

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**  
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FILER

**MECHANICAL TECHNOLOGY INC**

CIK: **64463** | IRS No.: **141462255** | State of Incorporation: **NY** | Fiscal Year End: **0930**  
Type: **10-K** | Act: **34** | File No.: **000-06890** | Film No.: **96687399**  
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

Item 8 and portions of Items 6 and 7 are omitted pursuant to Rule 12b-25

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

/X/ Annual Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the fiscal year ended September 30, 1996

or

/ / Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-6890

MECHANICAL TECHNOLOGY INCORPORATED

(Exact name of registrant as specified in its charter)

New York

14-1462255

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

968 Albany-Shaker Rd, Latham, New York

12110

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (518)785-2211

Securities Registered Pursuant to Section 12(b) of the Act: NONE

Securities Registered Pursuant to Section 12(g) of the Act

\$1.00 Par Value Common Stock

(Title of Class)

Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be  
contained, to the best of registrant's knowledge, in definitive proxy or  
information statements incorporated by reference in Part III of this Form  
10-K or any amendment to this form 10-K. [ ]

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange  
Act of 1934 during the preceding 12 months (or for such shorter period  
that the registrant was required to file such reports), and (2) has been  
subject to such filing requirements for the past 90 days.

Yes X No

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The aggregate market value of the registrant's Common Stock held by  
nonaffiliates of the registrant on December 13, 1996 (based on the last  
sale price of \$2.00 per share for such stock reported by NASDAQ for that  
date) was approximately \$6,503,372.

As of December 13, 1996, the registrant had 4,899,301 shares of Common  
Stock outstanding.

Document  
Proxy Statement for  
Annual Meeting of Shareholders  
to be held on April 16, 1997

Where Incorporated into Form 10-K Report  
Part III

## PART I

## ITEM 1: BUSINESS

Mechanical Technology Incorporated and its subsidiaries produce products and render services in two business segments:

- \* Test and Measurement
- \* Technology

The major markets for these products and services are the electronics, aerospace, capital goods, and defense industries. 72% of the Company's revenues from operations were derived from product sales in the Company's fiscal year ended September 30, 1996; the remaining 28% of revenues were derived from technology support and research and development contracts.

Mechanical Technology Incorporated was incorporated in New York in 1961. Unless the context otherwise requires, the "registrant", "Company", "Mechanical Technology", and "MTI" refers 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.

## Significant Developments in the Business

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During the third quarter of fiscal 1996 the Company announced it had reached an agreement in principle to sell its wholly owned subsidiary, Ling Electronics Inc. ("Ling"), of Anaheim, California, for an amount, to be paid in cash at closing, approximating Ling's net book value. A definitive agreement was negotiated and executed; however the buyer failed to obtain funding prior to the expiration date of the agreement. The Company has now discontinued efforts to sell Ling.

In June 1996, the Company successfully raised \$1.9 million (net of \$100 thousand in expenses) in new capital through a private placement of 1.3 million shares of Common Stock, which was sold at an offering price of \$1.50 per share. The proceeds of this placement were applied to the Company's line of credit.

The Company's wholly owned subsidiary, United Telecontrol Electronics, Inc. ("UTE") of Asbury Park, New Jersey, filed a voluntary bankruptcy under Chapter 11 of the Federal Bankruptcy Code in April 1994. During October 1994, UTE commenced an orderly liquidation and final court approval occurred during the third quarter of fiscal 1996. Accordingly, the Company no longer includes Defense/Aerospace amongst its reportable

business segments and UTE has been classified as a "discontinued operation" in the Company's Financial Statements. (See Note \_\_\_ to the accompanying Consolidated Financial Statements).

During November 1994, the Company sold all of the outstanding capital stock of its subsidiary, ProQuip Inc. ("ProQuip") of Santa Clara, CA for approximately \$13.3 million. The sale resulted in a gain of approximately \$6.8 million in fiscal 1995 and \$750 thousand, as a result of the release of escrow funds, in fiscal 1996. (See Note \_\_\_ to the accompanying Consol-

idated Financial Statements). ProQuip's financial results are included as part of the Company's Test and Measurement segment for prior fiscal year periods covered by this Form 10-K until November 22, 1994 (the date of its sale).

## Business Segments

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The Company currently conducts business in two business segments: Test and Measurement and Technology. (Certain financial information regarding the Company's business segments is included in Note \_\_\_ to the accompanying Consolidated Financial Statements and is incorporated herein by reference.) In the Test and Measurement segment, the Company primarily produces products for sale, while in the Technology segment the Company primarily performs technology support and research and development under contract. The Company believes its technology support and research and development activities provide a competitive advantage to the product segments through the performance of related research which, for the most part, is funded by outside parties.

## Test and Measurement

The Company derived 71% of its revenues from the Test and Measurement segment in 1996. Test and Measurement offers a wide range of technology-based equipment and systems for improved manufacturing, product testing, and inspection for industry. Business units in this segment include Ling Electronics Inc., Advanced Products Division, and L.A.B. Division. ProQuip Inc. was also included in this segment prior to its sale on November 22, 1994.

Ling Electronics Inc., of Anaheim, California, designs, manufactures, and markets electrodynamic shakers, high-intensity-sound transducers, 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 Advanced Products Division designs, manufactures, and markets high-performance test and measurement instruments and systems. These products

are categorized in two general product families: noncontact sensing instrumentation and computer-based balancing systems. The noncontact sensing instrumentation products utilize fiber optic, laser and capacitance technology to perform high precision position measurements for product design and quality control inspection requirements. Computer-based balancing systems include an on-wing jet engine balancing system used by both commercial and military aircraft fleet maintenance personnel.

The L.A.B. Division designs, manufactures, and markets mechanically- and hydraulically-driven test systems for package and product reliability testing. Among other uses, this equipment simulates the conditions a product will encounter during transportation and distribution including shock, compression, vibration, and impact. This type of testing is widely conducted by businesses involved in product design, packaging, and distribution.

The business units in the Test and Measurement segment have numerous customers and are not dependent upon a single or a few customers.

## Technology

The Technology segment includes the Technology Division and Turbonetics Energy, Inc. The Company derived 29% of its revenues from the Technology segment in 1996. The Technology segment engages in technology commercialization/product development, provides technical support to the Company's other divisions, has initiated several strategic/teaming relationships with other companies, and performs contract research, development, engineering, and technical services for government and commercial customers.

The Technology Division is structured into two business areas: Measurement & Diagnostics and Power & Energy Systems.

The Measurement & Diagnostics business area provides hardware and software for machine monitoring; develops sensor technology for imaging, control, and measurement; and is developing new applications for biomedical markets. This business area develops hardware and software that determines physical parameters, the health of machines, and the quality of products that machines produce. Key markets include the U.S. Air Force and several major utilities. Measurement & Diagnostics employs proprietary fiber-optic, capacitance, and laser sensors and software technology for imaging, control, and measurement. The Technology Division currently deploys an integrated structured-light mapping and 3D visualization system to support DOE environmental remediation. In partnership with a major clinic, Measurement & Diagnostics is capitalizing on the Company's strengths in sensors, instrumentation, software, and machinery dynamics to create new applications for the biomedical market.

The Power & Energy Systems business area is a leader in fuel cell development, develops electronic controls for hybrid vehicles, markets high-efficiency turbines, and develops advanced technology for rotating machinery systems. Power & Energy currently is developing fuel cell technology for both automotive and utility industry applications. This business area is developing prototype hybrid electric vehicle controls which support the introduction of fuel cell technology into the automotive market. The business area is capable of producing high-efficiency turbines, ranging in size from one to ten megawatts, in the event that deregulation of utility markets triggers demand. Power & Energy Systems also has expertise in magnetic bearings, hybrid bearings, and high-efficiency compressors.

Finally, Turbonetics Energy Inc. ("Turbonetics") previously manufactured and sold a commercial line of high efficiency steam turbines for electric power generation in the 1 to 10 MW range, through waste heat recovery application. Turbonectics is presently inactive, and activities related to this product line are being conducted within the Technology Division.

The Technology segment, either directly or as a subcontractor, received approximately 73% of its 1996 revenues (versus 77% in 1995) from various agencies of the U.S. Government; approximately 69% of the segment's revenues were derived from two agencies, the Departments of Defense and Energy. Contracts with the U.S. Government are subject to termination, at any time, by the Government either for convenience or for other causes as determined by the contracts. The Technology segment has had no government contracts terminated which when terminated resulted in a material adverse effect on the Company.

#### Backlog

The backlog of orders believed to be firm as of September 30, 1996 and 1995 is as follows:

	1996 -----	1995 -----
	(In thousands)	
Technology	\$ 1,572	\$ 2,809
Test and Measurement	6,970	4,502
	-----	-----
Total	\$ 8,542 =====	\$ 7,311 =====

All amounts shown above have been awarded by government agencies or released to manufacture by commercial customers; however, approximately \$40 thousand of the orders included in the September 30, 1996 backlog may not be filled during the Company's current fiscal year (as compared to approximately \$70 thousand not expected to be so filled at the end of the prior year).

## Marketing and Sales

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The Company sells its products and services through a combination of a direct sales force, manufacturer's representatives, distributors and commission salesmen. Each business unit is responsible for its own sales organization. Typically, the Company's product businesses employ regional manufacturer's representatives on an exclusive geographic basis to form a nationwide or worldwide distribution organization; the business unit is responsible for marketing and sales management and provides the representatives with sales and technical expertise on an "as-required" basis. To a great extent, the marketing and sales of the Company's larger products and systems consist of a joint effort by the business unit's senior management, its direct sales force, and manufacturer's representatives to sophisticated customers. The manufacturer's representatives are compensated on a commission basis.

The Company's technology support and research and development services are sold on a direct basis. Reputation and personal contacts within the specialized technical areas are critical to the identification and receipt of support contracts. The Company believes it has an excellent reputation within the technical areas in which it operates.

## Research and Development

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The Company conducts considerable research and development. The following table summarizes company- and customer-sponsored expenditures on technology support, research and development, and product development for the last three years:

	1996	1995	1994
	-----	-----	-----
	(In thousands)		
Company-Sponsored	\$ 1,263	\$ 1,425	\$ 3,270
Customer-Sponsored	5,946	8,492	7,742
	-----	-----	-----
Total	\$ 7,209	\$ 9,917	\$11,012
	=====	=====	=====

While the amount estimated above as customer-sponsored research activities is often not directly related to the development of new products or the improvement of existing products, it is the belief of the Company that these expenditures contribute to the growth of the Company's technological base.

## Product Protection

The Company holds numerous patents and rights in various fields of technology. However, these patents, either individually or collectively, are not believed to be material to the success of any of the Company's business segments. The technology of the Company is generally an advancement of the "state of the art", and the Company expects to maintain a competitive position by continuing such advances rather than relying on patents. Licenses to other companies to use Company-developed technology have been granted. Licenses which have been granted or agreed to be granted have been and are expected to be of benefit to the Company, though royalty income received in recent years has not been material in amount and is not expected to be material in the foreseeable future.

#### Competition

The Company and each of its business segments are subject to intense competition. In each of its business segments, the Company faces competition from at least several companies, many of which are larger than MTI and have greater financial resources. While the business units in the Company's Test and Measurement segment each have a major share of their respective markets, the Company does not consider any of them to be dominant within its industry. The Company's Technology Division has a negligible share of its respective market and competes with dozens (and perhaps hundreds) of competing providers of similar products and services, many of whom have greater financial and technical resources.

The primary competitive considerations in the business segments in which the Company operates are: product quality and performance, price, and timely delivery. The Company believes that its research and development skills and reputation are competitive advantages.

#### Employees

The total number of employees of the Company and its subsidiaries was 233 as of September 30, 1996, compared to 232 as of the beginning of the fiscal year.

#### Executive Officers

The executive officers of the registrant (all of whom serve at the pleasure of the Board of Directors), their ages, and the position or office held by each, are as follows:

Position or Office	Name	Age
Chief Executive Officer and a Director	R. Wayne Diesel	51



President and Chief Operating Officer	Martin J. Mastroianni	52	
Chief Financial Officer	Stephen T. Wilson	44	
Vice-President and General Manager Technology Division	Douglas McCauley	48	
President and Chief Operating Officer, Ling Electronics Inc.	Stephen S. Sullivan		62
Vice-President and General Manager, LAB Division and Advanced Product Division	Denis P. Chaves	56	

Mr. Diesel was elected Chief Executive Officer of the Company in February 1994, and prior to December 1996, also held the title of President. Prior to February 1994, he had been Chief Financial Officer since 1991 and President since March 1993 of Lawrence Management Group, and Treasurer of the Lawrence Insurance Group, Inc. since March 1993. From 1988 until his association with Lawrence Group, Inc., Mr. Diesel was Administrative Vice President responsible for corporate administration, human resources and strategic planning at KeyCorp. Previously, he held various executive positions with the State of New York.

Mr. Mastroianni was appointed President and Chief Operating Officer of the Company in December 1996. Prior to joining the Company, he served

most recently as Director, Transmission Power Delivery for the Electric Power Research Institute (EPRI) where he was employed since 1992. Previously, between 1973 to 1992, he held senior management positions in the technology driven test and measurement industries with Vacuum Components, Inc., Tenney Engineering, Inland Vacuum Industries, Halocarbon Products, Inc., and Allied Signal Corporation.

Mr. Wilson joined the Company in March 1995 and was appointed Chief Financial Officer. Prior to joining the Company, he had been the Manager-Corporate Accounting/Banking of Lawrence Management Group since January 1991. Prior to 1991, he held various management positions with Fleet Financial Group.

Mr. McCauley has been Vice-President and General Manager of the Technology Group since August 1994. He was previously Director of Business Development from January 1989 to September 1991 and from October 1993 to August 1994. From October 1991 to October 1993 he had been Vice President of Corporate Development for Chamberlain Manufacturing Corporation, responsible for business conversion from defense to commercial products. Prior to 1989, he held various management positions with the General Electric Company.

Mr. Sullivan has been President and Chief Operating Officer of Ling Electronics Inc., a wholly owned subsidiary of the Company, since August 1992. Mr. Sullivan was previously Executive Vice President of Ling Electronics Inc. from January 1990 through August 1992. Prior to 1990, he held various management positions with Ling Electronics Inc. since his employment in 1977.

Mr. Chaves has been Vice-President and General Manager of the Company's Advanced Products Division since 1987 and Vice-President and General Manager of the Company's LAB Division since January 1994. Previously, he served as Manager of Corporate Marketing for the Company from 1981 to 1987.

## ITEM 2: PROPERTIES

The Company and its subsidiaries presently own or lease real estate principally in New York and California. In management's opinion, these facilities are generally well maintained and are adequate to meet the Company's current and anticipated future needs.

### Owned Properties

The Company's corporate headquarters and certain of its research and development and manufacturing facilities are located in a three-building complex of approximately 103,000 square feet on 38 acres in Latham, New York, which is owned by the Company. This complex is divided approximately equally between office and laboratory-manufacturing areas. Corporate staff, the Technology segment, and the Advanced Products Division (part of the Test and Measurement segment) are located at the Latham facility.

The property referred to in the preceding paragraph is subject to mortgages to secure the Company's indebtedness described in Note \_\_\_ to the accompanying Consolidated Financial Statements.

### Leased Properties

The Company and its subsidiaries lease the following facilities in which its various business units conduct operations; generally, these are stand-alone low-rise buildings containing primarily manufacturing space, with some portion of each used for office space.

Location	Approximate Square feet	Segment Used By	Lease Expires
-----	-----	-----	-----

Anaheim, CA	85,000	Test and Measurement	June, 1998
Malta, NY	18,000	Technology	Dec., 1999
Skaneateles, NY	18,000	Test and Measurement	June, 1998

In addition to the above properties, the Company and its subsidiaries lease several small offices for field engineering and/or marketing personnel at various locations in the United States and United Kingdom.

### ITEM 3: LEGAL PROCEEDINGS

At any point in time, the Company and its subsidiaries may be involved in various lawsuits or other legal proceedings; these could arise from the sale of products or services or from other matters relating to its regular business activities, could relate to compliance with various governmental regulations and requirements, or could be based on other transactions or circumstances. The Company does not believe there are any such proceedings presently pending which, if ultimately resolved in a manner adverse to the Company, could have a material adverse effect on the Company's financial position except for the matters described in Note \_\_\_ to the accompanying Consolidated Financial Statements (which description is incorporated herein by reference), and the matter discussed below (as to which matter the Company considers the likelihood of a material adverse outcome to be remote).

In October 1989, the Environmental Protection Agency (EPA) issued an Order alleging that there has been a release of hazardous materials into the environment at a site in Malta, New York (the "Site") at which the Company leased a facility and directing the "potentially responsible parties" ("PRPs"), including the Company, to undertake a remedial investigation and feasibility study (RI/FS) of the Site. The Company, however, believes that it is not responsible for any release of hazardous substances that may have occurred at the Site, and has denied any liability for the matter.

In August 1996, after the Site investigation was completed, EPA demanded that a remedial plan be undertaken by the PRPs and that EPA be reimbursed for cost it incurred with respect to the Site. Efforts have been underway between the PRPs and EPA to negotiate a settlement of all claims; a tentative settlement has been negotiated among the PRPs but has not yet been approved by EPA. There is no assurance that the proposed settlement will be completed, however the Company considers the likelihood of a material adverse outcome to be remote and does not expect that any expense or liability it may incur as a result of this matter in the future will be material.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the registrant's security holders during the fourth quarter of fiscal 1996.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

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 NASD's electronic OTC Bulletin Board. Set forth below are the highest and lowest prices at which shares of the Company's Common Stock have been traded during each of the Company's last two fiscal years.

	High	Low
Fiscal Year 1996	-----	-----
First Quarter	1-1/8	3/8
Second Quarter	3-1/2	5/16
Third Quarter	3-1/4	1-1/2
Fourth Quarter	2-7/8	1-3/4
Fiscal Year 1995		
First Quarter	3/8	1/16
Second Quarter	1-3/8	3/8
Third Quarter	2	1-1/4
Fourth Quarter	1-5/8	15/16

Number of Equity Security Holders

Title of Class	Approximate Number of Record Holders* (as of December 13, 1996)
Common Stock, \$1.00 Par Value	535

\*In addition, there are approximately 505 beneficial owners holding stock in "street" name.

Dividends

The Company has never paid cash dividends on its Common Stock. Subject to the terms of the Company's loan agreements (described in Note \_\_\_ to the accompanying Consolidated Financial Statements), under which the payment of cash dividends is currently prohibited, the payment of dividends is within the discretion of the Company's Board of Directors and will depend, among other factors, on earnings, capital requirements, and the operating and financial condition of the Company. The Company does not

anticipate paying dividends in the foreseeable future.

ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth summary financial information regarding Mechanical Technology Incorporated for the years ended September 30, as indicated:

(In thousands, except per share amounts)

	1996	1995	1994	1993	1992
	-----	-----	-----	-----	-----
Net Sales	\$31,901	\$29,748	\$40,234	\$41,500	\$42,462
Income (Loss) from Continuing Operations	509 (1)	2,922 (2)	141	1,162	(335)
Net Income (Loss)	3,748	2,922	(24,378)	1,056	57
Earnings (Loss) Per Share:					
From Continuing Operations	.13	.82	.04	.33	(.09)
Net Income (Loss)	.96	.82	(6.91)	.30	.02

As of September 30:

Total Assets	14,452	14,483	25,317	42,428	38,890
Long-term Obligations	*	6,222	2,144 (3)	11,699	13,142

\* omitted pursuant to Rule 12b-25.

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(1) Includes \$750 thousand gain from the sale of ProQuip resulting from the release of escrow funds. (See Note \_\_\_ to the accompanying Consolidated Financial Statements).

(2) Includes ProQuip (sold in November 1994) results through the sale date and the \$6.8 million gain on its sale. All prior periods include the results of ProQuip. (See Note \_\_\_ to the accompanying Consolidated Financial Statements).

(3) Does not include approximately \$8.0 million classified as a current liability and paid in the first quarter of fiscal year 1995 from the net proceeds received from the sale of ProQuip in November 1994.

Consistent with 1996 data, prior years have been restated to reflect the Defense/Aerospace segment as a discontinued operation. (See Note \_\_\_ to the accompanying Consolidated Financial Statements).

There were no cash dividends on common stock declared for any of the periods presented.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

As described in Note \_\_\_ to the accompanying Consolidated Financial Statements, the Company's United Telecontrol Electronics, Inc. ("UTE") subsidiary filed for voluntary bankruptcy under Chapter 11 of the Federal Bankruptcy Code in April 1994 and commenced an orderly liquidation in October 1994. In June 1996 the Bankruptcy Court confirmed UTE's plan of liquidation under which the Company was released from all remaining liabilities related to UTE's bankruptcy. Accordingly, UTE's results and the impact of the liquidation on the Company's results have been classified as "discontinued operations" in the Consolidated Financial Statements.

The Company recorded the effect of the final liquidation of UTE during fiscal year 1996. Final adjustments to the Company's financial statements as a result of the UTE bankruptcy are reflected in income from discontinued operations. For 1996, income from discontinued operations of \$3.2 million was recorded as a result the Company's release from all remaining liabilities. No income (loss) from discontinued operations was recorded for fiscal year 1995, and a \$24.5 million net loss was recorded in 1994 for discontinued operations, including \$15.4 million to write down all assets to net realizable value and establish a reserve for estimated future termination and liquidation cost.

In November 1994, the Company sold its ProQuip Inc. ("ProQuip") subsidiary for approximately \$13.3 million, of which \$750 thousand was placed in escrow for fifteen months to provide a fund for indemnity payments. As of February 22, 1996 (the escrow expiration date), no claim had been filed, nor was the company aware of any circumstances which might give rise to future claims. Accordingly, the Company recognized the remaining \$750 thousand gain from the sale during the second quarter of fiscal 1996. Prior year information contains ProQuip results through its sale date (November 22, 1994) and the \$6.8 million gain on its sale. (See Note \_\_\_ to the accompanying Consolidated Financial Statements).

Results of Operations: 1996 in Comparison with 1995

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[Omitted pursuant to Rule 12b-25.]

Results of Operations: 1995 in Comparison with 1994

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The following discussion and analysis relates only to the Company's continuing operations which included ProQuip prior to its sale in

November 1994:

Sales for 1995 of \$29.7 million were \$10.5 million or 26.1% lower than 1994. The decrease in sales was entirely attributable to the sale of ProQuip. Excluding ProQuip, sales increased \$2.2 million or 8.6% in 1995 as compared to 1994.

Selling, general and administrative expenses for 1995 were 27.2% of sales, versus 24.7% in 1994. Product development and research costs for 1995 were 4.8% of sales versus 8.1% in 1994. The Company continued to narrow the focus of its internal research and development activities. Due to continuing operating and cash flow losses at Ling Electronics, Inc. ("Ling"), a \$1.6 million impairment loss was recognized in 1995 to reduce the carrying value of the Company's investment in that subsidiary.

As reported in Note \_\_\_ to the accompanying Consolidated Financial Statements, the Company sold its ProQuip subsidiary for \$13.3 million which resulted in a gain of \$6.8 million before income taxes.

1995 income from continuing operations of \$2.9 million was \$2.8 million higher than 1994. The increase is attributed to the \$6.8 million gain on the sale of ProQuip reduced by the \$1.6 million impairment loss on Ling; in addition, 1994 included a \$1.9 million gain on the sale of a building.

The Test and Measurement segment's financial results include ProQuip until November 22, 1994, the date of its sale. The Test and Measurement segment recorded sales of \$18.1 million in 1995, \$11.6 million lower than the \$29.7 million in 1994. The decrease in sales was entirely attributable to the sale of ProQuip. Excluding ProQuip, the Test and Measurement segment reported a sales increase of \$1.1 million or 7.4%. LAB, Advanced Products, and Ling divisions reported sales increases of 28%, 11%, and 3%, respectively. The Operating results of the Test and Measurement segment for 1995 were a \$2.0 million loss (including an impairment loss of \$1.6 million; see Note \_\_\_ to the accompanying Consolidated Financial Statements) as compared to a \$2.2 million profit in the prior year. Excluding ProQuip and the impairment loss, the operating results were a \$1.1 million loss as compared to a \$1.9 million loss or a \$800 thousand reduction in operating losses, 1995 compared to 1994. All divisions reported improvements, however, Ling reported an operating loss of \$2.0 million (excluding impairment loss) for 1995 compared to \$2.6 million loss for 1994. Ling's poor results reflect continued inadequate margins, unfavorable adjustments to inventory, account receivable write-offs, and severance cost associated with work force reductions. Export license restrictions on certain of Ling's products, imposed in the first quarter of the fiscal year 1995, caused numerous inefficiencies and delays in shipments.

The Technology segment recorded sales of \$11.6 million in 1995, \$1.1 million or 10% higher than the \$10.5 million recorded in 1994. The

operating loss for 1995 was \$463 thousand or a \$1.4 million improvement from the \$1.9 million loss recorded in 1994. The segment's performance was favorably impacted by work completed on a major new order along with lower product development and selling expenses, partially offset by a contract cost overrun of \$243 thousand, and inventory write-offs of \$160 thousand on a contract with performance contingencies and \$150 thousand on the unsuccessful funding of an anticipated project.

#### Liquidity and Capital Resources

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[Omitted pursuant to Rule 12b-25.]

#### ITEM 8: FINANCIAL STATEMENTS

[Omitted pursuant to Rule 12b-25.]

#### ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### PART III

#### ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the caption "Executive Officers" in Item 1 of this Form 10-K Report, and the information which will be set forth in the section entitled "Election of Directors", and under the captions "Security Ownership of Certain Beneficial Owners" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the section entitled "Additional Information", in the definitive Proxy Statement to be filed by the registrant, pursuant to Regulation 14A, for its Annual Meeting of Shareholders to be held on April 16, 1997 (the "1997 Proxy Statement"), is incorporated herein by reference.

#### ITEM 11: EXECUTIVE COMPENSATION

The information which will be set forth under the captions "Executive Compensation", "Compensation Committee Report", "Compensation Committee Interlocks and Insider Participation", "Employment Agreements", and "Directors Compensation", in the section entitled "Additional Information" in the registrant's 1997 Proxy Statement, is incorporated herein by reference.

#### ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND



MANAGEMENT

The information which will be set forth under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in the section entitled "Additional Information" in the registrant's 1997 Proxy Statement is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information which will be set forth under the caption "Certain Information Regarding Nominees" in the section entitled "Election of Directors", and under the captions "Directors Compensation", "Security Ownership of Certain Beneficial Owners", and "Certain Relationships and Related Transactions", in the section entitled "Additional Information", in the registrant's 1997 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The financial statements to be filed herewith are omitted pursuant to Rule 12b-25.

The following exhibits are filed as part of this Report:

Exhibit Number -----	Description -----
2.1	Purchase Agreement, dated as of November 23, 1994, among the Registrant, ProQuip Inc. and Phase Metrics.(7)
3.1	Certificate of Incorporation of the registrant, as amended.(1)
3.2	By-Laws of the registrant, as amended.
4.1	Certificate of Amendment of the Certificate of Incorporation of the registrant, filed on March 6, 1986 (setting forth the provisions of the Certificate of Incorporation, as amended, relating to the authorized shares of the registrant's Common Stock) - included in the copy of the registrant's Certificate of Incorporation, as amended, filed as Exhibit 3.1

hereto.

- 4.20 Loan Agreement, dated as of June 1, 1987, between the registrant and Chase Lincoln First Bank, N.A. ("Chase Lincoln"), relating to a \$20,000,000 term loan to finance the registrant's acquisition of United Telecontrol Electronics, Inc. (the "UTE Loan Agreement").(1)
- 4.21 First Amendment to Loan Agreement, dated as of September 30, 1988, amending certain provisions of the UTE Loan Agreement.(1)
- 4.22 Second Amendment to Loan Agreement, dated as of February 21, 1990, amending certain provisions of the UTE Loan Agreement.(1)
- 4.24 Third Amendment to Loan Agreement, dated as of January 1, 1991, amending certain provisions of the UTE Loan Agreement.(2)
- 4.25 Form of Note, in the amount of \$9,181,700, executed by the registrant on January 1, 1991 to evidence its indebtedness under the UTE Loan Agreement.(2)
- 4.26 Form of Note, in the amount of \$2,000,000, executed by the registrant on January 1, 1991 to evidence its indebtedness under the UTE Loan Agreement.(2)
- 4.27 Form of Note, in the amount of \$1,000,000, executed by the registrant on January 1, 1991 to evidence its indebtedness under the UTE Loan Agreement.(2)
- 4.28 Mortgage, dated January 31, 1991, executed by the registrant in favor of Chase Lincoln and securing the registrant's obligation to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(2)
- 4.30 Loan Agreement, dated as of September 30, 1988, between the registrant and Chase Lincoln relating to an \$8,000,000 term loan to finance the registrant's acquisition of ProQuip, Inc. (the "ProQuip Loan Agreement").(1)

- 4.31 Negative Pledge Agreement, dated as of September 30, 1988, executed by the registrant in favor of Chase Lincoln in connection with the ProQuip Loan Agreement. (1)
- 4.32 Security Agreement, dated as of September 30, 1988, executed by the registrant in favor of Chase Lincoln and securing the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements (the "Chase Lincoln Security Agreement"). (1)
- 4.33 First Amendment to Loan Agreement, dated as of February 21, 1990, amending certain provisions of the ProQuip Loan Agreement. (1)
- 4.34 Form of Note, in the amount of \$3,375,817.80, executed by the registrant on February 21, 1990 to evidence its indebtedness under the ProQuip Loan Agreement. (1)
- 4.35 Amendment Number One to Security Agreement, executed by the registrant on February 21, 1990, amending the Chase Lincoln Security Agreement. (1)
- 4.36 Mortgage, dated February 21, 1990, executed by the registrant in favor of Chase Lincoln and securing the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements. (1)
- 4.37 Second Amendment to Loan Agreement, dated as of January 1, 1991, amending certain provisions of the ProQuip Loan Agreement. (2)
- 4.38 Mortgage Modification and Allocation Agreement, dated January 1, 1991, executed by the registrant and Chase Lincoln. (2)
- 4.40 Form of Payment Guaranty, dated as of September 1, 1988 [as of September 30, 1988, in the case of ProQuip, Inc.], executed by the subsidiaries of the registrant in favor of Chase Lincoln and guaranteeing payment of the registrant's

obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(1)

4.41 Form of Negative Pledge Agreement, dated as of September 30, 1988, executed by the subsidiaries of the registrant in favor of Chase Lincoln in connection with the ProQuip Loan Agreement.(1)

4.42 Form of Security Agreement, dated as of September 30, 1988, executed by the subsidiaries of the registrant in favor of Chase Lincoln and securing the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(1)

4.43 Acknowledgment, Confirmation and Further Agreement, made as of February 21, 1990, executed by the subsidiaries of the registrant in favor of Chase Lincoln with respect to the registrant's obligations under the UTE and ProQuip Loan Agreements.(1)

4.50 Debt Restructure Agreement, made as of February 21, 1990, between the registrant, Chase Lincoln, and Manufacturers Hanover Trust Company ("Manufacturers Hanover"), providing for a restructuring of the registrant's indebtedness to Chase Lincoln under the UTE and ProQuip Loan Agreements and of the registrant's outstanding indebtedness to Manufacturers Hanover (the "MHTCo. Existing Debt"), among other things.(1)

4.55 Second Amendment to Debt Restructure Agreement, made as of January 1, 1991, between the registrant, Chase Lincoln, and Manufacturers Hanover, amending certain provisions of the Debt Restructure Agreement.(2)

4.56 Second Debt Restructure Agreement, as of July 22, 1992, between the registrant, Chase Lincoln First Bank, N. A. ("CLFB"), and Chemical Bank ("Chemical"), as successor in interest to Manufacturers

Hanover Trust Company, providing for a restructuring of the registrant's indebtedness to CLFB under the UTE and ProQuip Loan Agreements and of the registrant's outstanding indebtedness to Chemical, among other things.(3)

- 4.63 Promissory Note, in the amount of \$4,000,000 and dated July 22, 1992, executed by the registrant to evidence its indebtedness to Chemical from time to time with respect to a line of credit in such amount (The Chemical Line of Credit).(3)
- 4.64 Form of Payment Guaranty, dated as of July 24, 1992, executed by Masco Corporation in favor of Chemical and guaranteeing payment of the registrant's obligations to Chemical under the Chemical Line of Credit.(3)
- 4.65 Promissory Note, in the amount of \$4,000,000 and dated October 31, 1994, extending the maturity date of the Promissory note dated July 22, 1992, executed by the registrant to evidence its indebtedness to Chemical under The Chemical Line of Credit.(8)
- 4.66 Promissory Note, in the amount of \$4,000,000 and dated October 31, 1995, extending the maturity date of the Promissory note dated October 31, 1994, executed by the registrant to evidence its indebtedness to Chemical under The Chemical Line of Credit.(9)
- 4.67 Form of Payment Guaranty, dated October 31, 1995 executed by Masco Corporation in favor of Chemical and guaranteeing payment of the registrant's obligations to Chemical under the Chemical Line of Credit.(9)
- 4.80 Amended and Restated Loan Agreement, dated as of July 22, 1992, between the registrant and Chase Lincoln First Bank, N.A., which amends, restates, combines, and supersedes in full the UTE and the ProQuip loan agreements.(3)
- 4.81 Form of Note, in the amount of \$5,000,000, executed by the registrant on July 24, 1992

- to evidence its indebtedness to CLFB under the July 22, 1992 Loan Agreement.(3)
- 4.82 Form of Note, in the amount of \$7,984,770, executed by the registrant on July 24, 1992 to evidence its indebtedness to CLFB under the July 22, 1992 Loan Agreement.(3)
- 4.83 Additional Mortgage Note, dated July 24, 1992, executed by the registrant in favor of CLFB and securing the registrant's obligation to CLFB under the Loan Agreement.(3)
- 4.84 Additional Mortgage and Security Agreement, dated as of July 22, 1992, executed by the registrant in favor of CLFB and securing the registrant's obligations to CLFB.(3)
- 4.85 Mortgage Consolidation, Spreader, Modification Extension and Security Agreement, dated July 22, 1992, executed by the registrant and CLFB.(3)
- 4.86 Confirmation of Guaranties and Security Agreements, dated July 22, 1992, executed by subsidiaries of the registrant in favor of CLFB with respect to the registrant's obligations to CLFB.(3)
- 4.87 Consent and waiver, dated December 21, 1993, from CLFB to the registrant with respect to the Amended and Restated Loan Agreement.(5)
- 4.88 Amendment One to Amended and Restated Loan Agreement, dated as of August 1, 1994, between the registrant and Chase Manhattan Bank, N. A. which amends the Amended and Restated Loan Agreement to defer the payment due on June 30, 1994.(6)
- 4.89 Amendment Two to Amended and Restated Loan Agreement with waiver, dated as of November 22,1994, between the registrant and Chase Manhattan Bank, N. A. which amends the Amended and Restated Loan Agreement and waives any existing defaults.(8)
- 4.90 Additional Mortgage and Security Consolidation Agreement, dated as of October 6, 1995 executed by the registrant in favor of Chase Manhattan

- Bank, N.A. and securing the registrant's obligations to Chase Manhattan Bank, N.A.(9)
- 4.91 Form of Note, in the amount of \$340,000, executed by the registrant on October 6, 1995 to evidence its indebtedness to Chase Manhattan Bank, N.A. under the July 22, 1992 Loan Agreement.(9)
- 4.92 Amendment Three to Amended and Restated Loan Agreement with waiver, dated as of November 30, 1995, between the registrant and Chase Manhattan Bank, N. A. which amends the Amended and Restated Loan Agreement and waives any existing defaults.(9)
- 10.1 Mechanical Technology Incorporated Restricted Stock Incentive Plan - filed as Exhibit 28.1 to the registrant's Form S-8 Registration Statement No. 33-26326 and incorporated herein by reference.
- 10.3 MTI Employee 1982 Stock Option Plan.(1)
- 10.4 Agreement, dated December 21, 1993, between UTE, First Commercial Credit Corporation ("FCCC") and the registrant, relating to an advance against certain receivables.(5)
- 10.6 Agreement, dated June 2, 1993, between the registrant and Mr. Harry Apkarian, Director, regarding his employment.(5)
- 10.7 Agreement, dated February 22, 1994, between the registrant and Mr. R. Wayne Diesel, President and Chief Executive Officer, regarding his employment.(8)
- 10.8 Agreement, dated December 14, 1994, between FCCC and the registrant, modifying the Agreement dated December 21, 1993 relating to an advance against certain receivables.(8)
- 10.9 Agreement, dated May 30, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.10 Agreement, dated June 28, 1995, between FCCC and the registrant, extending the maturity of

the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)

- 10.11 Agreement, dated September 21, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.12 Agreement, dated October 25, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.13 Agreement, dated December 27, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.14 Mechanical Technology Incorporated Stock Incentive Plan - included as Appendix A to the registrant's Proxy Statement, filed pursuant to Regulation 14A, for its December 20, 1996 Special Meeting of Shareholders and incorporated herein by reference.
- 10.15 Agreement, dated December 6, 1996, between the registrant and Mr. Martin J. Mastroianni, President and Chief Operating Officer, regarding his employment.

21 Subsidiaries of the registrant.

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

(1) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report, as amended, for its fiscal year ended September 30, 1989.

(2) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-Q Report for its fiscal quarter ended December 29, 1990.

(3) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-Q Report for its fiscal quarter ended June 27,



1992.

(4) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for its fiscal year ended September 30, 1991.

(5) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for its fiscal year ended September 30, 1993.

(6) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-Q Report for its fiscal quarter ended July 2, 1994.

(7) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 8-K Report dated November 23, 1994.

(8) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for its fiscal year ended September 30, 1994.

(9) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for its fiscal year ended September 30, 1995.

(b) No reports on Form 8-K were filed by the registrant during the last quarter of the period covered by this Form 10-K Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MECHANICAL TECHNOLOGY INCORPORATED

Date: December 30, 1996

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By: /s/ R. Wayne Diesel

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R. Wayne Diesel  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE

TITLE

DATE

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/s/ George C. McNamee ----- George C. McNamee	Chairman of the Board of Directors	12/30/96
/s/ R. Wayne Diesel ----- R. Wayne Diesel	Chief Executive Officer (Principal Executive Officer) and a Director	"
/s/ Stephen T. Wilson ----- Stephen T. Wilson	Chief Financial Officer (Principal Financial and Accounting Officer)	"
/s/ Harry Apkarian ----- Harry Apkarian	Director	"
/s/ Alan P. Goldberg ----- Alan P. Goldberg	Director	"
/s/ Stanley Landgraf ----- Stanley Landgraf	Director	"
/s/ E. D. O'Connor ----- E. D. O'Connor	Director	"
/s/ Dr. Beno Sternlicht ----- Dr. Beno Sternlicht	Director	"

BY-LAWS  
OF  
MECHANICAL TECHNOLOGY INCORPORATED

As amended thru 6/96

BY-LAWS  
OF  
MECHANICAL TECHNOLOGY INCORPORATED

1. The principal office of the corporation shall be in the City of Latham, County of Albany, State of New York.

2. The corporation may also have offices at such other places as the Board of Directors may from time to time determine or the business of the corporation may require.

MEETINGS OF STOCKHOLDERS

3. All meetings of the stockholders shall be held at the principal office of the corporation or at such place within the State of New York as the Board of Directors shall authorize.

4. The annual meeting of the stockholders shall be held on such business day in each year, at such time and place as the Board of Directors by resolution may fix. At the annual meeting the stockholders shall elect a Board of Directors and transact such other business as may properly come before the meeting.

5. Written notice of every meeting of stockholders, stating the purpose or purposes for which the meeting is called, the time when and the place within the State of New York where it is to be held, shall be served, either personally or by mail, upon each stockholder entitled to vote at such meeting and upon each stockholder of record who, by reason of any action proposed at such meeting, would be entitled to have his stock appraised if such action were taken, not less than ten nor more than forty days before the meeting. If mailed, such notice shall be directed to a stockholder at his address as it shall appear on the books of the corporation unless he shall have filed with the Secretary of the corporation a written request that notices intended for him be

mailed to some other address, in which case it shall be mailed to the address designated in such request. Notice of all meetings may be waived by any stockholder by written waiver or by personal attendance thereat.

6. Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called by resolution of the Board of Directors or by the President, and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors or at the request in writing by stockholders owning a majority in amount of the capital stock of the corporation issued and outstanding. Such request shall state the purpose or purposes of the proposed meeting. The president may, in his discretion, call a special meeting of stockholders upon ten days' notice.

7. Business transacted at all special meetings shall be confined to the purposes stated in the notice of meeting.

8. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation or by these by-laws.

9. If a quorum shall not be present or represented, the

stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be presented or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

10. When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the certificate of incorporation or of these by-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

11. Each stockholder of record having the right to vote shall be entitled at every meeting of the stockholders of the corporation to one vote for each share of stock having voting power standing in the name of such stockholder on the books of the corporation, and such votes maybe cast either in person or by written proxy.

12. Every proxy must be executed in writing by the stockholder or by his duly authorized attorney. No proxy shall be valid after the expiration of eleven months from the date of its execution unless it shall have specified therein its duration. Every proxy shall be revocable at the pleasure of the person executing it or of his personal representatives or assigns.

#### DIRECTORS

13. The Board of Directors shall consist of not less than five (5) nor more than fifteen (15) Directors as determined by the Board from time to time, who need not be stockholders of the Corporation, all of whom shall be of full age and at least one of whom shall be a citizen of the United States and a resident of the State of New York. They shall be elected at the annual meeting of the stockholders and each Director shall serve for one year and until his successor shall be elected and shall qualify.

14. If the office of any Director or Directors becomes vacant for any reason, the Directors in office may choose a successor or successors who shall hold office for the unexpired term in respect to which such vacancy occurred or until the next election of Directors, or any vacancy may be filled by the stockholders at any meeting thereof. Any Director may be removed either with or without cause, at any time, by vote of the stockholders at any meeting called for the purpose.

15. The business of this corporation shall be managed by its Board of Directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws required to be exercised or done by the stockholders.

#### MEETINGS OF THE BOARD

16. The Directors may hold their meetings at the office of the corporation, or at such other places, either within or without the State of New York, as they may from time to time determine.

17. Regular meetings of the Board may be held without notice at such time and place as shall from time to time be determined by resolution of the Board.

18. Special meetings of the Board may be called by the President on five days' notice to each Director either personally or by mail or by wire; special meetings shall be called by the President or Secretary in a like manner on the written request of two Directors. Notice of meeting may be waived by any Director by written waiver or by personal attendance thereat.

19. At any meeting at which every member of the Board of Directors shall be present, though held without notice, any business may be transacted which might have been transacted if the meeting had been duly called.

20. At all meetings of the Board the presence of a majority of the entire number of Directors shall be necessary to constitute a quorum and sufficient for the transaction of business.

21. Any act of a majority present at a meeting, at which there is a quorum, shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws.

22. If a quorum shall not be present at any meeting of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

22.A. Any one or more members of the Board or any Committee thereof may participate in a meeting of such Board or Committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at such meeting.

#### WAIVER OF NOTICE

23. Whenever by statute the provisions of the certificate of incorporation or these by-laws, the stockholders or the Board of Directors are authorized to take any action after notice, such notice may be waived, in writing, before or after the holding of the meeting, by the person or persons entitled to such notice, or, in the case of a stockholder, by his attorney thereunto authorized.

#### OFFICERS

24. The officers of the corporation shall be a President, a Vice-President, a Secretary and a Treasurer. Any officer may hold more than one office.

25.A. The Directors shall elect from amongst their members a Chairman who shall preside at all meetings of the stockholders and Directors. The Chairman shall serve for one year or until a successor shall have been elected and qualified.

25.B. The Directors shall elect from amongst their members a President who shall serve until a successor has been elected and qualified.

25.C. The Directors shall elect from amongst their members a Chief Operating Officer and Chief Executive Officer to serve until a successor shall have been elected and qualified. These positions may be held by one or more person at the discretion of the Directors.

25.D. The Directors shall choose a vice-president, a secretary and a treasurer who need not be members of the board.

26. The Board may appoint such other officers, agents and employees as it shall deem necessary who shall have such authority and shall perform such duties as from time to time shall be prescribed by the Board.

27. The salaries of all officers of the corporation shall be fixed by the Board of Directors.

28. The officers of the corporation shall hold office for one year and until their successors are chosen and qualify in their stead. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Directors. If the office of any officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

#### THE PRESIDENT

29. The President shall be the executive officer of the corporation; he shall have the management of the business of the

corporation and shall see that all orders and resolutions of the Board are carried into effect.

#### VICE-PRESIDENT

30. The Vice-President in the absence or disability of the President shall perform the duties and exercise the powers of the President and shall perform such other duties as the Board of Directors shall prescribe.

#### THE SECRETARY

31. The Secretary shall attend all sessions of the Board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose. He shall give or cause to be given notice of all meetings of stockholders and special meetings of the Board of Directors and shall perform such other duties as may be prescribed by the Board of Directors. He shall keep in safe custody the seal of the Corporation and affix it to any instrument when authorized by the Board of Directors.

#### THE TREASURER

32. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the President and Directors at the regular meetings of the Board, or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the corporation.

33. He shall, if required by the Board, give the corporation a bond in such sum or sums and with such surety or sureties as shall be satisfactory to the Board, conditioned upon the faithful performance of his duties and for the restoration to the corporation in case of his death, resignation, retirement or removal from office of all books, papers, vouchers, money and other property of whatever kind in his possession, or under his control belonging to the corporation.

#### CERTIFICATES OF STOCK

34. The certificates of stock of the corporation shall be numbered and entered in the books of the corporation as they are issued. They shall exhibit the holder's name or identity and the number of shares and shall be signed by the Chairman or President and the Secretary or Treasurer and shall bear the corporate seal.

#### LOST CERTIFICATES



35. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation, alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or give the corporation a bond in such sum and with such surety or sureties as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

#### TRANSFERS OF STOCK

36. Upon surrender to the corporation or the transfer agent of the corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, and cancel the old certificate; every such transfer of stock shall be entered on the stock book of the corporation which shall be kept at its principal office. No transfer of stock shall be made within ten days next preceding the annual meeting of stockholders.

37. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof, except as expressly provided by the laws of New York.

#### DIVIDENDS

38. Dividends upon the capital stock of the corporation subject to any provisions of the certificate of incorporation relating thereto may be declared by the Board of Directors at any regular or special meeting, pursuant to law.

39. Before payment of any dividend, there may be set aside out of the net profits of the corporation available for dividends such sum or sums as the Directors from time to time in their absolute discretion think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Directors shall think conducive to the interests of the corporation, and the Directors may modify or abolish any such

reserve in the manner in which it was created.

#### SEAL

40. The seal of the corporation shall be as follows: the name of the corporation, the year of its organization and the words "Corporate Seal, New York." The seal may be used by causing it to be impressed directly on the instrument or writing to be sealed, or upon adhesive substance affixed thereto. The seal on any corporate obligation for the payment of money may be a facsimile, engraved or printed.

#### CHECKS

41. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

#### FISCAL YEAR

42. The fiscal year shall begin the first day of October in each year.

#### AMENDMENTS

43. These by-laws may be amended, altered or added to by the vote of the Board of Directors of this corporation at any regular meeting of said Board, or at a special meeting of Directors called for that purpose provided a quorum of the Directors as provided by law and by the Certificate of Incorporation, are present at such regular or special meeting. These by-laws, and any amendments thereto and new by-laws added by the Directors may be amended, altered or replaced by the stockholders at any annual or special meeting of the stockholders.

#### INDEMNIFICATION OF OFFICERS AND DIRECTORS

44.A. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative ("proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a

director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the New York Business Corporation Law ("Law"), as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said Law permitted the Corporation to provide prior to such amendment)

against all expenses, liability and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith; provided, however, that the Corporation shall indemnify any such person seeking indemnity in connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding was authorized by the Board of Directors of the Corporation. Such right shall be a contract right and shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it should be determined ultimately that such director or officer is not entitled to be indemnified under this Section or otherwise.

44.B. Right of Claimant to Bring Suit. If a claim under Section A of this By-Law 44 is not paid in full by the Corporation within ninety days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the New York Business Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the New York Business Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant had not met the applicable standard of conduct.

44.C. Non-Exclusivity of Rights. The rights conferred on any person by Sections A and B of this By-Law 44 shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, by-law, agreement, vote of shareholders or disinterested directors or otherwise.

44.D Insurance. The Corporation may maintain insurance, at its expense, to protect itself or any such director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise, or both, against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the New York Business Corporation Law.

#### BOARD COMMITTEES

45. The Board by resolution adopted by a majority of the entire Board may designate from among its members an Executive Committee and other committees each consisting of three or more Directors, and each such committee to serve at the pleasure of the Board.

MECHANICAL TECHNOLOGY INC.

December 6, 1996

Mr. Martin J. Mastroianni  
29 South Forty Pier  
Waldo Pt. Harbor  
Sausalito, CA 94965

Dear Marty:

I have enjoyed meeting with you over the last few weeks in New York and Albany to discuss the future of MTI. We believe that the future holds significant opportunities for the growth of MTI, and that you will be a vital part of its success. Accordingly, on behalf of the Board of Directors, I am pleased to offer you the position of President and Chief Operating Officer.

You will be responsible for the operations and performance of all operating businesses of MTI. You will report directly to the Board of Directors.

We have agreed to employ you for a period of not less than three years, beginning December 9, 1996, at a base annual salary of \$150,000.

The Board of Directors has agreed that you be granted the option to purchase 30,000 shares of MTI. Such options will vest at the rate 20% per year from the date of the grant. The Board of Directors has also agreed that you be granted the following additional options to purchase shares of MTI subject to exceeding the following profit targets as of the end of the 1997 fiscal year:

25,000 shares if profits exceed 3% of sales; plus  
35,000 shares if profits exceed 6% of sales; plus  
60,000 shares if profits exceed 10% of sales.

MECHANICAL TECHNOLOGY INC., 968 ALBANY-SHAKER ROAD, LATHAM, NEW YORK 12110  
518/785-2211 FAX 518/785-2420 or 2127

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Mr. Martin J. Mastroianni

December 6, 1996

These profit targets will be based on the audited combined pre-tax profits of the Technology Division and Ling Electronics excluding the Advanced Products Division and L.A.B. The additional options will vest 1/3 per year from the date of grant.

You will be entitled to participate in the standard employee benefit programs offered by MTI in accordance with the terms of each plan.

You will be reimbursed for incidental moving expenses. If you voluntarily leave the employ of MTI before the first anniversary of your employment, you agree to repay such expenses within thirty days of your termination.

If you are removed from your position for reasons other than cause, the Company will pay you severance equal to either \$150,000 or, if there is less than one year remaining under this agreement, a pro rata amount of such severance payment based on the remaining period.

I am excited about the prospect of having you as a partner in this challenging venture. I look forward to having you and your wife join us in the Capital Region.

Very truly yours,

/s/ George C. McNamee  
Chairman

GCM/lma/Ltr.201

Accepted:

/s/ Martin J. Mastroianni

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## SUBSIDIARIES OF MECHANICAL TECHNOLOGY INCORPORATED

Subsidiary Name	Jurisdiction of Incorporation or Organization
Turbonetics Energy, Inc.	New York
Ling Electronics, Inc.	United Kingdom
MTI International, Inc.	Guam
Ling Electronics, Inc.	California