The Nasdaq National Market System shortly after the end of its fiscal year. There can be no assurance that MTI's Common Stock will be re-listed or that there will be an active trading market for the Company's Common Stock. In addition, the trading price of the Common Stock has been, and in the future could be, subject to significant fluctuations in response to variations in quarterly operating results, the gain or loss of significant contracts, changes in management, new products or services by the Company or its competitors, general trends in the industry, announcements by Plug Power and other events or factors. In addition, the stock market has experienced extreme price and volume fluctuations that have particularly affected the market price for many companies in similar industries and that have often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of the Common Stock.

Rapid Technological Change; Dependence on New Product Introduction, Product Enhancements and Product Developments

The market for many of the Company's products and services is characterized by rapidly changing technology and evolving industry standards. There is no assurance that the Company's current technology base will continue to address current and evolving customer needs. The Company believes that its future success will depend on its ability to develop and manufacture new products and product enhancements and to introduce them successfully into the

market. Failure to do so in a timely fashion could harm the Company's competitive position. The announcements or introductions of new products by the Company or its competitors may adversely affect the Company's operating results, because these announcements or introductions may cause customers to defer or forego ordering products from the Company's existing product lines. Moreover, there is no assurance the Company will have sufficient funds to finance product introductions, enhancements or developments.

Issuance of Additional Common Stock

The Company has 15 million authorized shares of Common Stock, \$1.00 par value, of which _____ shares will be issued in connection with this Offering, resulting in a maximum of _____ shares outstanding after completion of this Offering. The Company's Board of Directors generally has authority, without action or vote of the stockholders, to issue all or part of the authorized but unissued shares. Any such issuance could further dilute the percentage ownership interest of shareholders and may further dilute the book value of the Common Stock.

Year 2000 Compliance

Currently, there is significant uncertainty regarding the impact of the year 2000 on software installed in certain products by the Company. Current versions of the Company's products are designed to be "Year 2000" compliant. The Company is in the process of determining the impact of any non-compliance of previously installed products or purchased software and related products on the Company and its customers and suppliers. The Company does not currently believe that the effects of any potential Year 2000 non-compliance in the Company's products will result in any material adverse impact on the Company's business or financial condition. There can be no assurance, however, that the Company will not be exposed to potential claims resulting from system problems associated with the arrival of the Year 2000.

No Cash Dividends

Since its inception, the Company has not paid any cash dividends on its Common Stock. The Company anticipates that its future earnings, if any, will be retained for use in the business or for other corporate purposes, and it is not anticipated that any cash dividends on the Common Stock will be paid in the foreseeable future.

In addition to the matters discussed above, prospective investors should consult their own attorneys, accountants and other professional advisors as to legal, tax and related matters concerning their prospective investment in the Company's Common Stock.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Set forth below is summary consolidated financial information (restated for the discontinuance of the Technology Division as of December 26, 1997) and certain adjusted financial information of the Company. The consolidated financial information as of and for the five years ended September 30, 1997 set forth below has been derived from consolidated financial statements audited by PricewaterhouseCoopers LLP, independent public accountants. The consolidated financial data as of and for the six months ended March 27, 1998 and March 28, 1997 has been derived from unaudited consolidated financial statements which, in the opinion of management, reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial data for such periods. The following information should be read in conjunction with "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Company's consolidated financial statements and the accompanying notes set forth in the Company's Form 10-Q for the quarter ended March 27, 1998, attached hereto as Exhibit 13.1.

<TABLE>

<S>	Six Months Ended March 27 and 28		Years Ended September 30, (Restated)				
	(unaudited)		(audited)				
	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	1998	(Restated) 1997	1997	1996	1995	1994	1993
Statement of Earnings Data:	(in thousands, except per share data)						
Net Sales.....	\$10,249	\$12,594	\$24,102	\$22,755	\$18,140	\$29,721	\$28,395
Gross Profit.....	4,249	4,848	9,628	8,830	6,145	11,800	11,321
Operating Income (Loss)....	996	1,319	1,593	1,069	(2,167)	2,157	3,021
Gain on sale of subsidiary/division or building.....	-	-	2,012	750	6,779	1,856	-
Income from Continuing Operations Before Extraordinary Item and Income Taxes.....	865	1,129	2,701	673	3,352	816	1,840
Income from Continuing Operations before Extraordinary Item.....	865	994	2,558	598	3,256	201	1,492

Extraordinary Item - Gain on Extinguishment of Debt, net of taxes (\$106).....	-	2,507	2,507	-	-	-	-
Income from Continuing Operations.....	865	3,501	5,065	598	3,256	201	1,492
Income (Loss) from Discontinued Operations, Net of Taxes.....	(2,285) (2)	(469)	(545)	3,150	(334)	(24,579) (1)	(436)
Net (Loss) Income.....	(1,420)	3,032	4,520	3,748	2,922	(24,378)	1,056
Diluted Earnings Per Share: (3)							
Income from Continuing Operations before Extraordinary Item.....	0.14	0.18	0.45	0.15	0.91	0.05	0.42
Extraordinary Item.....	-	0.46	0.44	-	-	-	-
(Loss) Income from Discontinued Operations....	(0.37)	(0.08)	(0.09)	0.81	(0.09)	(6.96)	(0.12)
Net (Loss) Income.....	(0.23)	0.56	0.80	0.96	0.82	(6.91)	0.30
Weighted Average Shares Outstanding and Equivalents.....	6,083,073	5,413,167	5,670,364	3,911,952	3,559,789	3,529,881	3,527,835
Other Information:							
Capital Expenditures.....	115	244	377	264	409	426	188
Depreciation and Amortization.....	143	122	243	233	358	460	706
Balance Sheet Data:							
Working Capital (Deficit)...	5,450	6,993	7,696	7,086	2,712	(6,219)	17,326
Total Assets.....	12,594	13,425	14,003	13,481	13,444	23,971	41,680
Total Long Term Debt.....	0	1,007	0	5,508	6,960	11,182	13,082
Total Shareholders' Equity (Deficit).....	6,799	6,720	8,213	2,164	(3,490)	(6,418)	17,969

</TABLE>

- (1) Includes a net charge of \$15,415,000 related to the discontinuance of the Company's United Telecontrol Electronics, Inc. subsidiary.
- (2) Includes a net charge of \$1,769,000 related to the discontinuance of the Company's Technology Division.
- (3) Earnings per share have been restated to comply with SFAS No. 128, "Earnings Per Share."

USE OF PROCEEDS

The net proceeds from the Offering are estimated to be approximately \$6 million after the payment of expenses associated with the Offering, assuming the Offering is fully subscribed. See "Risk Factors--Inability to Raise Sufficient Proceeds." The Company has not determined the specific uses of the net proceeds of the Offering. The Company currently intends to use at least a portion of the proceeds of the Offering for further investments into or loans to Plug Power. The Company may also use the proceeds of the Offering for acquisitions, efforts to increase market share, working capital, general corporate purposes and other capital expenditures. See "Risk Factors--Discretion in Application of Proceeds." Although the Company intends to pursue acquisitions actively, it has no current contract or commitment with respect to any particular acquisition.

DETERMINATION OF EXERCISE PRICE

The Exercise Price was determined by the independent Consulting and Investment Banking firm of Schwartz Heslin Group, Inc., which has issued a fairness opinion supporting the fairness of the Exercise Price. See "Risk Factors--Determination of Exercise Price."

OFFERING

The Rights

The Company is distributing, at no cost to the record holders of its outstanding Common Stock as of August 12, 1998 non-transferable Rights to purchase additional shares of Common Stock at a price of \$ _____ per share. The Company will distribute one non-transferable Right for each _____ shares of Common Stock held on the Record Date. Each Right will entitle its Holder to purchase one share of Common Stock. The Rights will be evidenced by non-transferable subscription certificates. An aggregate of _____ shares of Common Stock will be sold if all Rights are exercised.

No fractional Rights, or cash in lieu thereof, will be issued or paid. The number of Rights distributed to each Holder will be rounded up to the nearest whole share in connection with the exercise of Subscription Privileges.

Subscription Privileges

Basic Subscription Privilege. Each Right will entitle the Holder thereof to receive, upon payment of the Exercise Price, one share of Common Stock. Certificates representing shares of Common Stock purchased pursuant to the Subscription Privilege will be delivered to subscribers as soon as practical after the Expiration Date, irrespective of whether the Subscription Privilege is exercised immediately prior to the Expiration Date or earlier. Holders exercising their Subscription Privilege will not be shareholders of record with respect to the shares issuable pursuant to such Subscription Privilege until the closing, which it is anticipated will occur four business days after the Expiration Date.

Oversubscription Privilege. Subject to the allocation described below, each Right also carries the right to subscribe, at the Exercise Price, for any Underlying Shares not subscribed for through the exercise of Basic Subscription Privileges by other Holders (the "Excess Shares"). If the Excess Shares are not sufficient to satisfy all subscriptions made pursuant to the Oversubscription Privilege, such Excess Shares will be allocated pro-rata (subject to the elimination of fractional shares) among those Holders exercising the

Oversubscription Privilege, in proportion, not to the number of shares requested pursuant to the Oversubscription Privilege, but to the number of shares each Holder exercising the Oversubscription Privilege subscribed for pursuant to the Basic Subscription Privilege; provided, however, that if such pro-rata allocation results in any Holder being allocated a greater number of Excess Shares than such Holder subscribed for pursuant to the exercise of such Holder's Oversubscription Privilege, then such Holder will be allocated only the number of Excess Shares for which such Holder subscribed. The remaining Excess Shares will be allocated among all other Holders exercising the Oversubscription Privilege. Only beneficial Holders who exercise the Basic Subscription privilege in full will be entitled to exercise the Oversubscription Privilege. Notification of the number of shares allocated pursuant to the Oversubscription Privilege will be delivered to subscribers as soon as practical after the Expiration Date and after all prorations have been effected.

Expiration Date

The Rights will expire at 5:00 p.m., New York City time, on September 24, 1998 (the "Expiration Date"), unless extended by the Company from time to time. Notwithstanding the foregoing, the Expiration Date a no event shall be later than November 30, 1998, except that the Company reserves the right to extend the exercise period on one or more occasions if the Board of Directors determines that the occurrence of a material event necessitates an amendment of the Registration Statement or recirculation of the Prospectus that forms a part thereof in order to permit time for the distribution of such information. After the Expiration Date, unexercised Rights will be null and void. The Company will not be obligated to honor any purported exercise of Rights received by the Subscription Agent after the Expiration Date, regardless of when the documents relating to such exercise were sent, except pursuant to the Guaranteed Delivery Procedures described below.

Exercise of Rights

Rights may be exercised by delivering to the Subscription Agent, on or prior to 5:00 p.m., New York City time, on the Expiration Date, the properly completed and executed Subscription Certificate evidencing such Rights with any required signatures, together with payment in full of the Exercise Price for each Underlying Share subscribed for pursuant to the Subscription Privileges (except as permitted pursuant to clause (iii) of the next sentence). Such payment in full must be by: (i) check or bank draft drawn upon a U.S. bank or postal money order, payable to American Stock Transfer & Trust Company, as Subscription Agent; (ii) wire transfer of funds to the account maintained by the Subscription Agent for such purpose; or (iii) in such other manner as the Company may approve in writing in the case of persons acquiring Underlying Shares at an aggregate Exercise Price of \$500,000 or more (the payment method under (iii) being an "Approved Payment Method"), provided in each case that the full amount of such Exercise Price is received by the Subscription Agent in currently available funds within three Nasdaq National Market trading days following the Expiration Date. Payment of the Exercise Price will be deemed to have been received by the Subscription Agent only upon (a) clearance of any uncertified check, (b) receipt by the Subscription Agent of any certified check or bank draft drawn upon a United States bank or of any postal money order, (c) receipt of good funds in the Subscription Agent's account designated above, or (d) receipt of good funds by the Subscription Agent through an Approved Payment Method.

If paying by uncertified personal check, please note that the funds paid thereby may take at least five business days to clear. Accordingly, Holders who wish to pay the Exercise Price by means of an uncertified personal check are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment is received and clears by such date and are urged to consider payment by means of certified or bank cashier's check, money order or wire transfer of funds.

The address to which the Subscription Certificates and payment of the Exercise Price should be delivered is:

American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005

If a Holder wishes to exercise Rights, but time will not permit such Holder to cause the Subscription Certificate or Subscription Certificates evidencing such Rights to reach the Subscription Agent on or prior to the Expiration Date, such Rights may nevertheless be exercised if all of the following conditions (the "Guaranteed Delivery Procedures") are met:

- (i) such Holder has caused payment in full of the Exercise Price for each Underlying Share being subscribed for pursuant to the Subscription Privileges to be received (in the manner set forth above) by the Subscription Agent on or prior to the Expiration Date;
- (ii) the Subscription Agent receives, on or prior to the Expiration Date, a guaranteed notice (a "Notice of Guaranteed Delivery"), substantially in the form provided with the Instructions for Subscription Certificate (the "Instructions") distributed with the Subscription Certificates, from an "Eligible Institution" (as defined in Rule 17Ad-15 under the Securities Exchange Act of 1934), stating the number of Rights represented by the Subscription Certificate(s) held by such exercising Holder, the number of Underlying Shares being subscribed for pursuant to the Subscription Privileges and guaranteeing the delivery to the Subscription Agent of any Subscription Certificate(s) evidencing such Rights within three Nasdaq National Market trading days following the date of the Notice of Guaranteed Delivery; and
- (iii) the properly completed Subscription Certificate(s), with any required signatures, is received by the Subscription Agent within three Nasdaq National Market trading days following the date of the Notice of Guaranteed Delivery relating thereto. The Notice of Guaranteed Delivery may be delivered to the Subscription Agent in the same manner as Subscription Certificate(s) at the address set forth above, or may be transmitted to the Subscription Agent by facsimile transmission (teletype number (718) 234-5001). Additional copies of the form of Notice of Guaranteed Delivery are available upon request from the Subscription Agent, whose address and telephone number are set forth under "Subscription Agent" below.

Funds received in payment of the Exercise Price for Excess Shares subscribed for pursuant to the Oversubscription Privilege will be held in a segregated account pending issuance of such Excess Shares. If a Holder exercising the Oversubscription Privilege is allocated less than all of the Excess Shares that such Holder wished to subscribe for pursuant to the

Oversubscription Privilege, the excess funds paid by such Holder in respect of the Exercise Price for shares not issued shall be returned by mail without interest or deduction as soon as practical after the Expiration Date.

Exercise of Rights Through Third Parties

A Holder who holds shares of Common Stock for the account of others, such as a broker, a trustee or a depository for securities, should notify the respective beneficial owners of such shares as soon as possible to ascertain such beneficial owners' intentions and to obtain timely instructions with respect to the Rights. If the beneficial owner so instructs, the record Holder of such Rights shall complete the Subscription Certificate and submit it to the Subscription Agent with the proper payment. In addition, the beneficial owner of Common Stock or Rights held through such a Holder of record should contact the Holder and make a timely request that the Holder effect transactions in accordance with the beneficial owner's instructions.

Over/Underpayment of Exercise Price

If either the number of Underlying Shares being subscribed for pursuant to the Basic Subscription Privilege is not specified on the Subscription Certificate, or the amount of funds delivered is not enough to pay the Exercise Price for all Underlying Shares stated to be subscribed for, the number of Underlying Shares subscribed for will be assumed to be the maximum amount that could be subscribed for upon payment of such amount. If the number of Underlying Shares being subscribed for is not specified, or payment of the Exercise Price for the indicated number of Rights that are being exercised exceeds the required Exercise Price, the payment will be applied, until depleted, to subscribe for Underlying Shares in the following order: (i) to subscribe for the number of Underlying Shares indicated, if any, pursuant to the Basic Subscription Privilege; (ii) to subscribe for Underlying Shares until the Basic Subscription Privilege has been fully exercised with respect to all of the Rights represented by the Subscription Certificate; and (iii) to subscribe for additional Underlying Shares pursuant to the Oversubscription Privilege (subject to any applicable proration).

Delivery of Subscription Certificates

The Instructions accompanying the Subscription Certificates should be read carefully and followed in detail. PLEASE SEND ALL SUBSCRIPTION CERTIFICATES TO THE SUBSCRIPTION AGENT. DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE COMPANY.

The method of delivery of subscription certificates and payment of the Exercise Price to the Subscription Agent will be at the election and risk of the Rights Holder, but if sent by mail it is recommended that such certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., New York City time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear, the Rights Holder is strongly urged to pay, or arrange for payment, by means of certified or bank cashier's check, money order or wire transfer of funds.

Any questions or requests for assistance concerning the method of exercising Rights or requests for additional copies of this Prospectus, or the Notice of

Guaranteed Delivery should be directed to the Subscription Agent at telephone number (718) 921-8200, or the Company at telephone number (518) 785-2211.

No Revocation

Once a Rights Holder has exercised the Basic Subscription Privilege or the Oversubscription Privilege, such exercise may not be revoked.

Subscription Agent

The Company has appointed American Stock Transfer & Trust Company as Subscription Agent for the Offering. The Subscription Agent's address, which is the address to which the Subscription Certificates and payment of the Exercise Price should be delivered, as well as the address to which Notice of Guaranteed Delivery must be delivered, and the Subscription Agent's telephone number and facsimile number, are:

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
Telephone No. (718) 921-8200
Telecopier No. (718) 234-5001

The Company will pay the fees and expenses of the Subscription Agent, and has also agreed to indemnify it from any liability that it may incur in connection with the Offering.

FEDERAL INCOME TAX CONSEQUENCES

Because of the complexity of the provisions of the Internal Revenue Code of 1986, as amended (the "Code") and because tax consequences may vary depending upon the particular facts relating to each holder of MTI Common Stock, such holders should consult their own tax advisors concerning their individual tax situations and the tax consequences of this Offering under the Code and under any applicable state, local or foreign tax laws.

PLAN OF DISTRIBUTION

The Common Stock offered hereby is being offered by the Company pursuant to the issuance of Rights directly to holders of shares of Common Stock on the Record Date. Certain employees, officers or directors of the Company may solicit responses from Holders to the Offering, but such individuals will not receive any commissions or compensation for such services other than their normal employment compensation.

The Company intends to distribute Rights and copies of this Prospectus to stockholders of record on the Record Date promptly following the Effective Date of the Registration Statement of which this Prospectus forms a part.

Holders who desire to subscribe for the purchase of shares of Common Stock in the Offering are urged to complete, date and sign the Subscription Certificate and return it to the Subscription Agent on or before the Expiration Date, together with payment in full for the share purchase. See "Offering--Exercise of Rights" and "Offering--Exercise of Rights Through Third Parties."

DESCRIPTION OF SECURITIES TO BE REGISTERED

The authorized capital stock of the Company includes 15 million shares of Common Stock, par value \$1.00 per share. _____ shares of Common Stock are being registered in connection with the Offering. The outstanding shares of Common Stock are fully paid and non-assessable. Holders of Common Stock are entitled to dividends when, as and if declared by the Board of Directors of the Company out of any funds legally available to the Company for that purpose.

The Company has not paid dividends on the Common Stock and does not anticipate doing so in the foreseeable future.

Holders of Common Stock are entitled to one vote per share held of record with respect to all matters submitted to a vote of the stockholders. There is no cumulative voting for the election of directors, who are elected as follows: three directors for a three-year term; two directors for a two-year term; and three directors for a one-year term.

At July 17, 1998, the approximate number of Holders of record of the Common Stock was 1,460.

INCORPORATION BY REFERENCE

The following documents filed by the Company with the SEC are hereby incorporated by reference and are an integral part hereof: the Company's Annual Report on Form 10-K for its fiscal year ended September 30, 1997; the Company's Amended Annual Report on Form 10-K/A for its fiscal year ended September 30, 1997, as filed on January 23, 1998; the Company's Amended Annual Report on Form 10-K/A for its fiscal year ended September 30, 1997, as filed on March 2, 1998; the Company's Quarterly Report on Form 10-Q for its quarter ended March 27, 1998; and the Company's Current Report on Form 8-K dated April 8, 1998. Copies of the Company's Form 10-K and 10-K/A reports for the year ended September 30, 1997 and Form 10-Q report for quarter ended March 27, 1998 accompany this Prospectus. All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, subsequent to the date of this prospectus and prior to the termination of the Offering, shall be deemed to be incorporated by reference in this prospectus and to be a part hereof from the respective dates of the filing thereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. All other documents may be obtained from MTI at no charge by any person, including any beneficial owner, to whom a prospectus is delivered, who makes a written or oral request for such documents. Please address all such requests to Cynthia A. Scheuer, Chief Financial Officer, Mechanical Technology, Inc., 968 Albany-Shaker Road, Latham, New York 12110 ((518) 785-2211).

AVAILABLE INFORMATION

MTI is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and in accordance therewith files reports and other information with the SEC. Forms 10-K, 10-K/A, 10-Q, S-8, 8-K, the Proxy Statement and other information filed by the Company, can be read and copied at the Public Reference Room of the SEC in Washington, D.C. at the address given below, and at certain of its Regional Offices at 1 World Trade Center, Suite 1300, New York, New York 10048 and 500 W. Madison Street, Suite 1400, Chicago, Illinois 60661. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of such material can be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

LEGAL MATTERS

Certain legal matters with respect to the validity of the Rights and the Underlying Shares have been passed upon for the Company by Whiteman Osterman & Hanna, Albany, New York.

EXPERTS

The consolidated balance sheets as of September 30, 1997 and 1996 and the consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1997, incorporated by reference in this registration statement, have been incorporated herein in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

The Exercise Price was determined by the independent Consulting and Investment Banking firm of Schwartz Heslin Group, Inc. Schwartz Heslin Group, Inc. has also issued a fairness opinion attesting to the fairness of the Exercise Price. The Company will pay fees and expenses of Schwartz Heslin Group, Inc., and has also agreed to indemnify it from certain liabilities it may incur in connection with the Offering.

MECHANICAL TECHNOLOGY INCORPORATED
 Cross-Reference Sheet to Prospectus on Form S-2
 Furnished Pursuant to Item 501(b) of Regulation S-K

Item	Form S-2 Caption	Location in Prospectus	Page
----	-----	-----	----
1.	Forepart of the Registration Statement and Outside Front Cover Page of Prospectus	Outside Front Cover Page	
2.	Inside Front and Outside Back Cover Pages of Prospectus	Inside Front Cover Page Outside Back Cover Pages	
3.	Summary Information and Risk Factors	Prospectus Summary; Risk Factors	
4.	Use of Proceeds	Use of Proceeds	
5.	Determination of Exercise Price	Determination of Exercise Price	
6.	Dilution	Risk Factors--Dilution; Risk Factors--Substantial Immediate Dilution	
7.	Selling Securityholders	Not Applicable	
8.	Plan of Distribution	Plan of Distribution	
9.	Description of Securities to be registered	Description of Securities to be Registered; Risk Factors--Issuance	of Additional Capital Stock; Offering
10.	Interests of Named Experts and Counsel	Legal Matters; Experts	
11.	Information with Respect to Registrant	Form 10-K for the fiscal year ended September 30, 1997, Form 10-K/A, filed as of January 23, 1998, Form 10K/A, filed as of March 2, 1998, and Form 10-Q for the quarter ended March 27, 1998, appended hereto	
12.	Incorporation of Certain Information by Reference	Incorporation of Certain Documents by Reference; Available Information	

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

SEC Registration Fee	\$ 1,770
Printing	4,000*
Legal fees and Expenses	65,000*
Accounting Fees and Expenses	20,000*
Pricing and Fairness Opinion and Expenses	30,000*
Stock Transfer Fees	35,000*

Total	\$155,770*
	=====

*Estimated

Item 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS --
 DISCLOSURE OF COMMISSION'S POSITION ON INDEMNIFICATION

Under provisions of the Company's Amended and Restated Certificate of Incorporation, the Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, proceeding or suit (including one by or in the right of the Company to procure a judgment in its favor), whether civil or criminal, by reason of the fact that he, his testator or intestate is or was a director or officer of the Company, or is or was serving any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity at the request of the Company, against judgments, fines, amounts paid in settlement and expenses, including attorneys' fees, actually incurred as a result of or in connection with any such action, proceeding or suit, or any appeal therefrom, if such director or officer acted in good faith for a purpose which he reasonably believed to be in or not opposed to the best interests of the Company, and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his conduct was unlawful; provided, however, that no indemnification shall be made to or on behalf of any director or officer if a judgment or other final adjudication adverse to the director or officer establishes that his acts were committed in bad faith or were the

result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he personally gained a financial profit or other advantage to which he was not legally entitled.

Insofar as the indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

Item 16. EXHIBIT INDEX

See the Exhibit Index included immediately preceding the exhibits to this Registration Statement.

Item 17. UNDERTAKINGS

The undersigned Company hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to, and meeting the requirements of, Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-2 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Albany, State of New York on July 22, 1998.

MECHANICAL TECHNOLOGY, INC.

By: /s/ George C. McNamee

George C. McNamee
Chief Executive Officer

KNOWN ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Cynthia A. Scheuer and George C. McNamee his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Registration Statement, including post-effective amendments, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person,

and hereby ratifies and confirms all that said attorneys-in-fact and agents, each acting alone, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	DATE
/s/ George C. McNamee ----- George C. McNamee Chief Executive Officer and Director (Principal Executive Officer)	07/22/98
/s/ Cynthia A. Scheuer ----- Cynthia A. Scheuer Chief Financial Officer (Principal Financial and Accounting Officer)	"
/s/ Dale W. Church ----- Dale W. Church Director	"
/s/ Edward A. Dohring ----- Edward A. Dohring Director	"
/s/ Alan P. Goldberg ----- Alan P. Goldberg Director	"
/s/ E. Dennis O'Connor ----- E. Dennis O'Connor Director	"
/s/ Walter L. Robb ----- Dr. Walter L. Robb Director	"
/s/ Beno Sternlicht ----- Dr. Beno Sternlicht Director	"

Exhibit Table

- 5.1 Form of Opinion re legality
- 10.21 Asset Purchase Agreement between MTI and NYFM, Incorporated, dated as of March 31, 1998
- 10.22 Option Agreement-Contribution Match between Plug Power, L.L.C. and MTI, dated as of April 24, 1998
- 10.23 Option Agreement-Contribution Match between Plug Power, L.L.C. and MTI, dated as of June 15, 1998
- 10.24 Contribution Agreement between Edison Development Corporation and MTI, dated as of June 10, 1998
- 10.25 Form of Notice of Guaranteed Delivery for Subscription Certificate
- 10.26 Form of American Stock Transfer & Trust Co. Agency Agreement
- 10.27 Form of Instructions for Subscription Certificate
- 13.1 Form 10-Q Quarterly Report to Security Holders for the Quarter Ended March 27, 1998 (1)
- 23.1 Form of Consent of PricewaterhouseCoopers LLP
- 23.2 Form of Consent of Whiteman Osterman & Hanna (included in Form of Opinion in Exhibit 5.1)
- 24 Power of Attorney (included on signature page)

Certain Exhibits were previously filed (as indicated below) and are incorporated by reference herein.

(1) Filed with the Securities and Exchange Commission as of May 8, 1998.

Form of Opinion As to Legality of Shares

_____, 1998

Mechanical Technology, Incorporated
968 Albany-Shaker Road
Latham, New York 12110

RE: Rights Offering Pursuant to Form S-2

Ladies and Gentlemen:

We have acted as counsel to Mechanical Technology Incorporated (the "Company"), a New York corporation, pursuant to a Registration Statement on Form S-2, as filed with the Securities and Exchange Commission on July 21, 1998 (the "Registration Statement"), covering _____ shares of the Company's \$1.00 par value Common Stock (the "Securities").

In acting as counsel for the Company and arriving at the opinions as expressed below, we have examined and relied upon originals or copies, certified or otherwise identified to our satisfaction, of such records of the Company, resolutions of the Board of Directors of the Company, agreements and other instruments, certificates of officers, and representatives of the Company, certificates of public officials and other documents as we have deemed necessary or appropriate as a basis for the opinions expressed herein.

In connection with our examination we have assumed the genuineness of all signatures, the authenticity of all documents tendered to us as originals, the legal capacity of natural persons and the conformity to original documents of all documents submitted to us as certified or photostatic copies.

Based on the foregoing, and subject to the qualifications and limitations set forth herein, it is our opinion that:

1. The Company has the authority to issue the Securities in the manner

and under the terms set forth in the Registration Statement.

2. The Securities have been duly authorized by the Company and when issued, delivered and paid for in accordance with their respective terms, will be validly issued, fully paid and non-assessable.

We express no opinion with respect to the laws other than those of the state of New York and Federal Laws of the United States of America, and we assume no responsibility as to the applicability thereto, the effect thereon, of the laws of any other jurisdiction.

We hereby consent to the filing of this opinion as Exhibit 5.1 to the Registration Statement and its use as part of the Registration Statement.

We are furnishing this opinion to the Company solely for its benefit in connection with the Registration Statement. It is not to be used, circulated, quoted or otherwise relied upon for any other purpose.

Very truly yours,

Whiteman, Osterman & Hanna

ASSET PURCHASE AGREEMENT

BETWEEN

MECHANICAL TECHNOLOGY, INCORPORATED
(A New York Corporation)

AND

NYFM, INCORPORATED
(A New York Corporation)

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is entered into between NYFM, Incorporated, a New York corporation ("NYFM") and Mechanical Technology, Incorporated, a New York corporation ("Seller"). This Agreement is entered into as of this 31st day of March, 1998. The Bill of Sale, the Assignment of Intellectual Property, the Management Services Agreement, the Proprietary Information Non-Disclosure Agreement, the FMI Guaranty, and the Amended CCF Agreement are all dated as of the 31st day of March, 1998 (the "Transactional Documents"). NYFM and Seller are sometimes referred to herein as the "Parties."

In consideration of the foregoing and the mutual representations, warranties, covenants, and agreements contained in this Agreement, NYFM and Seller hereby agree as follows:

1. Sale of Assets.

1.1 Sale of Assets.

(a) Subject to the terms and conditions of this Agreement, on the Closing Date, Seller will endeavor to sell, assign, transfer and deliver to NYFM all of the assets and properties set forth on Schedule 1.1(a) attached hereto and made a part hereof, as the same shall exist on the Closing Date (and not disposed of in the ordinary course of business) and all assets and property thereafter acquired by Seller in respect of or necessary for the conduct of the Business immediately prior to the Closing Date (collectively, the "Conveyed Assets"). NYFM agrees that prior to May 31, 1998 it will determine what portion of the Conveyed Assets will be conveyed back to Seller (collectively, the "Reconveyed Assets"; the Conveyed Assets minus the Reconveyed Assets are, the "Assets"). The Assets will be conveyed free and clear of all Liens, except Permitted Liens. NYFM acknowledges that MTI make no representations or warranties as to its title to or ability to transfer any software set forth on Schedule 1.1(a).

(b) Seller further agrees that if any Conveyed Assets are

not delivered to NYFM as of the Closing Date, Seller shall, prior to June 30, 1998, promptly deliver such asset to NYFM, so long as such asset is in the possession of Seller or Plug Power, L.L.C.

(c) If NYFM resells any of the Assets or transfers any of such Assets to Foster-Miller, Inc. or any affiliates or subsidiaries thereof, other than in the ordinary course of its business, within three (3) years of the Closing Date, NYFM shall remit to Seller all sums paid for any such Assets (less cost directly related to the sale) in excess of Seventy-Five Thousand Dollars (\$75,000), in the aggregate. Seller may request, not more frequently than annually, an accounting of any such sales or transfers.

(d) Seller shall also convey government property, contract-required property and third party owned property as set forth on Schedule 1.1(d) to NYFM, to the extent such conveyance does not violate existing agreements of Seller with the government or such third parties. Seller and NYFM agree to take all reasonable and necessary action to convey any assets not conveyed as of the Closing Date to NYFM on or before April 30, 1998.

1.2 Purchase of Assets. In exchange for the Assets, NYFM shall do the following:

(a) Subject to the terms and conditions of this Agreement, NYFM hereby agrees (i) to execute and deliver to Seller the Transactional Documents on the Closing Date, (ii) to assume Seller's accrued liability for vacation pay to the persons listed on Schedule 1.12 in the total amount of \$40,216.74, and (iii) to establish a credit for \$34,783.26 for any warranty work performed by NYFM at the request of MTI pursuant to the terms of the Management Services Agreement.

(b) NYFM further agrees to pay to Seller in cash, check or by wire transfer of immediately available funds, Twenty-five thousand dollars (\$25,000), as NYFM's first payment on the Leased Premises, pursuant to the terms of the Management Services Agreement; and

(c) An amount equal to the following: (A) if Combined Gross Sales exceed \$2.5 million NYFM agrees to pay Seller compensation equal to the following: (1) for the period commencing as of the Closing Date, through the first anniversary of the Closing Date, NYFM shall pay Seller compensation equal to (x) Combined Gross Sales, minus (y) \$2.5 million, multiplied by (z) 0.13; (2) for the period commencing as of the first anniversary of the Closing Date, through the second anniversary of the Closing Date, NYFM shall pay Seller compensation equal to (x) Combined Gross Sales, minus (y) \$2.5 million, multiplied by (z) 0.053; (4) for the period commencing as of the third anniversary of the Closing Date, through the fifth anniversary of the Closing Date, NYFM shall pay Seller compensation equal to (x) Combined Gross Sales, minus (y) \$2.5 million, multiplied by (z) 0.027, plus, (B) if NYFM or its parent, Foster-Miller, Inc., a Massachusetts corporation ("FMI") sell all or a

portion of the assets of TEI or Fast Steering Mirror technologies during the period commencing as of the Closing Date and ending as of the third anniversary of the Closing Date, Seller shall receive fifty percent of the total purchase price in cash, regardless of how the purchase price is actually paid, less expenses directly related to the sale incurred in preparation of sales proposals and reasonable attorneys' fees necessary to conclude an agreement of sale. Such payments shall be due and payable 60 days after the anniversary of the Closing Date, or the first business day thereafter. FMI, for itself, its successors and assigns, shall execute a guaranty (the "FMI Guaranty") in the

form attached hereto as Exhibit A, by which FMI agrees to guarantee the prompt payment when due of all funds payable to Seller pursuant to this Section 1.2(c).

1.3 Assumed Liabilities. Subject to the terms and conditions of this Agreement, NYFM assumes and agrees to pay, discharge, or fulfill any and all liabilities and obligations of Seller (including but not limited to contingent liabilities) set forth on Schedule 1.3, attached hereto and made a part hereof (the "Assumed Liabilities"), and as may be reconciled by the parties within thirty (30) days of the Closing date.

1.4 [Intentionally left blank]

1.5 Assignment of Contracts.

(a) Seller shall assign to NYFM all of Seller's rights, title and interest in and to the contracts set forth on Schedule 1.5(a) attached hereto (the "Assumed Contracts").

(b) Unless otherwise provided in 1.5(d), Seller shall use its best efforts to invoice customers for all work performed on any of the Assumed Contracts prior to the Closing Date. If Seller is unable to invoice customers for any fully-authorized work performed on Assumed Contracts prior to the Closing Date because it has not attained the necessary milestones, or for whatever other reason except default, Seller shall, within sixty (60) days of the Closing Date, invoice NYFM for such amounts. NYFM shall pay Seller with respect to such invoices within fifteen (15) days of receipt of payment from the payor with respect to such Assumed Contract. Seller shall have the sole and absolute right to receive all payments related to such work. Except as set forth below, NYFM shall have the sole and absolute right to receive all payments related to work performed on or after the Closing Date with respect to Assumed Contracts. Any retainage received by NYFM with respect to the Assumed Contracts shall be divided pro rata based on the respective billing amounts of the Parties, and NYFM shall remit to Seller its share thereof within fifteen (15) days of NYFM's receipt thereof. At Seller's reasonable request, NYFM shall provide Seller a monthly accounting of its Assumed Contract receipts until all amounts Seller billed to NYFM have been paid in full. Seller shall

not bill any amounts for adjustments due to billing errors or an increase in direct or indirect rates.

(c) NYFM hereby agrees to perform the Assumed Contracts in accordance with the terms and conditions of the Assumed Contracts and applicable novations and subcontracts.

(d) 1. Notwithstanding Section 1.5(b) above the parties agree that NYFM shall assume any cost overrun risk with regard to Assumed Contract F-41650-95-D-0001 and Seller shall assume any cost overrun risk with regard to the subcontracting (the "DOE Subcontract") of Seller's prime contract DE-AR21-

95MC32093. Seller shall reimburse NYFM for all invoices submitted to Seller for NYFM's performance of the DOE Subcontract regardless of Seller's reimbursement by DOE.

2. The cost to complete several of the NYFM Electric Boat contracts exceeds the funds currently authorized. It is not certain that Electric Boat will authorize additional funds to complete the work-scope of the contracts. The Seller agrees that if the customer(s) does not authorize sufficient funds to complete the worksopes, that NYFM and the Seller will share the final amount that the customer pays above the authorized amount in direct portion to the amount of work each party has invoiced above the authorized amount.

1.6 [Intentionally left blank]

1.7 Warranty Work Procedure. NYFM will, at Seller's request, perform all work with respect to any warranty claim on products produced by the Business with respect to which Seller, or its subsidiary TEI, has warranty liability. Seller must consent to NYFM's work plan for work and estimate of costs on warranty claims, prior to the commencement of any such work. Except as provided in Section 1.2(a) of this Agreement, NYFM will bill Seller for the direct costs of labor, fringe benefits, materials, equipment, travel and other direct costs related to such warranty work.

1.8 Assignment of Intellectual Property. On the Closing Date, Seller shall sell, assign and transfer all of Seller's right, title, and interest in and to the Intellectual Property, as set forth on Schedule 1.8 attached hereto, by execution and delivery to NYFM of the Assignment of Intellectual Property.

1.9 Licensed Technology. Seller shall retain a non-exclusive, fully paid-up license in all Intellectual Property, including but not limited to Patent rights, Copyrights and Trade Secrets, transferred to NYFM and necessary for the conduct of Seller's business (exclusive of the Business), provided Seller's use of such Intellectual Property does not compete directly with NYFM's business or commercialization of such technology. Seller hereby grants to NYFM an irrevocable, paid-up, non-exclusive, non-transferable, royalty free license to Seller's software for NYFM's use only in connection with NYFM's business and only to the extent permitted by Section 7 of this Agreement. Seller hereby also grants to NYFM an irrevocable, paid-up, non-exclusive, non-transferable, royalty-free copyright license for NYFM's internal use only of certain Technology Division documents that are non-public, and for NYFM's external use of such non-public documents to the extent permitted by Sections 1.15 and 7 of this Agreement. Seller hereby also grants to NYFM an irrevocable, paid-up, non-exclusive, non-transferable, royalty-free license to U.S. Patent Nos. 4,773,019 and 4,751,381. All rights not expressly granted to NYFM hereby with respect to the subject matter of this Section, are reserved to Seller.

1.10 Consent of Third Parties. Notwithstanding anything to the contrary in this Agreement, this Agreement shall not constitute an agreement to assign or transfer any Governmental Approval, instrument, contract, lease,

permit or other agreement or arrangement or any claim, right or benefit arising thereunder or resulting therefrom if an assignment or transfer without the consent of a third party would constitute a breach or violation thereof or affect adversely the rights of NYFM or Seller thereunder. Any transfer or assignment to NYFM or Seller of any interest under any such instrument, contract, lease, permit or other agreement or arrangement which requires the consent of a third party shall be made subject to such consent or approval being obtained. In the event any such consent or approval is not obtained on or prior to the Closing Date, Seller shall continue to use all efforts to obtain any such approval or consent after the Closing Date until such time as such consent or approval has been obtained, and Seller will cooperate with NYFM in any lawful and economically feasible arrangement to provide that NYFM shall receive the interest of Seller in the benefits under any such instrument, contract, lease or permit or other agreement or arrangement.

1.11 Liability for Transfer Taxes and Fees. NYFM shall be responsible for the timely payment of, and shall indemnify and hold harmless Seller against, all sales, use, value added, documentary, stamp, gross receipts, registration, transfer, conveyance, excise, recording, license and other similar Taxes and fees, including any and all fees related to the transfer of Patents and other Intellectual Property ("Transfer Taxes") arising out of, in connection with, or attributable to, the transactions effected pursuant to this Agreement. NYFM shall prepare and timely file all tax returns required to be filed in

respect of Transfer Taxes, provided that the Seller shall be permitted to prepare any such tax returns that are the primary responsibility of the Seller under applicable law.

1.12 Employees. NYFM shall offer to hire those employees set forth on Schedule 1.12 attached hereto and made a part hereof. All such employees are currently, and shall be hired by NYFM as, employees at will. NYFM shall make available to such employees benefits that approximate those provided to existing employees of NYFM, however, NYFM shall not assume any liability for continuation of any employee benefit plan instituted or carried out by Seller.

1.13 [Intentionally left blank]

1.14 Employee Severance. If NYFM terminates any employee set forth on Schedule 1.12 for lack of work during the period commencing as of the Closing Date and terminating as of the Third anniversary of the Closing Date, NYFM shall pay such employee a separation payment equal to the payment set forth on Schedule 1.14 attached hereto and made a part hereof ("Separation Payment"). Seller shall reimburse NYFM for such Separation Payment as follows: (1) if the termination occurs after the Closing Date, but before the first anniversary of the Closing Date, Seller shall reimburse NYFM for 2/3 of the Separation Payment; (2) if the termination occurs as of the first anniversary of the Closing Date, but before the second anniversary of the Closing Date, Seller shall reimburse NYFM for 1/2 of the Separation Payment; (3) if the termination occurs as of the second anniversary of the Closing Date, but before the third anniversary of the Closing Date, Seller shall reimburse NYFM for 1/4 of the Separation Payment.

1.15 Confidentiality.

(a) The Parties acknowledge that each of them owns information of a confidential and/or proprietary nature ("Information") that may be located or utilized from time to time at the premises shared by the Parties at 968 Albany-Shaker Road, Latham, New York.

(b) Each of the Parties agrees for itself that it will use its best efforts to ensure that it, its officers, directors, members, managers and employees, and any contractors, agents, licensees, and invitees of such Party do not obtain access to Information of the other Parties through acts or omissions of such Party and will use its best efforts to protect its own Information from disclosure to the other Parties or such other persons. In the event that a Party discovers Information belonging to another Party, or otherwise receives such Information, other than pursuant to an express written agreement between such Parties requiring or permitting such disclosure, the

Party discovering or receiving such Information shall (i) use the same reasonable efforts to protect such Information as are used to protect its own Information, (ii) promptly give notice of such discovery or disclosure to the Party whose Information was compromised, as required below, and (iii) except as provided in paragraph (c) of this Section 1.15, shall not make any reproductions, disclosures or use of such Information in any manner or for any use or purpose.

(c) Limitations on reproduction, disclosure or use of Information shall not apply to, and neither Party shall be liable for, reproduction, disclosure or use of Information with respect to which any of the following conditions exist:

(i) If, prior to the receipt thereof, the Information had been developed independently by the Party receiving it, or was lawfully known to the Party receiving it, or had been lawfully received from other sources, including another Party, provided such other source did not receive it due to a breach of this Agreement;

(ii) If, subsequent to the receipt thereof, (i) the Information is published by the Party furnishing it, or is disclosed by the Party furnishing it to others, including another Party, without restriction, (ii) the Information has been lawfully obtained by the Party receiving it from other sources, including another Party, provided such other source did not receive it due to a breach of this Agreement, (iii) if such Information otherwise comes within the public knowledge or becomes generally known to the public, or (iv) it is established as a matter of law that such Information is developed by employees or consultants of the receiving Party who have not had access to Information received hereunder; or

(iii) If any part of the Information has been or hereafter shall be disclosed in a United States patent issued to the Party owning the Information hereunder, then, after the issuance of such patent, the limitations on such Information as disclosed in the patent shall be only that afforded by the United States patent laws.

The Parties shall execute, deliver and abide by the terms of the Proprietary Information Non-Disclosure Agreement of even date, executed in connection with this transaction.

2. Events Occurring on the Closing Date

2.1 Closing. The closing shall take place on March 31, 1998 (the "Closing Date") at the offices of Whiteman Osterman & Hanna, One Commerce Plaza, Albany, New York 12260, or at such other location as the parties shall mutually agree.

2.2 Deliveries by Seller. As of the Closing Date, Seller shall deliver to NYFM the following:

(a) The Bill of Sale and the Assignment of Intellectual Property (the "Conveyance Instruments");

(b) Duly executed copies of every other Transactional Document to which Seller is a party;

(c) A copy of the resolutions of Seller's directors, certified by its Secretary or other authorized party, authorizing or ratifying the execution and delivery of this Agreement, the Conveyance Instruments, and the other Transactional Documents, and the consummation of the transactions contemplated hereby and thereby;

(d) A certificate from the Secretary of State of the State of New York as to Seller's good standing in such state certified as of a date within thirty (30) days of the Closing Date;

(e) An opinion from Seller's counsel, in form and substance satisfactory to NYFM and NYFM's counsel;

(f) All other previously undelivered items required to be delivered by Seller at or prior to the Closing Date pursuant to the terms of this Agreement, the Conveyance Instruments or the Transactional Documents.

2.3 Deliveries by NYFM. As of the Closing Date, NYFM shall deliver or cause to be delivered to Seller the following:

(a) Duly executed copies of the FMI Guaranty;

(b) Duly executed copies of every Transactional Document to which NYFM is a party;

(c) A copy of the resolutions of NYFM's directors, certified by its Secretary or other authorized party, authorizing or ratifying the execution and delivery of this Agreement and the other Transactional Documents, and the consummation of the transactions contemplated hereby and thereby;

(d) A copy of the resolutions of FMI's directors, certified by its Secretary or other authorized party, authorizing or ratifying the execution and delivery of the FMI Guaranty;

(e) A certificate from the Secretary of State of the State of New York as to NYFM's good standing in such state certified as of a date within thirty (30) days of the Closing Date;

(f) A certificate from the Secretary of State of the Commonwealth of Massachusetts as to FMI's good standing in such state certified as of a date within thirty (30) days of the Closing Date;

(g) An opinion, from NYFM's counsel, in form and substance satisfactory to Seller and Seller's counsel;

(h) All other previously undelivered items required to be delivered by NYFM or FMI at or prior to the Closing Date pursuant to the terms of this Agreement, the FMI Guaranty or the Transactional Documents.

3. Representations and Warranties.

3.1 Representations and Warranties of Seller. Seller represents and warrants to NYFM as follows:

(a) Authorization, etc. Seller has the corporate power and authority to execute and deliver this Agreement and each of the Conveyance Instruments and Transactional Documents to which it is a party and to fully perform its obligations and consummate the transactions contemplated thereby. The execution and delivery by Seller of this Agreement, the Conveyance Instruments and the Transactional Documents and the consummation of the transactions contemplated thereby, have been duly authorized by all requisite corporate action. This Agreement, together with all other obligations of

Seller hereunder, constitutes the valid and legally binding obligation of Seller, enforceable in accordance with its terms.

(b) Corporate Status. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of New York with full corporate power and authority to carry on the Business in the places where such Business is conducted.

(c) No Conflicts. The execution, delivery and performance by Seller of this Agreement, the Transactional Documents, and the consummation of the transactions contemplated thereby, do not conflict with, or result in a violation of, or a default under, (i) any Applicable Law applicable to the Business or any of the Assets, (ii) the certificate of incorporation and bylaws of Seller or (iii) except as set forth in Schedule 3.1(c), any Contract or other contract, agreement or other instrument to which Seller is a party and by which Seller or any properties or assets of the Business are bound. Except as specified in Schedule 3.1(c), no Governmental Approval or other Consent is required to be obtained or made by Seller in connection with the execution and delivery of this Agreement, the Conveyance Instruments or the Transactional Documents or the consummation of the transactions contemplated thereby.

(d) Absence of Liens. Seller hereby warrants title to the Assets to NYFM, free and clear of any Lien, except Permitted Liens. Except as set forth on Schedule 3.1(d), all Assets transferred to NYFM are free from any Liens, except Permitted Liens.

(e) Legal Proceedings. Except as set forth on Schedule 3.1(e), to the best of Seller's actual knowledge after due inquiry, there are no outstanding or threatened claims or suits against Seller or the Assets, that would cloud Seller's title to the Assets or Intellectual Property or prevent Seller from transferring the Assets or Intellectual Property to NYFM.

(f) Taxes. Seller has duly and timely filed all tax returns with respect to taxes required to be filed on or before the Closing Date. Except for taxes set forth on Schedule 3.1(f), which are being contested in good faith and by appropriate proceedings, all taxes have been duly and timely paid. All taxes required to be withheld by or on behalf of Seller in connection with amounts paid or owing to any employee, independent contractor, creditor or other party with respect to the Business have been withheld, and such withheld taxes have been duly and timely paid to the proper Governmental Authorities or set aside in accounts for such purpose. Seller shall be responsible for payment of all such contested taxes in the event such contest is determined adverse to Seller.

(g) Intellectual Property. To the best of its knowledge, Seller is not aware of any third party trade secret, patent, trademark or copyright that would be subject to a claim of infringement by such third party should NYFM practice the Intellectual Property or Trade Secrets to be trans-

ferred. Seller has no outstanding claims against any third party for infringement of any of the Intellectual Property, and to the best of its actual knowl-

edge, Seller is not aware of any Intellectual Property that is currently being infringed by any third party.

(h) Due Diligence Materials. Except as set forth on Schedule 3.1(h), each of the documents, contracts, financial statements, correspondence, purchase orders, patent applications, records of title, bills of sale, employee records or business forecasts, identified as material by mutual agreement of the Parties and as set forth on Schedule 3.1(h), are materially complete and accurate and no other documents exist that are material to the Business or material to an analysis of whether to purchase the Business.

(i) Environmental. There are no known outstanding or pending environmental claims regarding the Assets or the premises to be leased by NYFM from Seller and there have been no reportable releases to the ground or air at the premises to be leased by NYFM, except as set forth in the Phase I Environmental Reports for the Latham and Malta sites, previously delivered to NYFM. Seller shall indemnify and hold harmless NYFM, its agents, officers, directors, employees, consultants and contractors, and each of their respective heirs, successors and assigns, from all claims, injunctions, damages, response costs, reasonable attorneys' fees, fines, fees, taxes and penalties, including, without limitation, past, present and future claims under the common law or any local, state or federal ordinances, statutes or regulations administered or enforced by any government or governmental agency, arising out of, or relating to, acts or omissions of Seller with respect to any environmental condition arising out of Seller's use of such Latham and Malta sites.

(j) Further Environmental Assurances. None of the Assets or premises are subject to any RCRA, Federal or State Superfund or any third party environmental claims or suits, and except as disclosed on Schedule 3.1(j), Seller and employees of the Business as of the Closing Date are not involved in any claims or suits regarding any environmental matter related to Seller or the Business.

(k) Employees. Seller is in compliance with regard to any affirmative action plan and is not in violation of any EEOC, wage, OSHA or other employment plan or regulation that would give rise to claims by the current employees of the Business, which claims would have a material adverse effect on the ability of NYFM to hire such current employees without restriction or conduct the Business without undue burden or costs.

(l) Leased Space. Except as set forth on Schedule 3.1(l),

to the best of Seller's knowledge, there are no building or electrical or other code violations or primary lease conditions or breaches regarding the premises to be leased by NYFM which would cause any unanticipated expense or an inability of NYFM to lease the premises for their intended purpose. In the event of a breach of this provision, upon notice thereof by NYFM to Seller, Seller promptly shall undertake the repair or correction of any such violation, lease condition or breach at Seller's own expense.

(m) To the best of its knowledge, Seller has not withheld any material facts from NYFM which would cause NYFM, as a reasonably prudent business entity, not to proceed with the Transactional Documents.

(n) Employees. Seller is an employer at will and has no employment contracts with any employee of the Business. Seller is a non-union shop and has no union contracts or agreement. Except as set forth on Schedule 3.1(n) attached hereto, there have been no material changes in the compensation of the employees of the Business since February 28, 1998.

(o) Seller represents that it has product liability and completed operations insurance coverage in the amount of \$1,000,000 per occurrence and \$2,000,000 in the aggregate and that it will maintain such coverage for two years from the Closing.

(p) Intellectual Property. In addition to Schedule 1.8 and Section 1.9, Seller has transferred to NYFM all the Intellectual Property Seller owns necessary for NYFM to conduct the Assumed Contracts, and Seller shall not assert any Patents it owns against NYFM with respect to NYFM's conduct of the Business.

3.2 Representations and Warranties of Purchaser. NYFM represents and warrants to Seller as follows:

(a) Authorization, etc. NYFM has the corporate power and authority to execute and deliver this Agreement and each of the Transactional Documents to which it is a party and to fully perform its obligations and consummate the transactions contemplated thereby. The execution and delivery by NYFM of this Agreement and the Transactional Documents and the consummation of the transactions contemplated thereby, have been duly authorized by all requisite corporate action. This Agreement, together with all other obligations of NYFM hereunder, constitute the valid and legally binding obligation of NYFM, enforceable in accordance with its terms.

(b) Corporate Status. NYFM is a corporation duly organized, validly existing and in good standing under the laws of the State of New York, with full corporate power and authority to carry on its business in the places where it is to be conducted.

(c) No Conflicts. The execution, delivery and performance by NYFM of this Agreement and the Transactional Documents, and the consummation of the transactions contemplated thereby, do not conflict with or result in a violation of or a default under (i) any Applicable Law applicable to NYFM or any of its assets, (ii) the certificate of incorporation and bylaws of NYFM or (iii) except as set forth in Schedule 3.2(c), any contract, agreement or other instrument to which NYFM is a party and by which NYFM or any properties or assets are bound. Except as specified in Schedule 3.2(c) or Schedule 3.1(c), no Governmental Approval or other Consent is required to be obtained or made by NYFM in connection with the execution and delivery of this Agreement, or the Transactional Documents or the consummation of the transactions contemplated thereby.

(d) Litigation. To the best of NYFM's knowledge, after due inquiry, there is no action, claim, demand, suit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry or investigation of any nature, civil, criminal, regulatory or otherwise, in law or in equity pending or threatened against NYFM, their assets or businesses or the transactions contemplated by this Agreement.

4. Indemnification.

4.1 By Seller. Seller agrees to indemnify against all losses, actions, suits, claims or proceedings (including attorneys' fees) that may be incurred by NYFM arising out of any breach by Seller of any of Seller's representations warranties, covenants or agreements made in this Agreement, the Schedules attached hereto or any document or instrument delivered in connection with the transactions contemplated hereby.

4.2 Seller shall also be liable for and indemnify, defend, and hold harmless NYFM for all costs, including reasonable expenses and attorneys' fees, of any claims, suits or actions that arise:

(a) out of any contract work, warranty work or products for any and all Seller contract work, operations or products sold or delivered to third parties prior to the Closing Date; and

(b) for any and all contract work, warranty work or products whether or not completed or sold or delivered but only to the extent such claim, suit or action arises out of Seller's negligent design, fabrication, manu-

facture, sales, installation, repair, replacement parts or warranty work performed by Seller prior to, or after, the Closing Date.

4.3 By NYFM. NYFM agrees to indemnify against all losses, actions, suits, claims or proceedings (including attorneys fees) that may be incurred by Seller arising out of any breach by NYFM of any of NYFM's representations warranties, covenants or agreements made in this Agreement, the Schedules attached hereto or any document or instrument delivered in connection with the transactions contemplated hereby.

4.4 NYFM shall be liable for and indemnify, defend and hold harmless Seller for all costs, including reasonable expenses and attorneys' fees, that arise:

(a) out of all Assumed Contract work performed by NYFM after the Closing Date (except as otherwise provided in Section 4.4(c) hereof), provided, however, that NYFM shall not be liable for any such Assumed Contract work if the act or omission or cause of the claim arises out of work previously performed by Seller;

(b) out of warranty work performed by NYFM at the request of Seller or upon the contractual obligation of NYFM, provided, however, that NYFM shall not be liable for any failures of warranty work performed or re-performed that arise out of the original design of Seller, the design or supply of spare parts by Seller, or the instruction or operations manuals or procedures supplied by

Seller, unless such manuals or procedures are not followed by NYFM or unless NYFM performs redesign and such redesign is the cause of any failure; and

(c) out of work done by Seller for Electric Boat Corporation after the Closing Date if Seller transfers revenues from such work to NYFM pursuant to the Management Services Agreement.

4.5 Notice and Defense of Claims. A Party claiming indemnification under this Section 4 (the "Asserting Party") must promptly notify in writing the Party from which indemnification is sought (the "Defending Party") of the nature and basis of such claim for indemnification. If such claim relates to a claim, litigation or other action by a third party against the Asserting Party, or any fixed or contingent liability to a third party (a "Third Party Claim"), the Defending Party may elect to assume the defense of the Third Party Claim at its own expense with counsel selected by the Defending Party. The Defending Party may not assume the defense if the named parties to the Third Party Claim (including any impleaded parties) include both the Defending Party and the Asserting Party and the Asserting Party determines that representation of both Parties by the same counsel would be inappropriate due to actual or potential differing interests between them, in which case the Asserting Party shall have

the obligation to employ its own counsel, at its own cost. If such a determination is made by counsel to the Asserting Party in an opinion letter addressed and reasonably satisfactory to the Defending Party, the Defending Party shall retain liability for the cost of the Asserting Party's independent counsel. If the Defending Party assumes the defense of the Third Party Claim, the Defending Party shall be liable for any fees and expenses of counsel for the Defending Party incurred thereafter in connection with the Third Party Claim (except in the case of actual or potential differing interests, as provided in the preceding sentence). The Defending Party shall have the right to assume the defense of and settle the Third Party Claim (at the Defending Party's expense), unless the Asserting Party shall notify the Defending Party in writing within five (5) days after receipt of such notice of intention to settle, of the Asserting Party's election to assume (at its expense) the defense of the Third Party Claim and promptly thereafter takes appropriate action to implement such defense. The Asserting Party and the Defending Party shall use all reasonable efforts to cooperate fully with respect to the defense of any claim, action or proceeding covered by this Section 4.

4.6 Remedies. Except as otherwise provided herein, none of the remedies provided in this Agreement for either party, including specific performance, are the exclusive remedy of either party for a breach of this Agreement. Except as otherwise provided herein, the parties shall have the right to seek any other remedy in law or equity in lieu of or in addition to any remedies provided in this Agreement, including an action for damages for breach of contract.

5. Brokers.

5.1 For Seller. Seller represents and warrants that except as set forth on Schedule 5.1 hereof, it has not engaged any broker or finder or incurred any liability for brokerage fees, commissions or finder's fees in connection with the transactions contemplated by this Agreement. Seller agrees to indemnify and hold harmless NYFM against any claims or liabilities asserted against it by any person acting or claiming to act as a broker or finder on behalf of Seller.

5.2 For NYFM. NYFM represents and warrants that it has not engaged any broker or finder or incurred any liability for brokerage fees, commissions or finder's fees in connection with the transactions contemplated by this

Agreement. NYFM agrees to indemnify and hold harmless Seller against any claims or liabilities asserted against it by any person acting or claiming to act as a broker or finder on behalf of NYFM.

5.3 Public Announcements. Any and all press releases and other public announcements or communications concerning this Agreement and the transactions hereunder to be made by either Party may be made only with the prior written approval of the other Party or as otherwise required by law.

6. Definition of Certain Terms.

The terms defined in this Section 6, whenever used in this Agreement (including in the Schedules), shall have the respective meanings indicated below for all purposes of this Agreement. All references herein to a Section are to a Section or Schedule of or to this Agreement, unless otherwise indicated.

"Agreement" means this Asset Purchase Agreement, including the Schedules hereto.

"Applicable Law" means all applicable provisions of all (i) constitutions, treaties, statutes, laws (including the common law), rules, regulations, ordinances, codes or orders of any Governmental Authority, (ii) Governmental Approvals, and (iii) orders, decisions, injunctions, judgments, awards and decrees of, or agreements with, any Governmental Authority.

"Assets" is defined in Section 1.1.

"Assumed Contracts" is defined in Section 1.5(a).

"Assumed Liabilities" is defined in Section 1.3.

"Business" shall mean the Technology Division of Mechanical Technology Incorporated.

"Business Day" shall mean a day other than a Saturday, Sunday or other day on which commercial banks in New York are authorized or required to close.

"Closing Date" is defined in Section 2.1.

"Combined Gross Sales" means Gross Sales of NYFM, plus Gross Sales of

FMI derived from Intellectual Property transferred to NYFM, but shall not include any sales revenue from the sale by NYFM of all or a portion of the assets of TEI or Fast Steering Mirror technologies.

"Confidential Information" means any information concerning the business and affairs of the Business that is not already generally available to the public.

"Consent" means any consent, approval, authorization, waiver, permit, grant, franchise, concession, agreement, license, exemption or order of, registration, certificate, declaration or filing with, or report or notice to, any Person, including, but not limited to, any Governmental Authority.

"Conveyance Instruments" is defined in Section 2.2(a).

"Copyrights." The term Copyrights shall mean all copyrights, including, without imitation, all copyrights registered with the U.S. Copyright Office, (the "Works") and any derivative works of the Works and any "Moral Rights" Seller may have in the Works to the extent consistent with Sections 1.9 and 7 of this Agreement, excluding those copyrights underlying for which NYFM is only granted a license.

"\$ or dollars" means lawful money of the United States.

"Excluded Liabilities" is defined in Section 1.4.

"Gross Sales" means sales revenue minus any applicable taxes, freight, insurance, rebates or other costs incurred or paid by NYFM which is added to the sales price but not reimbursed by the purchaser of the goods or services or assets.

"Governmental Approval" means any Consent of, with, from, or to, any Governmental Authority.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including, without limitation, any government authority, agency, department, board, commission or instrumentality of the United States, any State of the United States or any political subdivision thereof, and any tribunal or arbitrator(s) of competent jurisdiction, and any self-regulatory organization.

"Intellectual Property" means collectively and singularly Patent rights, Copyrights, Trademark rights, Trade Secrets and know how used solely in connection with the Business except to the extent the transfer of any such Intellectual Property would be inconsistent with Sections 1.9 and 7 of this Agreement.

"Knowledge" means actual knowledge after due inquiry and investigation.

"Lien" means any encumbrance, lien, insurance claim, suit, and secured or unsecured financing.

"Patent" The term Patent shall mean certain patent applications (the "Patent Applications"), together with all U.S. and foreign Letters Patent, foreign or domestic patent applications set out on Schedule 1.8 attached hereto and made a part hereof; patentable rights, whether or not such rights are registered, or applications for registration have been filed, with any foreign or domestic governmental agency; all proprietary drawings, plans, designs, quality control, machine and mechanical specifications, engineering data, production data, production techniques, installation data, application data, flow charts, logic diagrams relating to the Patent Applications, and any other foreign or domestic patentable rights that may be obtained in respect thereof; any foreign or domestic re-issues, reexaminations certificates, extensions, substitutions, confirmations, divisions, and continuations or continuations-in-part of any of the foregoing, whether or not such rights or inventions become patented, to the extent consistent with Sections 1.9 and 7 of this Agreement.

"Permitted Liens" means 1) Liens for taxes not yet due and payable or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on Seller's books in accordance with GAAP; and 2) those Liens set forth on Schedule 6, attached hereto and made a part hereof.

"Person" means any natural person, firm, partnership, association, corporation, company, trust, business trust, Governmental Authority or other entity.

"Subcontracts" is defined in Section 1.5.

"Trademark" means the foreign or domestically registered trademarks and common law trademarks described on Schedule 1.8, to the extent consistent with Sections 1.9 and 7 of this Agreement.

"Trade Secrets" means methods, processes, know how and all other proprietary data and information relating to the Intellectual Property, including customer lists and business methods.

7. Covenant Not to Compete. For a period of five (5) years from and after the Closing Date, NYFM and FMI shall not (1) manufacture for use or sale of any aircraft engine balancing systems; (2) manufacture for use or sale any non-contact displacement sensors using fiber optic, capacitance, or laser technology; (3) manufacture for use or sale any PBS or equivalent engine

balancing systems or component products; (4) contact any current Advanced Products Division vendors, unless as of the Closing Date, the Technology Division, NYFM or FMI had a relationship with such vendors; (5) sell, license or convey to a third party any of the technology underlying the items 7(1) through 7(3) above, unless such conveyance is approved by MTI and related to the purchase of a piece of machinery from MTI by FMI or NYFM for any such third party. This covenant not to compete does not prohibit NYFM or FMI from making, using or selling the Fast Steering Mirror Technology or from using structured light technology for surface profiling in such applications as topographical mapping and EndSpector or from continuing any work in fiberoptic capacitance or laser systems that FMI has completed, proposed (as evidenced by written records or has underway as of the Closing Date. If the final judgment of a court of competent jurisdiction declares that any term or provision of this Section 7 is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration, or area of the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with one that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified after the expiration of the time within which the judgment may be appealed.

8. Miscellaneous.

8.1 Expenses. Except as otherwise expressly provided herein, NYFM, FMI and Seller shall each pay their own expenses in connection with this Agreement and the transactions contemplated hereby.

8.2 Severability. If any provision of this Agreement, including any phrase, sentence, clause, Section or subsection is inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

8.3 Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered personally, (b) mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, (c) sent by next-day or overnight mail or delivery, or (d) sent by facsimile transmission, with receipt thereof confirmed by telephone:

(i) if to NYFM:

Steven K. Ruggieri
Senior Vice President
Foster-Miller, Inc.
350 Second Avenue
Waltham, MA 02154-1196
Fax: (781) 890-3489

with a copy to:

Richard A. Covel, Esq.
General Counsel
Foster-Miller, Inc.
350 Second Avenue
Waltham, MA 02154-1196
Fax: (781) 890-3489

(ii) if to Seller:

President
Mechanical Technology Incorporated
968 Albany-Shaker Road
Latham, New York 12110
Fax: (518) 785-2297

with a copy to:

Catherine S. Hill, Esq.
Whiteman Osterman & Hanna
One Commerce Plaza
Albany, New York 12260
Fax: (518) 487-7777

or, in each case, at such other address as may be specified in writing to the other parties hereto.

Such notices or other communications shall be deemed received (a) on the

date delivered, if delivered personally, (b) three business days after being deposited with the U.S. Postal Service, if sent by registered or certified mail, (c) on the next business day, if sent by Federal Express or similar

overnight courier, or (d) on the date sent, if receipt is confirmed by telephone in accordance with this provision.

8.4 Entire Agreement. This Agreement, including the Schedules and the Transactional Documents (when executed and delivered), constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

8.5 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which shall together constitute one and the same instrument.

8.6 Governing Law, etc. This Agreement shall be governed in all respects, including as to validity, interpretation and effect, by the internal laws of the State of New York without giving effect to the conflict of laws rules thereof. NYFM and Seller hereby irrevocably submit to the jurisdiction of the courts of the State of New York and the Federal courts of the United States of America located in the State of New York in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any of such document may not be enforced in or by said courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such a New York or Federal court. NYFM, Seller hereby consent to and grant any such court jurisdiction over the person of such parties and over the subject matter of any such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 8.3 or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

8.7 Binding Effect. This Agreement shall be binding upon an inure to the benefit of the parties hereto and their respective heirs, successors and permitted assigns.

8.8 No Third Party Beneficiaries. Nothing in this Agreement shall confer any rights upon any person or entity other than the parties and their respective successors and permitted assigns.

8.9 Amendment; Waivers, etc. No amendment, modification or discharge of this Agreement, and no waiver hereunder, shall be valid or binding unless set forth in writing and duly executed by the party against whom enforcement of the amendment, modification, discharge or waiver is sought. Any such waiver shall constitute a waiver only with respect to the specific matter described in such writing and shall in no way impair the rights of the party granting such waiver in any other respect or at any other time. Neither the waiver by any of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any

other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges hereunder. The rights or remedies that any party may otherwise have at law or in equity.

8.10 Further Assurances. Seller and NYFM agree to execute such documents and other papers and perform such further acts as may be reasonably required or desirable to carry out the provisions hereof and the transaction contemplated hereby.

8.11 Continued Cooperation. Seller NYFM agree that following the Closing Date, each of them shall cooperate in furnishing such information, documentation, and assistance as the other Party may reasonably request to carry out the provisions hereof, the transactions contemplated hereby and by the Transactional Documents, and to permit the continued operation of the businesses contemplated by the Transactional Documents to be operated at the building shared by the Parties.

8.12 Survival. None of the representations and warranties or covenants of the Parties contained in this Agreement shall survive beyond the Closing Date, except that the and the covenants contained in Sections 1.1, 1.2, 1.3, 1.5(b), 1.7, 1.9, 1.10 through 1.15, 3.1(f), 3.1(i) 3.1(l), 3.1.0, 4.1 through 4.4, 4.5, 5.1 through 5.3, 7, 8.3, 8.6 through 8.11 shall survive until the expiration of the applicable statute of limitations period for any claims made in respect of the matters referred to in such Sections.

IN WITNESS WHEREOF, the parties have executed the foregoing documents as of the date and year first above written.

MECHANICAL TECHNOLOGY INCORPORATED
(a New York corporation)

/s/ Denis Chaves

By: Denis Chaves
Its: Vice-President

NYFM, INCORPORATED
(a New York corporation)

/s/ William A. Ribich

By: William A. Ribich, Sc. D.
Its: President

OPTION AGREEMENT - CONTRIBUTION MATCH

PLUG POWER, L.L.C.

A Delaware Limited Liability Company

This Option Agreement - Contribution Match ("Option Agreement" or "Agreement") is made this 24th day of April, 1998, by and between Plug Power, L.L.C., a Delaware limited liability company (the "Company") and Mechanical Technology, Inc., a New York corporation ("MTI") (hereinafter collectively referred to as the "Parties").

WHEREAS, on or about June 27, 1997, MTI and Edison Development Corporation, a Michigan corporation ("EDC") formed the Company by filing a Certificate of Formation with the office of the Secretary of State of the State of Delaware and entered into that certain Limited Liability Company Agreement of Plug Power, L.L.C., dated June 27, 1997 (the "Operating Agreement"); and

WHEREAS, capitalized terms used herein and not otherwise defined shall have the meaning given it in the Operating Agreement unless otherwise provided; and

WHEREAS, Section 4.2(b) of the Operating Agreement provides that the Company may, from time to time and as required, call upon EDC for additional cash contributions in amounts not to exceed, in the aggregate, \$4,250,000 and that for each \$1.00 of such additional cash contributions EDC shall receive one (1) Share of Class A Membership Interest; and

WHEREAS, Section 4.2(c) of the Operating Agreement provides that, upon the Company's receipt of each additional cash contribution from EDC, the Company shall notify MTI in writing of such contribution, and that MTI shall have five (5) days after receipt of such notice to request an option to purchase additional Shares of Class A Membership Interest (the "Option") in an amount not to exceed the number of Shares issues to EDC, and upon such request, the Company shall execute and deliver to MTI an Option Agreement granting to MTI an option to purchase such Shares; and

WHEREAS, as of April 15, 1998, EDC made such additional cash contribution to the Company in the amount of \$2.25 million, and the Company has duly notified MTI, and MTI and EDC have agreed that \$2 million of MTI's match of such contribution will be through the contribution by MTI of a below-market lease to the Company; and

WHEREAS, MTI has requested an option to purchase 250,000 additional Shares of Class A Membership Interest in the Company in accordance with Section 4.2(c) of the Operating Agreement.

In consideration of the mutual promises and conditions made herein, the Parties agree as follows:

1. Grant of Option: Term.

(a) The Company grants to MTI an option to purchase 250,000 Shares of Class A Membership Interest in the Company upon the terms and conditions set forth herein.

(b) The term of this Option shall expire at 5:00 p.m. E.S.T. on the date twelve (12) months after the date of this Agreement, or the date MTI ceases to be a Member of the Company for any reason, whichever occurs first ("Expiration Date").

2. Option Price. In consideration of the grant of the Option, MTI shall pay to the Company, upon execution of this Option Agreement \$21,250.00, being the amount equal to interest on the Purchase Price (defined below) at an annual rate of 8.5% ("Interest Rate"), being the prime rate as reported by the Wall Street Journal on the date of this Agreement, accruing from the date of this Agreement to the Expiration Date ("Option Price"). The Option Price shall not be applied in reduction of the Purchase Price and MTI's Capital Account shall not be increased as a result of the payment of the Option Price. If MTI fails to exercise the Option, the Option Price shall not be returned to MTI. If MTI exercises the Option and pays the Purchase Price prior to the Expiration Date, the Company shall return to MTI a portion of the Option Price equal to the amount of interest that would have accrued on the Purchase Price at the Interest Rate from the date of payment of the Purchase Price to the Expiration Date.

3. Exercise of Option. MTI may exercise this Option at any time prior to 5:00 p.m. EST on the Expiration Date by written notice to the Company. If MTI fails to exercise this Option in the manner and by the time set forth above, this Option shall automatically terminate and MTI shall have no further rights to purchase Shares of Class A Membership Interest pursuant to this Option Agreement.

4. Purchase Price. The price for the Shares of Class A Membership Interest purchased under this Option ("Purchase Price") shall be One Dollar (\$1.00) per Share. The Purchase Price shall be paid either in cash at the time MTI exercises the Option or, if MTI has any credit available pursuant to Section

4.2(d) of the Operating Agreement, any such credits may be applied in payment of the Purchase Price (but not in payment of the Option Price.) Upon payment of the Purchase Price, MTI's Capital Account shall be increased by an amount equal to the Purchase Price paid to the Company.

5. Delivery of Shares. Within ten (10) days after the Company's receipt of the exercise of this Option by MTI, the Company shall issue and deliver to MTI

a certificate or certificates for the Shares of Class A Membership Interest purchased by MTI pursuant to this Option Agreement.

6. Voting Rights Applicable to Option. At all times prior to the earlier of (a) the Expiration Date of (b) MTI's exercise of this Option and payment of the Purchase Price, MTI shall have voting rights with respect to the Shares of Class A Membership Interest in the Company for which MTI has an option to purchase under this Option Agreement. Should MTI fail to exercise this Option prior to the Expiration Date or fail to pay the Option Price or Purchase Price within the time required hereunder for payment thereof, such voting rights shall automatically terminate.

7. Non-Transferability. This Option shall not be assigned, pledged, hypothecated, sold, or otherwise transferred or encumbered by MTI, except that MTI may, without the consent of the Company or EDC, transfer its rights hereunder to an Affiliate of MTI.

8. Notices. Any notice or other communication to the Company or to MTI shall be in writing and shall either be delivered in person or mailed by first class mail, postage prepaid, or sent by telex, telecopy or telegram, addressed to the Party intended to be the recipient as follows:

If to the Company:

Plug Power, L.L.C.
968 Albany-Shaker Road
Latham, New York 12110
Attn: Gary Mittleman

with a copy to:

Wise & Marsac
11th Floor, Buhl Building
Detroit, Michigan 48226
Attn: Jim Kamp

or at such other address as the Company may designate by notice to MTI.

If to MTI:

Mechanical Technology, Inc.
968 Albany-Shaker Road
Latham, New York 12110
Attn: Cynthia Scheuer

or at such other address as MTI may designate by notice to the Company.

Any notice, request, consent, offer or demand shall be deemed received, given or served, if mailed by first class mail, on the 3rd day after the day of mailing, and, if sent, by telex, telecopy or telegram, 24 hours after the time of dispatch.

9. Entire Agreement. This Option Agreement supersedes all agreements previously made between the Parties relating to its subject matter. There are no other understandings or agreements between the Parties.

10. Governing Law. This Option Agreement shall be construed in accordance with and governed by the law of the State of Michigan.

11. MTI's Acceptance of the Terms of This Option Agreement. MTI's written request for this Option Agreement pursuant to Section 4.2(c) of the Operating Agreement constitutes MTI's acceptance of all the terms and conditions of this Option Agreement.

Plug Power, L.L.C. has executed this Option Agreement as of the date set forth above.

WITNESS:

PLUG POWER, L.L.C.

(a Delaware limited liability agreement)

/s/ Ana Maria Galeano

By: /s/ Gary Mittleman

Its: President and CEO

OPTION AGREEMENT - CONTRIBUTION MATCH

PLUG POWER, LLC

A Delaware Limited Liability Company

This Option Agreement - Contribution Match ("Option Agreement" or "Agreement") is made this 15th day of June, 1998, by and between Plug Power, LLC, a Delaware limited liability company (the "Company") and Mechanical Technology Inc., a New York corporation ("MTI") (hereinafter collectively referred to as the "Parties").

WHEREAS, on or about June 27, 1997, MTI and Edison Development Corporation, a Michigan corporation ("EDC") formed the Company by filing a Certificate of Formation with the office of the Secretary of State of the State of Delaware and entered into that certain Limited Liability Company Agreement of Plug Power, LLC, dated June 27, 1997 (the "Operating Agreement"); and

WHEREAS, capitalized terms used herein and not otherwise defined shall have the meaning given it in the Operating Agreement unless otherwise proved; and

WHEREAS, Section 4.2(b) of the Operating Agreement provides that the Company may, from time to time and as required, call upon EDC for additional cash contributions in amounts not to exceed, in the aggregate, \$4,250,000 and that for each \$1.00 of such additional cash contributions EDC shall receive one (1) Share of Class A Membership Interest; and

WHEREAS, Section 4.2(c) of the Operating Agreement provides that, upon the Company's receipt of each additional cash contribution from EDC, the Company shall notify MTI in writing of such contribution, and that MTI shall have five (5) days after receipt of such notice to request an option to purchase additional Shares of Class A Membership Interest (the "Option") in an amount not to exceed the number of Shares issued to EDC, and upon such request, the Company shall execute and deliver to MTI an Option Agreement granting to MTI an option to purchase such Shares; and

WHEREAS, as of June 11, 1998, EDC made such additional cash contribution in the amount of \$2 million, and the Company has duly notified MTI, and MTI has requested an option to purchase additional Shares of Class A Membership interest in the Company in accordance with Section 4.2(c) of the Operating Agreement.

In consideration of the mutual promises and conditions made herein, the Parties agree as follows:

1. Grant of Option; Term.

(a) The Company grants to MTI an option to purchase 2,000,000 Shares of Class A Membership Interest in the Company ("Option Shares") upon the terms and conditions set forth herein.

(b) The term of this Option shall expire at 5:00 p.m. E.S.T. on the date twelve (12) months after the date of this Agreement, or the date MTI ceases to be a Member of the Company for any reason, whichever occurs first ("Expiration Date").

2. Exercise of Option. MTI may exercise this Option, as to all of the Option Shares, or as to portions of the Option Shares from time to time, at anytime prior to 5:00 p.m. EST on the Expiration Date by written notice to the Company. If MTI fails to exercise this Option in the manner and by the time set forth above, this Option shall automatically terminate and MTI shall have no further rights to purchase Shares of Class A Membership Interest pursuant to this Option Agreement. If as of the date of this Agreement MTI has any credits available pursuant to Section 4.2(d) of the Operating Agreement ("Credits"), or if thereafter and prior to the Expiration Date any such Credits become available to MTI, MTI shall be deemed to have exercised this Option to purchase one Option Share for each \$1.00 of Credit available to MTI, such exercise to be effective as of the date of this Agreement or such later date prior to the Expiration Date that such Credits become available to MTI.

3. Option Price. In consideration of the grant of the Option, MTI shall pay to the Company, upon execution of this Option Agreement, \$170,000, being the amount equal to interest on the Purchase Price (defined below) at an annual rate of 8.5 % ("Interest Rate"), being the prime rate as reported by the Wall Street Journal on the date of this Agreement, accruing from the date of this Agreement to the Expiration Date ("Option Price"). The Option Price shall not be applied in reduction of the Purchase Price, and MTI's Capital Account shall not be increased as a result of the payment of the Option Price. If MTI fails to exercise the Option, the Option Price shall not be returned to MTI. If MTI exercises the Option and pays the Purchase Price prior to the Expiration Date, the Company shall return to MTI a portion of the Option Price equal to the amount of interest that would have accrued on the Purchase Price at the Interest Rate from the date of payment of the Purchase Price to the Expiration Date. Notwithstanding anything contained in this Agreement to the contrary, if any of the Option Shares are purchased or deemed to be purchased, with Credits, the Company will waive a portion of the Option Price, or reimburse a portion of the Option Price if it has been paid by MTI, such portion to be determined by multiplying the Option Price by a fraction, the numerator of which is the amount of Credits applied to the Purchase Price, and the denominator of which is the Purchase Price.

4. Purchase Price. The price for the Option Shares ("Purchase Price") shall be One Dollar (\$1.00) per Share. The Purchase Price shall be paid either in cash at the time MTI exercises the Option or, if MTI has any Credit available pursuant to Section 4.2(d) of the Operating Agreement, any such Credits shall be applied in payment of the Purchase Price (but not in payment of the Option Price.) Upon payment of the Purchase Price, MTI's Capital Account shall be increased by an amount equal to the Purchase Price paid to the Company.

5. Delivery of Shares. Within ten (10) days after the Company's receipt of an exercise of this Option by MTI, the Company shall issue and deliver to MTI a certificate or certificates for the Shares of Class A Membership Interest purchased by MTI pursuant to this Option Agreement.

6. Voting Rights Applicable to Option. At all times prior to the earlier of (a) the Expiration Date or (b) MTI's exercise of this Option and payment of the Purchase Price, MTI shall have voting rights with respect to the Option Shares. Should MTI fail to exercise this Option prior to the expiration

Date or fail to pay the Option Price or Purchase Price within the time required hereunder for payment thereof, such voting rights shall automatically terminate.

7. Non-Transferability. This Option shall not be assigned, pledged, hypothecated, sold, or otherwise transferred or encumbered by MTI, except that MTI may, without the consent of the Company or EDC, transfer its rights hereunder to an Affiliate of MTI.

8. Notices. Any notice or other communication to the Company or to MTI shall be in writing and shall either be delivered in person or mailed by first class mail, postage prepaid, or sent by telex, telecopy or telegram, addressed to the Party intended to be the receipt as follows:

If to the Company:

Plug Power, LLC
968 Albany - Shaker Road
Latham, New York 12110
Attn: Gary Mittleman

with a copy to:

Wise & Marsac
11th Floor, Buhl Building
Detroit, Michigan 48226
Attn: Jim Kamp

or at such other address as the Company may designate by notice to MTI.

If to MTI:

Mechanical Technology Inc.
968 Albany - Shaker Road
Latham, New York 12110
Attn: Cynthia Scheuer

or at such other addresses as MTI may designate by notice to the Company.

Any notice, request, consent, offer or demand shall be deemed received, given or served, if mailed by first class mail, on the 3rd day after the day of mailing, and, if sent by telex, telecopy or telegram, 24 hours after the time of dispatch.

9. Entire Agreement. This Option Agreement supersedes all agreements previously made between the Parties relating to its subject matter. There are no other understandings or agreements between the Parties.

10. Governing Law. This Option Agreement shall be construed in accordance with and governed by the law of the State of Michigan.

11. MTI's Acceptance of the Terms of This Option Agreement. MTI's written request for this Option Agreement pursuant to Section 4.2(c) of the Operating Agreement constitutes MTI's acceptance of all the terms and conditions of this Option Agreement.

Plug Power has executed this Option Agreement as of the date set forth above.

WITNESS:

PLUG POWER, LLC
(a Delaware limited liability agreement)

/s/Ana Maria Galeano

By: /s/ Gary Mittleman

Its: President and CEO

CONTRIBUTION AGREEMENT

BETWEEN

EDISON DEVELOPMENT CORPORATION
(a Michigan Corporation),

MECHANICAL TECHNOLOGY, INCORPORATED

AND

PLUG POWER, L.L.C.
(a Delaware limited liability company)

THIS CONTRIBUTION AGREEMENT (the "Agreement") is made as of the 10th day of June, 1998, between Edison Development Corporation, a Michigan corporation, with its principal office at 2000 Second Avenue, Detroit, Michigan 48226 ("EDC"), Mechanical Technology, Incorporated, a New York Corporation with its principal office at 968 Albany-Shaker Road, Latham, New York 12110 ("MTI") and Plug Power, L.L.C., a Delaware limited liability company, with its principal office at 968 Albany-Shaker Road, Latham, New York 12110 (the "Company").

The following facts underlie this Agreement:

WHEREAS, Edison Development Corporation ("EDC") and Mechanical Technology, Incorporated ("MTI") are the sole members of the Company.

WHEREAS, on or about April 15, 1998, EDC made a capital contribution of \$2.25 million to the Company.

WHEREAS, MTI and EDC have agreed that MTI will fund \$2 million of its capital contribution through contribution of a below market lease, pursuant to the terms and conditions set forth below.

WHEREAS, MTI will purchase an option to match the remaining \$250,000 capital contribution by EDC, pursuant to the terms of the Option Agreement - Contribution Match, attached hereto as Exhibit A ("Option Agreement").

WHEREAS, in order to accomplish the foregoing, EDC and MTI, individually and as the sole members of the Company, have agreed to undertake the following:

* Amend the Operating Agreement of the Company;

- * Enter into certain leases with respect to the Company's use and occupancy of certain property owned by MTI; and
- * Enter into a certain Option Agreement as provided herein.

In consideration of the mutual promises set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. Definitions. Unless the context otherwise requires, for purposes of this Agreement the following terms shall have the meanings set forth in this Section 1 (all other defined terms shall have the meaning set forth in the Section defining such terms):

"Capital Account" shall have the meaning given to such term in the Operating Agreement.

"Capital Contribution" shall have the meaning given to such term in the Operating Agreement.

"MTI" shall mean Mechanical Technology, Inc., a New York corporation and developer of the Technology (as defined in the Operating Agreement).

"Membership Interest" shall mean a Class A Membership Interest (as defined in the Operating Agreement) in the Company.

"Operating Agreement" shall mean the Limited Liability Company Agreement of Plug Power, L.L.C., a Delaware limited liability company, as amended from time to time.

"Person" shall mean an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a governmental entity.

"Sharing Ratios" shall mean Sharing Ratios as defined under the Operating Agreement.

2. Basic Contribution Transaction.

2.1 MTI Contribution. MTI and Company acknowledge that on or about April 15, 1998, EDC made a cash capital contribution of \$2,250,000 to the Company in exchange for 2,250,000 shares of Class A Membership Interests in

the Company. Pursuant to the Operating Agreement, MTI is permitted to maintain its relative Sharing Ratio and ownership interest in the Company by making a matching cash contribution or taking an option, or a combination thereof. EDC,

MTI and Company agree that, in lieu of a cash contribution of \$2,250,000 by MTI to the Company and in order to allow MTI to maintain its relative Sharing Ratio in the Company:

(a) MTI will lease to the Company, the property commonly known as Building 3, 968 Albany-Shaker Road, Latham, New York pursuant to a lease in the form attached as Exhibit A (the "Building Three Lease"). The parties acknowledge that the Building Three Lease is at a preferable below market rate and that the fair market value of such below market lease to Company is \$2,000,000. In exchange for the Building Three Lease, the Company shall issue 2,000,000 Class A Membership Interests to MTI (the "New Shares"). The parties further acknowledge that such Building Three Lease is being entered into by MTI in lieu of a matching cash capital contribution or option by MTI in the amount of \$2,000,000; and

(b) MTI will enter into a "Option Agreement - Contribution Match" in the form of Exhibit B whereby MTI will have the right to match \$250,000 of EDC's capital contribution pursuant to the terms of the Option Agreement in exchange for 250,000 Class A Membership Interests (the "Option Shares"); and

(c) MTI and the Company will enter into leases for Building 3 until September 30, 1998; Building 2; and the test house substantially in the form as the Building Three Lease.

2.2 Capital Account Reduction. The parties acknowledge that the value of MTI's contribution of a below market lease will be realized over a period of years and that the benefit to the Company of such an in-kind contribution in lieu of cash will be reduced if Company dissolves or undergoes a bankruptcy or similar event in the near term. Accordingly, the parties agree that in the event that on or before the earlier of (a) May 29, 2000 or (b) an initial public offering of the Company's shares, the Company shall file a

petition in voluntary bankruptcy under the Federal Bankruptcy Code or any similar law, state or Federal, or a trustee or receiver shall be appointed for the Company or any court shall have taken jurisdiction of the Company's property in any involuntary proceeding for the reorganization, dissolution, liquidation or winding up of the Company, than in such event:

(i) MTI's Capital Account in the Company shall be immediately reduced by the sum of \$1,000,000 and the number of shares of Class A Membership Interests held by MTI shall be immediately reduced by 1,000,000; and

(ii) The Company's Lease with MTI shall terminate.

The parties further acknowledge that MTI is required to pay or reimburse the Company for improvements pursuant to Section 3 of the Building 3 Lease. With respect to such improvements, the parties agree as follows;

(a) If MTI fails to reimburse Tenant for improvements required under Section 3(b) of the Building 3 Lease within the time period set forth therein, MTI's Capital Account in the Company and Class A Membership Interests shall be immediately reduced by the amount of such unreimbursed improvements.

(b) MTI shall use all reasonable efforts to secure IDA financing for payment and or reimbursement of the Tenant Improvements Allowance (as defined in Section 3(a) of the Building 3 Lease). If MTI is unable to secure such IDA financing on or before September 1, 1998, and has found no alternative source for financing of the Tenant Improvements Allowance, then MTI shall, on or before September 1, 1998, pay to Company the sum of \$179,900, plus interest on such amount from April 15, 1998 of \$5,860 (the "Option Price"). In exchange for such payment, MTI shall have the right to retain the remaining New Shares not previously paid for or forfeited, pursuant to subsection (a) above, and pursuant to the terms of the Option Agreement - Contribution Match through April 15, 1999 (the "Remaining Option Shares"). Furthermore, the rental under the Building 3 Lease shall be adjusted to the fair market rental value for similar space as determined by a licensed real

estate professional agreed to by MTI, EDC and the Company (the "parties"). If the parties cannot agree on a licensed real estate professional, each shall select a real estate professional and the average of the rents recommended by such individuals shall prevail. Such real estate appraisal shall value the fair market rental of Building 3 without regard to any improvements made by the Company (i.e., based on the Building 3 Lease) and such rental rate shall not exceed \$8.00 per square foot.

(c) In the event that MTI fails to pay the Option Price pursuant to subsection (b), MTI's Capital Account and Shares of Class A Membership Interest in the Company shall be reduced by the Option Price plus the value and number of the Remaining Option Shares.

(d) In the event that MTI pays the Option Price pursuant to subsection (b), but fails to pay for the Remaining Option Shares on or before April 15, 1999, then MTI's Capital Account and Shares of Class A Membership Interest in the Company shall be reduced by the value and number of the Remaining Option Shares.

In addition to the foregoing, in the event that MTI fails to make certain tenant improvements as required by the Building Three Lease (or fails to reimburse the Company for improvements previously made which are the responsibility of MTI under the Building Three Lease) on or before March 31, 1999. MTI's capital account shall be reduced dollar for dollar by the cost of the improvements not made by the required deadline and the number of shares of Class A Membership Interests held by MTI shall be reduced by a like amount.

2.3 Financing Options. The Company agrees that it will not request EDC to finance improvements to Building 3 before it has used its best efforts to obtain such financing from MTI.

2.4 Effect of Agreement. Nothing herein shall be deemed a waiver of strict compliance with the terms of the Operating Agreement or an amendment to any of the Agreements of the parties except to the extent expressly provided herein.

3. Notices. Any notices or other communications required or permitted hereunder shall be sufficiently given if (a) delivered in person, (b) sent by Federal Express or similar overnight courier, or (c) by registered or certified mail, postage prepaid, to the respective party at the address that follows or to such other address any party shall have given notice in accordance with this Section 3:

To EDC:

Edison Development Corporation
2000 Second Avenue, 644 WCB
Detroit, Michigan 48226
Attn: A. Ananthasubramaniam

With a copy to:

DTE Energy, Inc.
2000 Second Avenue, 644 WCB
Detroit, Michigan 48226
Attn: Christopher C. Nern

To the Company:

Plug Power, L.L.C.
968 Albany-Shaker Road
Latham, New York 12110
Attn: Gary Mittleman

With a copy to:

Wise & Marsac

11th Floor, Buhl Building
Detroit, Michigan 48226
Attn: Jim Kamp

To MTI:

Mechanical Technology, Incorporated
968 Albany-Shaker Road
Latham, New York 12110

Attn: Cynthia Scheuer

Such notices or other communications shall be deemed received (a) on the date delivered, if delivered personally, (b) three business days after being deposited with the U.S. Post Office, if sent by registered or certified mail, or (c) on the next business day, if sent by Federal Express or similar overnight carrier.

4. Assignment. MTI shall not assign this Agreement, or any interest in this Agreement, without the prior written consent of the Company, which consent Company is expressly authorized to withhold.

5. Parties in Interest. This Agreement shall inure to the benefit of, and be binding on, the named parties and their respective successors and permitted assigns, but not any other person.

6. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall be one and the same document.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties on the date first above written.

EDISON DEVELOPMENT CORPORATION
(a Michigan corporation)

/s/ Larry Garberding

By: Larry G. Garberding
Its: Executive Vice President and
Chief Financial Officer

"EDC"

MECHANICAL TECHNOLOGY, INCORPORATED
(a New York corporation)

/s/ Cynthia A. Scheuer

By: Cynthia A. Scheuer
Its: Vice President and
Chief Financial Officer

"MTI"

PLUG POWER, L.L.C.
(a Delaware limited liability company)

/s/ Gary Mittleman

By: Gary Mittleman
Its: President and
Chief Executive Officer

"Company"

NOTICE OF GUARANTEED DELIVERY

FOR

SUBSCRIPTION CERTIFICATES

ISSUED BY

MECHANICAL TECHNOLOGY INCORPORATED

This form, or one substantially equivalent hereto, must be used to exercise Rights pursuant to the Rights Offering described in the Prospectus dated _____, 1998 (the "Prospectus"), of Mechanical Technology Incorporated, a New York corporation (the "Company"), if a holder of Rights cannot deliver the subscription certificate(s) evidencing the Rights (the "Subscription Certificate(s)") to the Subscription Agent listed below (the "Subscription Agent"), at or prior to 5:00 p.m. New York City time, on September 24, 1998 (such date, subject to extension as provided in the Prospectus, is referred to as the "Expiration Date"). Such form must be delivered by hand or sent by facsimile transmission or mail to the Subscription Agent, and must be received by the Subscription Agent on or prior to the Expiration Date. See "Offering--Exercise of Rights" in the Prospectus. Payment of the Subscription Price of \$ _____ per share for each share of the Company's Common Stock subscribed for upon exercise of such Rights must be received by the Subscription Agent in the manner specified in the Prospectus at or prior to 5:00 p.m. New York City time, on the Expiration Date, even if the Subscription Certificate evidencing such Rights is being delivered pursuant to the procedure for guaranteed delivery thereof.

The Subscription Agent is:

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
Telecopier No. (718) 234-5001

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

Ladies and Gentlemen:

The undersigned hereby represents that he, she or it is the holder of

subscription certificate(s) representing _____ Rights and that such subscription certificate(s) cannot be delivered to the Subscription Agent at

or before 5:00 p.m., New York City time on the Expiration Date. Upon the terms and subject to the conditions set forth in the Prospectus, receipt of which is hereby acknowledged, the undersigned hereby elects to irrevocably exercise one or more Rights evidenced by the Subscription Certificate to subscribe for shares of Common Stock as indicated below.

(a) Number of shares subscribed for pursuant to the Basic Subscription Privilege. (Number of Rights _____ x \$ _____ per share = \$ _____ (Basic Exercise Price) = _____ shares

(b) Number of shares subscribed for pursuant to the Oversubscription Privilege. (Number of remaining Underlying Shares subscribed for _____ x _____ \$ per share = \$ _____ (Oversubscription Exercise Price) = _____ shares (maximum number of shares subscribed for)

(c) Total Exercise Price: \$ _____ .

The undersigned understands that payment in full of the Exercise Price, as computed above, of \$ _____ per share for each share of Common Stock subscribed for pursuant to the Subscription Privileges must be received by the Subscription Agent at or before 5:00 p.m., New York City time on the Expiration Date and represents that such payment either (check the appropriate box):

is being delivered to the Subscription Agent herewith

or

has been delivered separately to the Subscription Agent, and is or was delivered in the manner set forth below (check appropriate box and complete information relating thereto):

wire transfer of funds

name of transferor institution _____

date of transfer _____

confirmation number (if available) _____

[] uncertified check (Payment of uncertified check will not be deemed to have been received by the Subscription Agent until such check has cleared. Holders paying by such means are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment clears by such date)

[] certified check

[] bank draft (cashier's check)

[] money order

name of maker _____

date of check, draft or money order _____

check, draft or money order number _____

bank on which check is drawn or issuer of money order _____

Signature(s) _____

Address _____

Name(s) _____

Area Code and Tel. Nos. _____

Please type or print _____

Subscription Certificate

No(s). (if available) _____

GUARANTEE OF DELIVERY

The undersigned, an "Eligible Institution" within the meaning of Rule 17Ad-15 under the Securities Exchange Act of 1934, guarantees that the undersigned will deliver to the Subscription Agent the certificates representing the Rights being exercised hereby, with any required signatures

and any other required documents, all within three (3) Nasdaq National Market trading days after the date hereof.

_____ Dated: _____, 1998

(Name of Firm)

(Address)

(Area Code and Telephone Number)

(Authorized Signature)

The institution that completes this form must communicate the guarantee to the Subscription Agent and must deliver the Subscription Certificate(s) to the Subscription Agent within the time period shown herein. Failure to do so could result in a financial loss to such institution.

MECHANICAL TECHNOLOGY INCORPORATED
AND AMERICAN STOCK TRANSFER & TRUST COMPANY
SUBSCRIPTION AGENCY AGREEMENT
DATED AS OF JULY ____, 1998

THIS SUBSCRIPTION AGENCY AGREEMENT is dated as of July ____, 1998 by and between Mechanical Technology Incorporated, a New York corporation (the "Company") and American Stock Transfer & Trust Company, a _____ corporation, as Subscription Agent (the "Subscription Agent").

WHEREAS, the Company has caused a Registration Statement on Form S-2 (Registration No. _____) under the Securities Act of 1933, as amended (the "Act") to be filed with the Securities and Exchange Commission (the "Commission") relating to a proposed distribution by the Company to holders of record of shares of its Common Stock, \$1.00 par value (the "Common Stock"), as of the close of business on August 12, 1998 (the "Record Date"), of non-transferable subscription rights (the "Rights") to purchase additional shares of its Common Stock (the "Basic Subscription Privilege") at a price of \$ _____ per share (the "Exercise Price"). The Rights will be distributed to holders of record (other than the Company) of shares of Common Stock as of the Record Date at a rate of one Right for every _____ shares of Common Stock held on the Record Date. Each Right will entitle its holder (a "Holder") to purchase one share of Common Stock;

WHEREAS, the Company has reserved for issuance, and has authorized the issuance of, an aggregate of _____ authorized and unissued shares of Common Stock (the "Underlying Shares") to be distributed pursuant to the exercise of the Subscription Privileges in the Offering;

WHEREAS, upon exercise of the Subscription Privilege, a Holder will also be entitled to purchase at the Exercise Price a pro-rata portion of Underlying Shares, if any, remaining unissued after satisfaction of all subscriptions pursuant to the Subscription Privilege (the "Oversubscription Privilege"; collectively with the "Basic Subscription Privilege", the "Subscription Privileges"). Such Registration Statement, in the form in which it first becomes effective under the Act, and as thereafter amended from time to time, is referred to herein as the "Registration Statement" and the offering of shares of Common Stock upon exercise of the Rights is referred to herein as the "Offering;" and

WHEREAS, the Company desires the Subscription Agent to act on its behalf in connection with the Offering as set forth herein, and the Subscription Agent is willing so to act.

NOW THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

SECTION 1. APPOINTMENT OF SUBSCRIPTION AGENT. The Company hereby appoints the Subscription Agent to act as agent for the Company in accordance with the instructions set forth in this Agreement, and the Subscription Agent hereby accepts such appointment. The duties of the Subscription Agent shall include those contemplated by the Subscription Certificate (as defined below) and those enumerated in Exhibit B attached hereto and made a part hereof.

SECTION 2. ISSUE OF SECURITIES.

The Company has authorized the issuance of the Rights. Following the effectiveness of the Registration Statement and the Record Date, the Company will issue such Rights to holders of record of shares of Common Stock as of the close of business on the Record Date as contemplated by the Registration Statement. The Company will promptly notify the Subscription Agent upon the effectiveness of the Registration Statement. As transfer agent and registrar for the shares of Common Stock, the Subscription Agent shall provide such assistance as the Company may require to effect the distribution of the Rights to holders of record of shares of Common Stock as of the close of business on the Record Date, including assistance in determining the number of Rights to be distributed to each record holder and assistance in distributing the Subscription Certificates (as defined in Section 3(b) hereof) evidencing the Rights. The Company has authorized the issuance of and will hold in reserve the Underlying Shares, and upon the valid exercise of Rights, the Company will issue Underlying Shares to validly exercising Holders as set forth in the Prospectus.

SECTION 3. SUBSCRIPTION PRIVILEGES: FORM OF SUBSCRIPTION CERTIFICATE.

(a) Each Right carries with it a Basic Subscription Privilege and an Oversubscription Privilege. The Basic Subscription Privilege entitles the Holder to purchase one share of Common Stock at the Exercise Price for each Right held. The Oversubscription Privilege entitles each Holder that has exercised his or her Basic Subscription Privilege, the right to subscribe, at the Exercise Price, for any Underlying Shares remaining unissued after satisfaction of all subscriptions pursuant to the Basic Subscription Privilege ("Excess Shares").

(b) The Rights shall be evidenced by subscription certificates (the "Subscription Certificates"). Subscription Certificates (and the form of election to exercise Rights to be printed on the reverse thereof) shall be

substantially in the form attached hereto as Exhibit A. The Subscription Certificates shall be non-transferable.

SECTION 4. SIGNATURE AND REGISTRATION.

(a) The Subscription Certificates shall be executed on behalf of the Company by its Chief Financial Officer and its Secretary, whose signatures may be affixed by facsimile signature. Any Subscription Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Subscription Certificate, shall be a proper officer of the Company to sign such Subscription Certificate, even if at the date of the execution of this Agreement or the date of the actual issuance of such certificate, any person is not such an officer.

(b) The Subscription Agent will keep or cause to be kept, at its principal offices in the State of New York, books for registration and transfer of the Rights issued hereunder.

SECTION 5. MUTILATED, DESTROYED, LOST OR STOLEN SUBSCRIPTION.

Upon receipt by the Company and the Subscription Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Subscription Certificate, and, in case of loss, theft or destruction, of indemnity and/or security satisfactory to them, which may be in the form of an open penalty bond, and reimbursement to the Company and the Subscription Agent of all reasonable expenses incidental thereto, and upon surrender and cancellation of the mutilated Subscription Certificate, the Company will authorize the Subscription Agent to deliver a Subscription Certificate of like tenor to the registered owner in lieu of the Subscription Certificate so lost, stolen, destroyed or mutilated. If required by the Company or Subscription Agent, an indemnity bond must be sufficient in the judgment of both to protect the Company, the Subscription Agent or any agent thereof from any loss that any of them may suffer if a Subscription Certificate is replaced. Subsequent to their original issuance, no Subscription

Certificates shall be issued except Subscription Certificates issued in replacement of mutilated, destroyed, lost or stolen Subscription Certificates.

SECTION 6. EXERCISE OF RIGHTS; EXERCISE PRICE; EXPIRATION DATE.

(a) In General. The Holder of any subscription Certificate may exercise some or all of the Rights by delivering to the Subscription Agent, on or prior to 5:00 p.m., New York City time, on September 24, 1998 (the "Expiration Date"), the properly completed and executed Subscription Certificate evidencing such Rights with any required signatures, together with payment in full of the Exercise Price for each Underlying Share subscribed for pursuant to the Subscription Privilege (except as permitted pursuant to clause (iii) of the next sentence).

(b) Exercise Price - Payment. Payment of the Exercise Price must be in full and must be by: (i) check or bank draft drawn upon a U.S. bank or postal money order, payable to American Stock Transfer & Trust Company, as Subscription Agent; (ii) wire transfer of funds to the account maintained by the Subscription Agent for such purpose; or (iii) in such other manner as the

Company may approve in writing in the case of persons acquiring Underlying Shares at an aggregate Exercise Price of \$500,000 or more (the payment method under (iii) being an "Approved Payment Method"), provided in each case that the full amount of such Exercise Price is received by the Subscription Agent in currently available funds within three Nasdaq National Market trading days following the Expiration Date.

(c) Exercise Price - Receipt. Payment of the Exercise Price will be deemed to have been received by the Subscription Agent only upon (i) clearance of any uncertified check, (ii) receipt by the Subscription Agent of any certified check or bank draft drawn upon a United States bank or of any postal money order, (iii) receipt of good funds in the Subscription Agent's account designated above, or (iv) receipt of good funds by the Subscription Agent through an Approved Payment Method.

(d) Guaranteed Delivery Procedures. If a Holder wishes to exercise Rights, but time will not permit such Holder to cause the Subscription Certificate or Subscription Certificates evidencing such Rights to reach the Subscription Agent on or prior to the Expiration Date, such Rights may nevertheless be exercised if all of the following conditions (the "Guaranteed Delivery Procedures") are met:

- (i) such Holder has caused payment in full of the Exercise Price for each Underlying Share being subscribed for pursuant to the Subscription Privileges to be received (in the manner set forth above) by the Subscription Agent on or prior to the Expiration Date;
- (ii) the Subscription Agent receives, on or prior to the Expiration Date, a guaranteed notice (a "Notice of Guaranteed Delivery"), substantially in the form provided with the Instructions for Subscription Certificate (the "Instructions") distributed with the Subscription Certificates, from an "Eligible Institution" (as defined in Rule 17Ad-15 under the Securities Exchange Act of 1934), stating the number of Rights represented by the Subscription Certificate(s) held by such exercising Holder, the number of Underlying Shares being subscribed for pursuant to the Subscription Privileges and guaranteeing the delivery to the Subscription Agent of any Subscription Certificate(s) evidencing such Rights within three Nasdaq National Market trading days following the date of the Notice of Guaranteed Delivery; and
- (iii) the properly completed Subscription Certificate(s), with any required signatures, is received by the Subscription Agent within three Nasdaq National Market trading days following the date of the Notice of Guaranteed Delivery relating thereto. The Notice of Guaranteed Delivery may be delivered to the Subscription Agent in the same manner as Subscription Certificate(s) at the address set forth in Section 16 hereof, or may be transmitted to the Subscription Agent by facsimile transmission (telecopy number

(718) 234-5001). The Subscription Agent shall make additional copies of the form of Notice of Guaranteed Delivery available to any Holder upon request made to the Subscription Agent at the address set forth under such Section 16, or by telephone to (718) 921-8200.

(e) Oversubscription Privilege. The Subscription Agent shall hold funds received in payment of the Exercise Price for Excess Shares subscribed for pursuant to the Oversubscription Privilege in a segregated account pending issuance of such Excess Shares. If a Holder exercising the Oversubscription Privilege is allocated less than all of the Excess Shares that such Holder wished to subscribe for pursuant to the Oversubscription Privilege, the Subscription Agent shall return the excess funds paid by such

Holder in respect of the Exercise Price for shares not issued by mail without interest or deduction as soon as practicable after the Expiration Date.

(f) Exercise of Rights Through Third Parties. The Subscription Agent shall require a Holder who holds shares of Common Stock for the account of others, such as a broker, a trustee or a depository for securities, to complete the Subscription Certificate and a Nominee Holder Certification, in the form of Exhibit C attached hereto and made a part hereof, and submit both documents to the Subscription Agent with the proper payment.

(g) Exercise Price - Application. If either the number of Underlying Shares being subscribed for pursuant to the Basic Subscription Privilege is not specified on the Subscription Certificate, or the amount of funds delivered is not enough to pay the Exercise Price for all Underlying Shares stated to be subscribed for, the Subscription Agent shall assume that the number of Underlying Shares subscribed for are the maximum amount that could be subscribed for upon payment of such amount. If the number of Underlying Shares being subscribed for is not specified, or payment of the Exercise Price for the indicated number of Rights that are being exercised exceeds the required Exercise Price, the Subscription Agent shall apply the payment, until depleted, to subscribe for Underlying Shares in the following order: (i) to subscribe for the number of Underlying Shares indicated, if any, pursuant to the Basic Subscription Privilege; (ii) to subscribe for Underlying Shares until the Basic Subscription Privilege has been fully-exercised with respect to all of the Rights represented by the Subscription Certificate; and (iii) to subscribe for additional Underlying Shares pursuant to the Oversubscription Privilege (subject to any applicable proration).

(h) Non-revocable. The Subscription Agent shall not permit a Holder of Rights who has exercised the Basic Subscription Privilege or the Oversubscription Privilege to revoke such exercise.

(i) Expiration of Rights. The Rights shall expire at 5:00 p.m. New York City time on the Expiration Date and the Subscription Agent shall not honor Subscription Certificates received subsequent to that time.

SECTION 7. DELIVERY OF STOCK CERTIFICATES.

As soon as practical after the Expiration Date, the Subscription Agent shall mail to each Holder who validly exercised the Subscription Privileges,

certificates representing Underlying Shares purchased pursuant to the Exercise Price.

SECTION 8. FRACTIONAL RIGHTS.

The Subscription Agent shall not issue fractional Rights, or pay cash in lieu thereof, to any Holder who has exercised Rights. Fractional Rights distributed to each Holder shall be rounded up to the next whole number in determining the number of Rights to be issued to Holders.

SECTION 9. TRANSFER OF RIGHTS.

The Rights are not freely transferable and may not be traded. Rights will be issued to all Holders of common stock as of August 12, 1998. The Holders of such Rights may exercise such Rights or permit such Rights to expire.

SECTION 10. REPORTS.

The Subscription Agent shall notify both the Company and its designated representative by telephone as requested during the period ending three (3) business days after the Expiration Date, which notice shall thereafter be confirmed in writing, of: (a) the number of Rights exercised on the day of such request; (b) the number of Underlying Shares subscribed for pursuant to the Exercise Price and the number of such Rights for which payment has been received; (c) the number of Rights subject to guaranteed delivery pursuant to Section 6 on such day; (d) the number of Rights for which defective exercises have been received on such day; and (e) cumulative totals derived from the information set forth in clauses (a) through (d) above. At or before 5:00 p.m. New York City time, on the first Nasdaq National Market trading day following the Expiration Date, the Subscription Agent shall certify in writing to the Company the cumulative totals through the Expiration Date derived from the information set forth in clauses (a) through (d) above. The Subscription Agent shall also maintain lists, certified to the Company, of Holders who have exercised their Rights, and Holders who have not exercised their Rights. The Subscription Agent shall provide the Company or its designated representatives with the information compiled pursuant to this Section 10 as any of them shall request.

SECTION 11. FUTURE INSTRUCTION AND INTERPRETATION.

(a) All questions as to the timeliness, validity, form, and eligibility of any exercise of Rights will be determined by the Company, the determinations of which shall be final and binding. The Company in its sole discretion may waive any defect or irregularity or permit a defect or

irregularity to be corrected within such time as it may determine or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Company determines in its sole discretion. Neither the Company nor the Subscription Agent shall be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification to any Holder.

(b) The Subscription Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from an authorized officer of the Company, and to apply to such officers for advice or instructions in connection with its duties. The Subscription Agent shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

SECTION 12. PAYMENT OF TAXES.

The Company covenants and agrees that it will pay when due and payable all documentary, stamp and other taxes, if any, that may be payable in respect of the issuance or delivery of any Subscription Certificate or of the Underlying Shares; provided however, that the Company shall not be liable for any tax liability arising out of any transaction that results in, or is deemed to be, an exchange of Rights or shares.

SECTION 13. CANCELLATION AND DESTRUCTION OF SUBSCRIPTION.

All Subscription Certificates surrendered for the purpose of exercise or exchange shall be canceled by the Subscription Agent, and no Subscription Certificates shall be issued in lieu thereof except as expressly permitted by provisions of this Agreement. The Subscription Agent shall deliver all canceled Subscription Certificates to the Company or shall, at the written request of the Company, destroy such canceled Subscription Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

SECTION 14. RIGHT OF ACTION.

All rights of action in respect of this Agreement are vested in the Company and the respective registered Holders of the Subscription Certificates. Any registered Holder of any Subscription Certificate, without the consent of the Subscription Agent or of the Holder of any other Subscription Certificate, may, on his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Subscription Certificate in the manner

provided in such Subscription Certificate and in the Agreement.

SECTION 15. DUTIES OF SUBSCRIPTION AGENT.

The Subscription Agent undertakes the duties and obligations imposed by this Agreement including, but not limited to, the duties enumerated on Exhibit B attached hereto, upon the following terms and conditions. The Company and the Holders of Subscription Certificates, by their acceptance thereof, shall be bound by such terms and conditions.

(a) The Subscription Agent may consult with legal counsel (who may be, but is not required to be, legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Subscription Agent as to any action taken or omitted by it in good faith and in accordance with such opinions.

(b) Whenever, in the performance of its duties under this Agreement, the Subscription Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by either the Company's Chief Executive Officer, or jointly by a Vice President and the Secretary of the Company, and delivered to the Subscription Agent. Such certificate shall be full authorization to the Subscription Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Subscription Agent shall be liable hereunder only for its own negligence or wilful misconduct.

(d) The Subscription Agent shall not be liable for, or by reason of, any of the statements of fact or recitals contained in this Agreement or in the Subscription Certificates or be required to verify the same. All such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Subscription Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery

hereof (except the due execution hereof by the Subscription Agent) or in respect of the validity or execution of any Subscription Certificate, nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Subscription Certificate; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock to be issued in connection with the exercised Rights or pursuant to any Subscription Certificate or as to whether any shares of Common Stock will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Subscription Agent for the carrying out or performing by the Subscription Agent of the provisions of this Agreement.

(g) Nothing herein shall preclude the Subscription Agent from acting in any other capacity for the Company.

SECTION 16. NOTICES TO THE COMPANY, HOLDERS AND SUBSCRIPTION AGENT.

All notices and other communications provided for or permitted hereunder shall be made by hand delivery, prepaid first class mail, or telecopier:

(a) if to the Company to:
Mechanical Technology Incorporated
968 Albany-Shaker Road
Latham, New York 12110
Attn: Cynthia A. Scheuer
FAX: (518) 785-2181

with a copy to:

Whiteman Osterman & Hanna
One Commerce Plaza
Albany, New York 12260
Attn: Catherine Hill, Esq.
FAX: (518) 487-7777

if to the Subscription Agent, to:
American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005
FAX: (718) 234-5001

(b) if to a registered Holder, at the address shown for such Holder on the registry books of the Company.

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered, two (2) business days after being deposited in the mail, postage prepaid, if mailed as aforesaid; and when receipt is acknowledged, if telecopied.

SECTION 17. SUPPLEMENTS AND AMENDMENTS.

The Company and the Subscription Agent may from time to time supplement or amend this Agreement without the approval of any Holders of Subscription Certificates in order to cure any ambiguity or to correct or supplement any provision contained herein, or to make any other provisions in regard to matters or questions arising hereunder that the Company and the Subscription Agent may deem necessary or desirable and that shall not adversely affect the interest of the Holders of the Subscription Certificates.

SECTION 18. SUCCESSORS.

All the covenants and provisions of this Agreement by or for the benefit of the Company or the Subscription Agent shall bind and inure to the benefit to their respective successors and assigns hereunder.

SECTION 19. TERMINATION.

This Agreement shall terminate at 5:00 p.m. New York City time, on the

fourteenth day following the Expiration Date. Upon termination of this Agreement, and provided that the Underlying Shares for Rights accepted for exercise prior to such termination are issued and delivered by the Company, the Company shall be discharged from all obligations under this Agreement except for its obligation to the Subscription Agent under Sections 12 and 15 hereof and except with respect to the obligation of the Company to provide instruction and direction to the Subscription Agent as may be required by this Agreement.

SECTION 20. GOVERNING LAW.

This Agreement and each Subscription Certificate shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be construed in accordance with the internal laws of said State without regard to any conflict of law rules that would defeat the application of New York law.

SECTION 21. BENEFITS OF THIS AGREEMENT.

Nothing in this Agreement shall be construed to give any persons or corporation other than the Company, the Subscription Agent and the Holders of the Subscription Certificates any legal or equitable right, remedy or claim under this Agreement. This Agreement shall be for the sole and exclusive benefit of the Company, the Subscription Agent and the Holders of the Subscription Certificates, and their respective successors or heirs.

SECTION 22. COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original, and all of which shall together constitute one and the same instrument.

SECTION 23. DESCRIPTIVE HEADINGS.

Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or

construction of any of the provisions hereof.

IN WITNESS WHEREOF, each of the parties hereto caused this Agreement to be duly executed as of the date first above written.

MECHANICAL TECHNOLOGY, INC.

By: /s/ Cynthia A. Scheuer

Cynthia A. Scheuer
Chief Financial Officer

AMERICAN STOCK TRANSFER & TRUST COMPANY

By: /s/ Herbert Lemmer

Title: General Counsel

EXHIBIT A

FORM OF SUBSCRIPTION CERTIFICATE

(paper copy submitted)

EXHIBIT B
SUBSCRIPTION AGENT DUTIES AND FEES

Subscription Agent Duties and Services

1. Calculate and verify number of Rights to be issued to each shareholder.
2. Issue and mail notice of exercise form to each claimant along with the appropriate Rights offering material.
3. Split-up, issue and mail notice of exercise forms as requested by Holders.
4. Receive and time stamp surrendered Subscription Certificates and checks.
5. Examine Subscription Certificates forms and checks for acceptance.
6. Write regarding deficient time.
7. Calculate and verify exercise prices received and number of shares to be issued.
8. Deposit checks into a fiduciary account.
9. Wire funds to Company's account on the third business day following Expiration Date.
10. Handle all letters of inquiry regarding lost, destroyed or stolen Subscription Certificates.
11. Adjust Rights on disputed claims as per Company's instructions and refund to the Holder any excess Exercise Price resulting from a reduction of disputed claim.
12. If applicable, reflect restrictive legend on certain stock certificates to be issued in connection with the Offering. Please provide us with the name(s) of the affected shareholders and the exact legend to be shown on the new certificates.
13. Keep accurate controls of all Subscription Certificates exercised and cancellation of such certificates.
14. Issue and mail stock certificates to subscribers.

15. Furnish periodic reports of exercised rights.

Subscription Agent Fees: \$35,000,

plus out-of-pocket expenses incurred such as postage, telephone, shipping costs, insurance, stationery, overtime and counsel fees.

EXHIBIT C
FORM OF NOMINEE HOLDER CERTIFICATION

MECHANICAL TECHNOLOGY INCORPORATED
NOMINEE HOLDER CERTIFICATION

The undersigned, a bank, broker, or other nominee holder of rights ("Rights"), in order to purchase shares of common stock, \$1 par value per share ("Common Stock") of Mechanical Technology Incorporated (the "Company") pursuant to the rights offering described and provided for in the Company's prospectus dated _____, 1998 (the "Prospectus"), hereby certifies to the Company and to American Stock Transfer and Trust Corporation, as Subscription Agent for such rights offering, that the undersigned has subscribed for, on behalf of the beneficial owners thereof (which may include the undersigned), the number of shares specified below for each of the Subscription Privileges (as defined in the Prospectus).

1. Number of shares subscribed
for pursuant to the
Basic Subscription Privilege _____

2. Number of shares subscribed
for pursuant to the
Oversubscription
Privilege _____

Name of Nominee Holder

By: _____

Name:

Title:

Dated: _____ , 1998

INSTRUCTIONS AS TO USE OF MECHANICAL TECHNOLOGY INCORPORATED
SUBSCRIPTION CERTIFICATES

CONSULT MECHANICAL TECHNOLOGY INCORPORATED,
THE SUBSCRIPTION AGENT, YOUR BANK OR BROKER AS TO ANY QUESTIONS

The following instructions relate to a rights offering (the "Rights Offering") by Mechanical Technology Incorporated, a New York corporation (the "Company"), to the holders of its common stock, \$1.00 par value per share (the "Common Stock"), as described in the Company's prospectus dated _____, 1998, as such prospectus may be amended and/or updated prior to the Expiration Date (as defined below; such prospectus, as so amended and/or updated, being the "Prospectus"). Holders of record of Common Stock at the close of business on August 12, 1998 (the "Record Date"), are receiving one non-transferable subscription right (individually, a "Right" and collectively, the "Rights") for each _____ shares of Common Stock held by them of record on the Record Date. An aggregate of approximately _____ Rights exercisable to purchase an aggregate of _____ shares of Common Stock (the "Underlying Shares") are being distributed in connection with the Rights Offering. Each Right entitles its holder (a "Holder") to purchase one share of Common Stock (the "Basic Subscription Privilege") at \$_____ per share (the "Exercise Price").

In addition, subject to the allocation described below, each Right entitles its Holder to subscribe at the Exercise Price for Underlying Shares after satisfaction of all subscriptions made pursuant to the Basic Subscription Privilege (the "Oversubscription Privilege"; collectively, with the Basic Subscription Privilege, the "Subscription Privileges"), provided that all of the Rights of such Holder have been fully exercised with respect to such Holder's Basic Subscription Privilege. The Company and American Stock Transfer & Trust Company, as subscription agent (the "Subscription Agent"), will endeavor to ensure that Holders fully exercise their Basic Subscription Privileges before subscribing for and acquiring Underlying Shares pursuant to their Oversubscription Privileges, but such compliance cannot be guaranteed. Underlying Shares will be available for purchase pursuant to the Oversubscription Privilege only to the extent that all the Underlying Shares are not subscribed for through the exercise of the Basic Subscription Privilege by the Expiration Date (the "Excess Shares"). If the Excess Shares so available are not sufficient to satisfy all subscriptions pursuant to the Oversubscription Privilege, the Excess Shares will be allocated pro-rata among the Holders who exercise the Oversubscription Privilege in proportion, not to the number of shares requested pursuant to the Oversubscription Privilege, but to the number of shares they have subscribed for pursuant to the Basic Subscription Privilege; provided, however, that if such pro-rata allocation results in any Holder being allocated a greater number of Excess Shares

than such Holder subscribed for pursuant to the exercise of such Holder's Oversubscription Privilege, then such Holder will be allocated only such number of Excess Shares as such Holder subscribed for and the remaining Excess Shares will be allocated among all other Holders exercising their Oversubscription Privileges. See "The Offering" and "Offering" in the Prospectus.

The Rights will expire at 5:00 p.m., New York time, on September 24, 1998, subject to extension as described in the Prospectus (the "Expiration Date").

The number of Rights to which you are entitled is printed on the face of your subscription certificate (the "Subscription Certificate"). You should indicate your wishes with regard to the exercise or sale of your Rights by completing the appropriate form or forms on your Subscription Certificate and returning the certificate to the Subscription Agent in the envelope provided.

YOUR SUBSCRIPTION CERTIFICATE MUST BE RECEIVED BY THE SUBSCRIPTION AGENT, OR GUARANTEED DELIVERY REQUIREMENTS WITH RESPECT TO YOUR SUBSCRIPTION CERTIFICATES MUST BE COMPLIED WITH, AND PAYMENT OF THE EXERCISE PRICE INCLUDING FINAL CLEARANCE OF ANY CHECKS, MUST BE RECEIVED BY THE SUBSCRIPTION AGENT, ON OR BEFORE 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE (EXCEPT IN THE CASE OF AN APPROVED PAYMENT METHOD). YOU MAY NOT REVOKE ANY EXERCISE OF A RIGHT.

1. SUBSCRIPTION PRIVILEGES; EXERCISE.

To exercise Rights, complete Section 1, Section 2, if applicable, and the Substitute Form W-9 on the reverse side of your Subscription Certificate and send your properly completed and executed Subscription Certificate, together with payment in full of the Exercise Price for all Underlying Shares subscribed for pursuant to the Subscription Privileges, to the Subscription Agent. Payment of the Exercise Price must be made (a) in U.S. dollars for the full number of Underlying Shares being subscribed for by check or bank draft drawn upon a U.S. bank or postal money order payable to American Stock Transfer and Trust Company, as Subscription Agent; (b) by wire transfer of same day funds to the account maintained by the Subscription Agent for such purpose at The Chase Manhattan Bank, Account (No. 323213251; ABA No. 021000021); or (c) in such other manner as the Company may approve in writing in the case of persons acquiring Underlying Shares at an aggregate Exercise Price of \$500,000 or more; provided that, in the case of clause (c), in any event, the full amount of such Exercise Price is received by the Subscription Agent in currently available funds by no later than the third (3rd) Nasdaq National Market trading day following the Expiration Date (the payment method under (c) being an "Approved Payment Method"). Payment of the Exercise Price will

be deemed to have been received by the Subscription Agent only upon the clearance of any uncertified check, the receipt by the Subscription Agent of any certified check or bank draft drawn upon a U.S. bank or any postal money order, the receipt of good funds in the Subscription Agent's account designated above or receipt of funds by the Subscription Agent through an Approved Payment Method. If paying by uncertified personal check, please note that the funds paid thereby may take at least five (5) business days to clear. Accordingly, Holders who wish to pay the Exercise Price by means of uncertified personal check are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment is received and cleared by such date and are urged to consider payment by means of certified or cashier's check, money order or wire transfer of funds. You

may make arrangements for the delivery of funds on your behalf and request a bank or broker to exercise the Subscription Certificate on your behalf. Alternatively, you may cause a written guarantee substantially in the form attached to these instructions (the "Notice of Guaranteed Delivery") from an "Eligible Institution" within the meaning of Rule 17Ad-15 under the Securities Act of 1934, to be received by the Subscription Agent at or prior to the Expiration Date together with payment in full of the applicable Exercise Price. Such Notice of Guaranteed Delivery must state your name, the number of Rights represented by your Subscription Certificate, the number of Underlying Shares being subscribed for pursuant to the Basic Subscription Privilege, the number of Underlying Shares, if any, being subscribed for pursuant to the Oversubscription Privilege and will guarantee the delivery to the Subscription Agent of your properly completed and executed Subscription Certificates within three (3) Nasdaq National Market trading days following the date of the Notice of Guaranteed Delivery. If this procedure is followed, your Subscription Certificates must be received by the Subscription Agent within three (3) Nasdaq National Market trading days of the Notice of Guaranteed Delivery. Additional copies of the Notice of Guaranteed Delivery may be obtained upon request from the Subscription Agent at the address, or by calling the telephone number, indicated below.

Banks, brokers and other nominee holders of Rights who exercise Rights on behalf of beneficial owners of Rights will be required to certify to the Subscription Agent and the Company, as a condition of their exercise of such Rights on behalf of such beneficial owners, as to: (1) the names of the beneficial owners on whose behalf they are acting; (2) the nominee holder's authority to so act; (3) the aggregate number of Rights to be exercised on behalf of each beneficial owner; and (4) the number of Underlying Shares that are being subscribed for pursuant to the Subscription Privileges of each beneficial owner of Rights on whose behalf

such nominee holder is acting.

If more Underlying Shares are subscribed for pursuant to the Oversubscription Privileges than are available for sale, Underlying Shares will be allocated, as described above, among persons exercising the Oversubscription Privilege in proportion to such persons' exercise of Rights pursuant to the Basic Subscription Privilege.

The address, telephone and telecopier numbers of the Subscription Agent are as follows:

American Stock Transfer
& Trust Company
40 Wall Street
New York, N.Y. 10005
Telephone: (718) 921-8200
Telecopier: (718) 234-5001

If you exercise less than all of the Rights evidenced by your Subscription Certificate by so indicating in Section 1 of your Subscription Certificate, the Subscription Agent will issue to you a new Subscription Certificate evidencing the unexercised Rights. If you choose to have a new

Subscription Certificate sent to you, however, you may not receive any such new Subscription Certificate in sufficient time to permit you to exercise the Rights evidenced thereby.

If the number of Underlying Shares being subscribed for pursuant to the Basic Subscription Privilege is not specified, you will be deemed to have exercised such Basic Subscription Privilege with respect to the maximum whole number of Shares that may be acquired for the Exercise Price payment delivered after allowances for the Exercise Price of any specified Underlying Shares. If the number of Underlying Shares being subscribed for is not specified, or full payment of the Exercise Price for the indicated number of Rights that are being exercised is not forwarded or if the payment delivered exceeds the required Exercise Price, the payment will be applied, until depleted, to subscribe for Underlying Shares in the following order: (1) to subscribe for the number of Underlying Shares indicated, if any, pursuant to the Basic Subscription Privilege; (2) to subscribe for Underlying Shares until the Basic Subscription Privilege has been fully exercised with respect to all of the Rights represented by your Subscription Certificate; and (3) to subscribe for additional Underlying Shares pursuant to the Oversubscription Privilege (subject to any applicable proration).

2. DELIVERY OF STOCK CERTIFICATES, ETC.

The following deliveries and payments will be made to the address shown on the face of your Subscription Certificate.

- (A) BASIC SUBSCRIPTION PRIVILEGE. As soon as practical after the Expiration Date, the Subscription Agent will mail to each Holder who validly exercises the Basic Subscription Privilege certificates representing shares of Common Stock purchased pursuant to the Basic Subscription Privilege.
- (B) OVERSUBSCRIPTION PRIVILEGE. As soon as practical after the Expiration Date, the Subscription Agent will mail to each Holder who validly exercises the Oversubscription Privilege a certificate representing the number of shares of Common Stock allocated to such Holder pursuant to the Oversubscription Privilege.
- (C) CASH PAYMENTS. As soon as practical after the Expiration Date, the Subscription Agent will mail to each Holder who exercises the Oversubscription Privilege, without interest, any excess funds received in payment of the Exercise Price for Underlying Shares that are subscribed for by such Holder but not allocated to such Holder pursuant to the Oversubscription Privilege.

3. EXECUTION.

(A) EXECUTION BY REGISTERED HOLDER. The signature on the Subscription Certificate must correspond with the name of the registered Holder exactly

as it appears on the face of the subscription certificate without any alteration or change whatsoever. Persons who sign the subscription certificate in a representative or other fiduciary capacity must indicate their capacity when signing and, unless waived by the Subscription Agent in its sole and absolute discretion, must certify to the Subscription Agent and the Company as to their authority to so act.

(B) EXECUTION BY PERSON OTHER THAN REGISTERED HOLDER. If the Subscription Certificate is executed by a person other than the Holder named on the face of the Subscription Certificate, proper evidence of authority of the person executing the subscription certificate must accompany the same unless, for good cause, the Subscription Agent dispenses with proof of authority.

4. METHOD OF DELIVERY.

The method of delivery of Subscription Certificates and payment of the Exercise Price to the Subscription Agent will be at the election and risk of the Holder, but, if sent by mail, it is recommended that they be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and the clearance of any checks sent in payment of the Exercise Price prior to 5:00 p.m., New York City time, on the Expiration Date.

FORM OF
CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of Mechanical Technology Incorporated and Subsidiaries on Form S-2 (File No. _____) of our report dated November 14, 1997, on our audits of the consolidated financial statements of Mechanical Technology Incorporated and Subsidiaries as of September 30, 1997 and 1996, and for the years ended September 30, 1997, 1996 and 1995. We also consent to the references to our firm under the captions "Experts" and "Selected Financial Data."

Albany, New York
July 20, 1998