

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 (Fee Required)
For the fiscal year ended September 30, 1995

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 (I.R.S. Employer
incorporation or organization) 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

The aggregate market value of the registrant's Common Stock held by nonaffiliates of the registrant on December 15, 1995 (based on the last sale price of \$.44 per share for such stock reported by NASDAQ for that date) was approximately \$1,560,000.

As of December 15, 1995, the registrant had 3,568,868 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Document Where Incorporated into Form 10-K Report
Proxy Statement for Annual Meeting of Shareholders to be held on March 28, 1996 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. 61% of the Company's revenues from operations were derived from product sales in the Company's fiscal year ended September 30, 1995; the remaining 39% 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

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. 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; prior year information has been restated to conform to this treatment. (See Note 16 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. (See Note 17 to the accompanying Consolidated Financial Statements). ProQuip's financial results are included as part of the Company's Test and Measurement segment for the periods covered by this Form 10-K until November 22, 1994 (the date of its sale).

Business Segments

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 19 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 61% of its revenues from the Test and Measurement segment in 1995. 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 and high-intensity-sound vibration test systems for product reliability testing and environmental stress screening. This mode of testing is used increasingly by industry and the military to reveal design and manufacturing flaws in a broad range of precision products, from satellite parts to computer components.

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 and capacitance technology and are used to perform high precision position measurements for product design and quality control inspection requirements. Designed for most manufacturing environments, the MICROTRAK 7000 (tm), a new laser triangulation sensor product, measures distance, displacement, vibration or thickness without contact at various operating distances. The computer-based balancing system (the PBS-4100 product line) is an on-wing jet engine balancing system used by 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 VALVIEW (tm) software for the VALIDATOR (tm) compression test system is an example of a new product enhancement during the current fiscal year.

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

Technology

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The Technology segment includes the Technology Division and Turbonetics Energy, Inc. The Company derived 39% of its revenues from the Technology segment in 1995. The activities of the Technology segment are directed toward the performance of research and development and engineering and technical services for the government and industrial customers, technology commercialization/product development, intracompany support, and strategic/teaming relationships with other companies. The Technology Segment, with specialized skills in mechanical and electrical engineering, is structured into four business areas: machinery and components; power and energy systems; monitoring and diagnostics; and new initiatives.

The machinery and components business area develops advanced technology for rotating machinery systems including bearings and seals, custom test equipment, and magnetic bearings. This business area also provides a wide range of engineering support services within the following specialties: machinery audit and failure analysis; analysis of materials and evaluation of heat transfer, thermodynamics, and stress; and generation of computer codes for machinery design, analysis, and control, to government, industrial, and utility customers.

The power and energy systems business area develops advanced technology for fuel cells, flywheel-based energy systems, and hybrid electric vehicle control systems. These systems are intended to control, store, and generate electrical energy for industrial, utility, and automotive customers with less environmental impact than current systems.

The monitoring and diagnostics business area provides engineering services, computer-based monitoring of high-value machinery, and develops automated maintenance systems. Monitoring equipment and services are offered to utility and industrial customers. Automated systems are provided to U.S. Air Force logistic centers.

The new initiative business area is developing mapping systems and advanced sensor applications. The mapping systems involve an integrated package consisting of a structured light mapping system and 3D visualization software to support DOE environmental remediation efforts. The advanced sensor applications employ fibre-optic displacement, white-light interferometric, and precision capacitive displacement technologies for both the commercial and government market.

Finally, Turbonetics Energy Inc. ("Turbonetics") 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. During the current fiscal year, the Company entered into an agreement to license the use of Turbonetics developed technology and expected to benefit through royalty income, however, this arrangement is being terminated. At this time, Turbonetics will remain inactive and only the few remaining outstanding commitments will be fulfilled.

The Technology segment, either directly or as a subcontractor, received approximately 77% of its 1995 revenues (versus 66% in

1994) from various agencies of the U.S. Government; approximately 74% 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 Group has had no government contracts terminated which when terminated resulted in a material adverse effect on the Company.

Backlog
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The backlog of orders believed to be firm as of September 30, 1995 and 1994 is as follows:

	1995 -----	1994 -----
	(In thousands)	
Technology	\$ 2,809	\$ 6,103
Test and Measurement	4,502	13,758
	-----	-----
Total	\$ 7,311	\$19,861
	=====	=====

All amounts shown above have been awarded by government agencies or released to manufacture by commercial customers; however, approximately \$70 thousand of the orders included in the September 30, 1995 backlog may not be filled during the Company's current fiscal year (as compared to approximately \$244 thousand not expected to be so filled at the end of the prior year). Test and Measurement includes backlog related to ProQuip of \$0 and \$10,086 thousand for 1995 and 1994, respectively. (See Note 17 to the accompanying Consolidated Financial Statements).

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:

	1995 ----	1994 ----	1993 ----
	(In thousands)		
Company-Sponsored	\$ 1,425	\$ 3,270	\$ 2,620

Customer-Sponsored	8,492	7,742	9,095
	-----	-----	-----
Total	\$ 9,917	\$11,012	\$11,715
	=====	=====	=====

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 232 as of September 30, 1995, compared to 317 as of the beginning of the fiscal year (Prior year numbers include 63 employees of ProQuip, sold in November 1994).

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
-----	----	---
President, Chief Executive Officer, Chief Operating Officer, and a Director	R. Wayne Diesel	50
Chief Financial Officer	Stephen T. Wilson	43
Vice-President and General Manager Technology Division	Douglas McCauley	47
President and Chief Operating Officer, Ling Electronics Inc.	Stephen S. Sullivan	61

Mr. Diesel was elected President and Chief Executive Officer of the Company in February 1994. 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. Wilson joined the registrant in March 1995 and was appointed Chief Financial Officer. Prior to joining the registrant, 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 7 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 U.S. and U.K.

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 the regular business activities, could relate to compliance with various governmental regulations and requirements, or could be based on other transactions or circumstances. Except for the matters described in Notes 11, 12, and 16 to the accompanying Consolidated Financial Statements (which description is incorporated herein by reference), management of the Company does not believe there are any such proceedings presently pending which, if ultimately resolved in a manner adverse to the Company, would have a material adverse effect on the Company's financial position.

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 1995.

PART II

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

Price Range of Common Stock

In August 1994 the Company was notified by the National Association of Securities Dealers, Inc. ("NASD") that it no longer met certain minimum requirements to maintain the listing of its common stock on the NASDAQ National Market System, or to be listed on the NASDAQ Smallcap Market. Since that time, the Company's Common Stock has been traded on the over-the-counter market and is quoted in the so-called "pink sheets" published by the National Quotation Bureau or on NASD's electronic OTC Bulletin Board under the symbol MTIX. 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 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
Fiscal Year 1994		
First Quarter	3-5/8	1-3/4
Second Quarter	3-1/2	2-1/2
Third Quarter	3	3/4
Fourth Quarter	1	1/16

Number of Equity Security Holders

Approximate Number of Record

Title of Class -----	Holders* (as of December 15,1995) -----
Common Stock, \$1.00 Par Value	530

*In addition, there are approximately 550 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 7 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)				
	1995 -----	1994 -----	1993 -----	1992 -----	1991 -----
Net Sales	\$29,748	\$40,234	\$41,500	\$42,462	\$47,523
Income (Loss) from Continuing Operations	2,922(1)	141	1,162	(335)	(8,728)
Net Income (Loss)	2,922	(24,378)	1,056	57	(8,574)
Earnings (Loss) Per Share:					
From Continuing Operations	.82	.04	.33	(.09)	(2.46)
Net (Loss) Inco	.82	(6.91)	.30	.02	(2.42)
As of September 30:					
Total Assets	14,483	25,317	42,428	38,890	43,093
Long-term Obligations	6,222	2,144(2)	11,699	13,142	0(3)

(1) Current year information contains 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 17 to the accompanying Consolidated Financial Statements).

(2) 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 a subsidiary in November 1994. (See Note 7 to the accompanying Consolidated Financial Statements).

(3) Does not include \$16.0 million classified as a current liability.

Consistent with 1995 data, prior years have been restated to reflect the Defense/Aerospace segment as a discontinued operation. (See Note 16 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

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, as described in Note 16 to the accompanying Consolidated Financial Statements. 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; prior years information has been restated to conform with this treatment.

During the fourth quarter of fiscal 1995, UTE signed settlement agreements with the various parties which resolve all outstanding disputes and claims with the United States Government related to the Maverick, AMRAAM, and Stinger missile programs. Under the terms of these agreements, the Company would be released from performance guarantees it had provided, and all claims against it associated therewith. The Company and UTE in turn would release the government from all claims for equitable adjustment under these contracts. This settlement is subject to notification of the creditors and the entry of a formal order of the bankruptcy court. The Company and UTE are also party to a settlement agreement, which was reached with the official committee of the unsecured creditors of UTE in a hearing before the bankruptcy court. This settlement is also subject to the entry of a formal order of the bankruptcy court.

The Company expects the final liquidation of UTE will occur during fiscal year 1996. At that time any final adjustments to the Company's financial statements as a result of the UTE bankruptcy will be made.

For 1995, no additional loss from discontinued operations was recorded because the estimated net realizable value including the reserves for future termination and liquidation costs recorded as of September 30, 1994 remains, in management's opinion, a reasonable estimate. A \$24,519,000 net loss was recorded in 1994 for discontinued operations, including \$15,415,000 to write down all assets to net realizable value and establish a reserve for estimated future termination and liquidation cost. In 1993 UTE recorded a \$106,000 net loss.

Results of Operations: 1995 in Comparison with 1994

The following is managements's discussion and analysis of certain significant factors which have affected the Company's results of operations for 1995 compared to 1994. This discussion relates only to the Company's continuing operations, which include ProQuip Inc. prior to its sale in November 1994:

Sales for 1995 of \$29,748,000 were \$10,486,000 or 26% lower than 1994. The decrease in sales was entirely attributable to the sale of ProQuip. Excluding ProQuip, sales increased \$2,161,000 or 9% in 1995 as compared to 1994.

Selling, general and administrative expenses for 1995 were 26.8% 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 continues to narrow the focus its internal research and development activities.

Due to continuing operating and cash flow losses at Ling Electronics, Inc. ("Ling"), a \$1,590,000 impairment loss was recognized in 1995 to reduce the carrying value of the Company's investment in that subsidiary.

As reported in Note 17 to the accompanying Consolidated Financial Statements, the Company sold its ProQuip subsidiary for \$13,250,000 which resulted in a gain of \$6,779,000 before income taxes.

1995 income from continuing operations of \$2,922,000 was \$2,781,000 higher than 1994. The increase is attributed to the \$6,779,000 gain on the sale of ProQuip reduced by the \$1,590,000 impairment loss on Ling; in addition, 1994 included a \$1,856,000 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 \$18,140,000 in 1995, \$11,581,000 lower than the \$29,721,000 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 \$1,066,000 or 7%. 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 \$1,889,000 loss (including an impairment loss of \$1,590,000; see Note 18 to the accompanying Consolidated Financial Statements) as compared to a \$2,172,000 profit in the prior year. Excluding ProQuip and the impairment loss, the operating results were a \$997,000 loss as compared to a \$1,897,000 loss or a \$900,000 reduction in operating losses, 1995 compared to 1994. All divisions reported improvements, however, Ling reported an operating loss of \$1,979,000 (excluding impairment loss) for 1995 compared to \$2,572,000 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 \$11,608,000 in 1995, \$1,095,000 or 10% higher than the \$10,513,000 recorded in 1994. The operating loss for 1995 was \$463,000 or a \$1,440,000 improvement from the \$1,903,000 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 \$243,000, and inventory write-offs of \$160,000 on a contract with performance contingencies and \$150,000 on the unsuccessful funding of an anticipated project. Given the historically low level of backlog, a continued improvement in fiscal year 1996 will depend on success in procuring and fulfilling orders within the fiscal year. The Technology division was reorganized in late 1995 and continues to evolve to a business focused on development of technology for products that meet emerging market needs.

Results of Operations: 1994 in Comparison with 1993

The following discussion relates to the continuing operation of the Company:

Sales for 1994 of \$40,234,000 were \$1,266,000 or 3% lower than 1993. The Technology segment reported sales decreases of \$2,592,000 or 20%, while the Test and Measurement segment reported a sales increase of \$1,326,000 or 5%. The 1994 income from continuing operations of \$141,000 was \$1,021,000 lower than 1993. The decline is the result of lower operating results for both the Technology and Test and

Measurement segments and a higher effective income tax rate, partially offset by profit on the sale of real estate.

Selling, general and administrative expenses for 1994 were 24.7% of sales, versus 23.5% in 1993. Product development and research costs for 1994 were 8.1% of sales versus 6.3% in 1993.

As reported in Note 14 to the accompanying Consolidated Financial Statements, the Company sold its facility located in the Town of Colonie, New York, during 1994 with a resultant \$1,856,000 gain before income taxes.

The Test and Measurement segment's results include ProQuip, Inc. ("ProQuip") which was sold in November 1994. (See Note 17 to the accompanying Consolidated Financial Statements). The Test and Measurement segment recorded sales of \$29,721,000 in 1994, \$1,326,000 higher than the \$28,395,000 in 1993. ProQuip had a sales increase for 1994 over 1993 of \$4,533,000, which was partially offset by a \$2,821,000 decrease by Ling Electronics, Inc. ("Ling"). Operating profit for the segment were \$2,171,000 in 1994 versus \$3,022,000 in 1993. ProQuip recorded a \$1,774,000 increase reflecting their higher sales level. However, this increase was more than offset by a \$2,656,000 decrease recorded by Ling. Ling's poor results reflect the sales decline noted above and unfavorable adjustments (mainly inventory related) of \$1,520,000 recorded in the fourth quarter. The Advanced products and LAB Divisions both recorded operating income in 1994 close to the amounts recorded in 1993.

The Technology segment recorded sales of \$10,513,000 in 1994, \$2,592,000 lower than the \$13,105,000 recorded in 1993. The operating loss for 1994 was \$1,524,000 higher than 1993, reflecting the sales

decrease noted above and a \$400,000 write-down of a limited partnership interest to its estimated realizable value.

Liquidity and Capital Resources

During the first quarter of fiscal year 1995, the Company sold its ProQuip subsidiary for \$13,250,000. The sale resulted in a gain of \$6,779,000. Approximately \$8,000,000 of the net proceeds were applied to the Company's term debt.

At September 30, 1995 cash and cash equivalents were \$78,000 versus \$1,820,000 at September 30, 1994. Working capital was a positive \$594,000 at September 30, 1995 versus a negative \$8,588,000 at fiscal year-end 1994. Cash used by continuing operations was \$558,000 in 1995 versus \$1,996,000 cash provided in 1994. Continued operating losses at Ling was the most significant negative factor impacting the cash used from operations. Line of credit borrowing at September 30, 1995 was \$3,408,000, while at September 30, 1994 there was line of credit borrowing of the maximum \$4,000,000. Capital was used in 1995 to, among other things, increase inventories, reduce liabilities and debt, and acquire capital equipment.

Capital spending for 1995 was \$667,000, a slight increase from 1994 capital spending levels of \$645,000.

During November 1995, the lending institution agreed to extend the maturity of the Company's term debt to October 1998 with scheduled principal payments outlined below. At fiscal 1995 year-end, the Company had current installments on long-term debt of \$738,000 and the remaining balance of \$1,260,000 due beyond fiscal 1996. The scheduled principal payments on the Company's bank term loan are as follows: \$738,000 in fiscal year 1996, \$604,000 in fiscal year 1997, \$604,000 in fiscal year 1998, and on October 31, 1998 the balance of \$52,000 is payable in full.

The Company has a line of credit available in the amount of \$4,000,000, of which \$3,408,000 was outstanding on September 30, 1995. In October 1995, the lending institution agreed to extend the maturity of the line of credit until October 31, 1998 when the outstanding balance becomes due and payable. This line of credit continues to be collateralized by a guarantee from a former shareholder and expires on October 31, 1998.

During December 1993 UTE borrowed \$3,000,000 from a finance company. The agreement states that the Company shall pay amounts due thereunder which are not paid by UTE when due. The obligation matured in October 1994, which was subsequently extended to December 31, 1995; and on December 27, 1995, the lender agreed to extend the due date until December 31, 1996. UTE filed for bankruptcy under the Federal Bankruptcy Code in April 1994, and commenced an orderly liquidation in October 31, 1994; any obligation the Company has under the agreement is not affected by the UTE bankruptcy filing.

The Company anticipates that it will be able to meet the liquidity needs of its continuing operations from cash flow generated by those operations and borrowing under its existing line of credit, including sufficient cash flow to make all payments due on its indebtedness during 1996. However, the Company's ability to achieve these objectives is dependent upon an orderly liquidation of its United Telecontrol Electronics, Inc. subsidiary and attaining overall profitability and positive cash flow. There is no assurance that the Company will be able to achieve these objectives.

ITEM 8: FINANCIAL STATEMENTS

The financial statements filed herewith are set forth on the Index to Consolidated Financial Statements on Page F-1 of the separate financial section which follows page 24 of this report and are incorporated herein by reference.

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 March 28, 1996 (the "1996 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 1996 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 1996 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 1996 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 filed herewith are set forth on the Index to Consolidated Financial Statements on page F-1 of the separate financial section which accompanies this Report, which is incorporated by reference.

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)
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
- 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
- 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.
- 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

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 22.1 Subsidiaries of the registrant

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.

(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 28, 1995

by: /s/ R. Wayne Diesel
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 -----
/s/ Lawrence A. Shore ----- Lawrence A. Shore	Chairman of the Board of Directors	12/28/95
/s/ R. Wayne Diesel ----- R. Wayne Diesel	President, Chief Executive Officer, (Principal Executive Officer), Chief Operating 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/ Albert W. Lawrence ----- Albert W. Lawrence	Director	"
/s/ Stanley Landgraf	Director	"

Stanley Landgraf
/s/ E. D. O'Connor

E. D. O'Connor

Director " "

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
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Separate financial statements of the registrant alone are omitted because the registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed, in the aggregate, do not have minority equity interest and/or indebtedness to any person other than the registrant or its consolidated subsidiaries in amounts which together exceed 5% of the total assets as shown by the most recent year-end consolidated balance sheet.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Mechanical Technology Incorporated

We have audited the consolidated financial statements of Mechanical Technology Incorporated and Subsidiaries listed in the accompanying index in Item 8 of this Form 10-K. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mechanical Technology Incorporated and Subsidiaries as of September 30, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1995, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 13 to the financial statements, the Company has suffered operating losses and negative cash flows from its continuing operations for the year ended September 30, 1995, and has a shareholders' deficiency at September 30, 1995. The Company's continuance is dependent on the resolution of uncertainties surrounding the pending liquidation of the Company's wholly owned subsidiary, United Telecontrol Electronics, Inc. (Notes 1, 11 and 16), and its ability to achieve profitability and adequate cash flow from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Coopers & Lybrand L.L.P.

Albany, New York
November 22, 1995, except as to the information
in Note 7, for which the date is December 27, 1995

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 1995 and 1994

(Dollars in thousands)

	1995 -----	1994 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 78	\$ 1,820
Accounts receivable, less allowance of \$120 (1995) and \$101 (1994)	6,793	11,625
Income taxes receivable	-	122
Inventories	3,484	6,068
Escrow deposit	750	-
Deferred Income Taxes	-	306
Prepaid expenses and other current assets	461	214
	-----	-----
Total Current Assets	11,566	20,155
Excess of cost over net assets of acquired companies, net	59	1,726
Other	60	227
Property, Plant and Equipment, net	2,798	3,209
	-----	-----
	\$ 14,483	\$ 25,317
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
September 30, 1995 and 1994
(Dollars in thousands)

	1995	1994
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line-of-Credit	\$ 1,446	\$ 4,000
Note Payable	-	3,000
Current installments on long-term debt	738	9,038
Income taxes payable	13	-
Accounts payable	2,290	3,684
Accrued liabilities	3,729	6,265
Net liabilities of discontinued operations	2,756	2,756
	-----	-----
Total Current Liabilities	10,972	28,743
LONG-TERM LIABILITIES		
Line-of-Credit	1,962	-
Note Payable	3,000	-
Long-term debt, net of current maturities	1,260	2,144
Deferred income taxes and other credits	779	848
	-----	-----
Total Liabilities	17,973	31,735
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, par value \$1 per share, authorized 15,000,000; issued 3,568,868 (1995) and 3,546,493 (1994)	3,569	3,546
Paid-in capital	12,856	12,944
Retained earnings	(19,837)	(22,759)
	-----	-----
Foreign currency translation adjustment	(3,412)	(6,269)
Common stock in treasury, at cost, 3,000 shares (1995) and 10,200 (1994)	(29)	(100)
Restricted stock grants	(29)	(18)
	-----	-----
Total shareholders' equity	(3,490)	(6,418)
	-----	-----
	\$ 14,483	\$ 25,317
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended September 30, 1995, 1994 and 1993
(Dollars in thousands, except per share)

	1995	1994	1993
	-----	-----	-----
Product revenue	\$18,516	\$30,347	\$28,710
Research & development revenue	11,232	9,887	12,790
	-----	-----	-----
Total revenue	29,748	40,234	41,500
Product cost of sales	12,616	19,033	17,399
Research & development contract costs	8,492	7,742	9,095

Selling, general and administrative expenses	7,977	9,921	9,743
Product development and research costs	1,425	3,270	2,620
Impairment loss on long-lived assets	1,590	-	-
	-----	-----	-----
Operating (loss) income from continuing operations	(2,352)	268	2,643
Interest expense	(1,081)	(1,157)	(1,170)
Gain on sale of subsidiary, ProQuip	6,779	-	-
Gain on sale of building	-	1,856	-
Other income (expense), net	(338)	(249)	(40)
	-----	-----	-----
Income from continuing operations before income taxes	3,008	718	1,433
Income tax expense	86	577	271
	-----	-----	-----
Income from continuing operations	2,922	141	1,162
Loss from discontinued operations	-	(24,519)	(106)
	-----	-----	-----
Net income (loss)	\$ 2,922	\$ (24,378)	\$ 1,056
	=====	=====	=====
Earnings (loss) per share:			
Continuing operations	\$.82	\$.04	\$.33
Discontinued operations	.00	(6.95)	(.03)
	-----	-----	-----
Net income (loss)	\$.82	\$ (6.91)	\$.30
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended September 30, 1995, 1994 and 1993
(Dollars in thousands)

	1995	1994	1993
	-----	-----	-----
COMMON STOCK			
Balance, October 1	\$ 3,546	\$ 3,546	\$ 3,546
Issuance of shares	23	-	-
	-----	-----	-----
Balance, September 30	\$ 3,569	\$ 3,546	\$ 3,546
	=====	=====	=====
PAID-IN-CAPITAL			
Balance, October 1	\$ 12,944	\$ 13,049	\$ 13,033
Restricted stock grants	(88)	(105)	16
	-----	-----	-----
Balance, September 30	\$ 12,856	\$ 12,944	\$ 13,049
	=====	=====	=====
RETAINED EARNINGS			
Balance, October 1	\$ (22,759)	\$ 1,619	\$ 563
Net income (loss)	2,922	(24,378)	1,056
	-----	-----	-----
Balance, September 30	\$ (19,837)	\$ (22,759)	\$ 1,619
	=====	=====	=====
FOREIGN CURRENCY TRANSLATION ADJUSTMENT			
Balance, October 1	\$ (31)	\$ (44)	\$ (8)
Adjustments	11	13	(36)
	-----	-----	-----
Balance, September 30	\$ (20)	\$ (31)	\$ (44)
	=====	=====	=====
TREASURY STOCK			

Balance, October 1	\$ (100)	\$ (201)	\$ (149)
Restricted stock grants	71	101	(52)
	-----	-----	-----
Balance, September 30	\$ (29)	\$ (100)	\$ (201)
	=====	=====	=====
RESTRICTED STOCK GRANTS			
Balance, October 1	\$ (18)	\$ -	\$ -
Grants issued	(11)	(18)	-
	-----	-----	-----
Balance, September 30	\$ (29)	\$ (18)	\$ -
	=====	=====	=====
SHAREHOLDERS' EQUITY			
September 30	\$ (3,490)	\$ (6,418)	\$ 17,969
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended September 30, 1995, 1994 and 1993
(Dollars in thousands)

	1995	1994	1993
	-----	-----	-----
OPERATING ACTIVITIES			
Income from continuing operations	\$ 2,922	\$ 141	\$ 1,162
Adjustments to reconcile net income to net cash (used) provided by continuing operations:			
Depreciation and amortization	837	1,017	1,379
Impairment loss on long-lived assets	1,590	-	-
Gain on sale of building	-	(1,856)	-
Gain on sale of subsidiary	(6,779)	-	-
Deferred income taxes and other credits	(1)	595	(392)
Foreign currency translation	11	12	63
Other	(5)	463	(49)
Changes in operating assets and liabilities net of effects from discontinued operations:			
Accounts receivable	1,611	(824)	(2,444)
Inventories	(230)	(50)	245
Escrow deposit	(750)	-	-
Prepaid expenses and other current assets	(19)	299	163
Accounts payable	355	499	850
Income taxes	394	(651)	553
Accrued liabilities	(494)	2,351	728
	-----	-----	-----
Net cash (used) provided by continuing operations	(558)	1,996	2,258
	-----	-----	-----
Discontinued Operations:			
Loss from discontinued operations	-	(24,519)	(106)
Adjustments to reconcile loss to net cash (used) provided by discontinued operations:			
Write-down of assets to net realizable value	-	15,415	-
Changes in net assets/liabilities of discontinued operations	-	4,839	(1,515)
	-----	-----	-----
	-	(4,265)	(1,621)
	-----	-----	-----
Net cash (used) provided by operations	(558)	(2,269)	637
	-----	-----	-----
INVESTING ACTIVITIES			
Discontinued operations	-	-	(335)
Purchases of property, plant & equipment	(667)	(645)	(540)
Proceeds from sale of building	-	1,959	-
Proceeds from sale of subsidiary, net of cash balance and expenses	9,125	-	-
	-----	-----	-----
Net cash provided (used) in investing activities	8,458	1,314	(875)
	-----	-----	-----

FINANCING ACTIVITIES

Net borrowings (payments) under line-of-credit	(592)	1,000	1,440
Borrowings under note payable agreement	-	3,000	-
Principal payments of long-term debt	(9,050)	(1,900)	(1,508)
	-----	-----	-----
Net cash (used) provided in financing activities	(9,642)	2,100	(68)
	-----	-----	-----
(Decrease) increase in cash and cash equivalents	(1,742)	1,145	(306)
Cash and cash equivalents - beginning of year	1,820	675	981
	-----	-----	-----
Cash and cash equivalents - end of year	\$ 78	\$ 1,820	\$ 675
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which except as otherwise disclosed, assume that assets will be realized and liabilities will be discharged in the normal course of business (See Note 13). As described in Note 16, United Telecontrol Electronics, Inc. ("UTE"), a wholly owned subsidiary which filed for bankruptcy under Chapter 11 of federal bankruptcy laws in April 1994, commenced an orderly liquidation in October 1994. Accordingly, the financial results for UTE are reported as a discontinued operation in the accompanying financial statements. At September 30, 1995 and 1994 the net liabilities of discontinued operations reflect UTE's pre- and post-petition liabilities net of the estimated realizable value of the assets.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Depreciation and Amortization

Property, plant and equipment are stated at cost and depreciated using primarily the straight-line method over their estimated useful lives ranging from 3 to 40 years. When assets are sold, retired or otherwise disposed of, the applicable cost and accumulated depreciation or amortization are removed from the accounts and the resulting gain or loss is recognized.

Excess of Cost Over Net Assets of Acquired Companies

Costs in excess of net assets acquired in business combinations are amortized using the straight-line method over 20 to 35 year periods. Accumulated amortization was \$114,787 and \$5,338,198 at September 30, 1995 and 1994, respectively.

During fiscal 1995, the Company adopted the provisions of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". This Statement requires that long-lived assets (e.g., goodwill) be reviewed for impairment whenever events indicate that the carrying amount of the assets may not be recoverable and provides guidelines for measuring the impairment. Recoverability is based on estimated undiscounted future cash flows. If the sum of the expected future cash flows is less than the carrying

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (continued)

amount of the asset, an impairment loss is recognized. Measurement of an impairment loss is based on the fair value of the asset (See Note 18).

Income Taxes

During 1993, the Company elected to adopt Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes", which was issued by the Financial Accounting Standards Board (FASB) in February 1992.

Under SFAS 109, deferred tax consequences represent the future effects on income taxes, as measured by the applicable enacted tax rate and provisions of the enacted tax law, resulting from temporary differences and carryforwards, at the end of the current year.

Revenue Recognition

Sales of products are recognized when products are shipped to customers. Sales of products under long-term contracts are recognized under the percentage-of-completion method. Sales of contract research and development services are also recognized on the percentage-of-completion method. Percentage-of-completion is based on the ratio of incurred costs to current estimated total costs at completion. Total contract losses are charged to operations during the period such losses are estimated.

Foreign Currency Translation

Assets and liabilities of the foreign subsidiary are translated at year-end rates of exchange, and revenues and expenses are translated at the average rates of exchange for the year. Gains and losses resulting from the translation of the foreign subsidiary's balance sheet are accumulated as a separate component of shareholders' equity.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and repurchase agreements with maturities of less than three months.

Reclassification

Certain 1994 and 1993 amounts have been reclassified to conform with the 1995 presentation.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Long-Term Contracts Receivable

Included in accounts receivable are the following:

(Dollars in thousands)	1995	1994
	-----	-----
U.S. Government:		
Amounts billed and billable	\$ 2,722	\$ 1,602
Retainage	396	536
	-----	-----
	3,118	2,138
Commercial Customers:		
Amounts billed and billable	207	674
Retainage	223	175
	-----	-----
	430	849
	-----	-----
	\$ 3,548	\$ 2,987
	=====	=====

The balances billed but not paid by customers pursuant to retainage provisions in contracts are due upon completion of the contracts and acceptance by the customer. Based on the Company's experience, most retainage amounts are expected to be collected within the ensuing year.

In addition, the Company periodically incurs costs in excess of funded contract limits. Such costs are incurred in the expectation of future authorization by the contract sponsor. Management believes these costs, classified as inventory, will become billable and collectible.

(3) Inventories

 Inventories consist of the following:

(Dollars in thousands)	1995	1994
	-----	-----
Finished goods	\$ 249	\$ 197
Work in process	1,119	2,231
Raw materials, components and assemblies	2,116	3,640
	-----	-----
	\$ 3,484	\$ 6,068
	=====	=====

(4) Property, Plant and Equipment

 Property, plant and equipment consist of the following:

(Dollars in thousands)	1995	1994
	-----	-----
Land and improvements	\$ 125	\$ 125
Buildings and improvements	3,513	3,513
Leasehold improvements	694	709
Machinery and equipment	13,028	14,330
Office furniture and fixtures	1,755	1,952
	-----	-----
	19,115	20,629
Less accumulated depreciation	16,317	17,420
	-----	-----
	\$ 2,798	\$ 3,209
	=====	=====

Depreciation expense was \$646,000, \$813,000 and \$1,170,000 for 1995, 1994 and 1993, respectively. Repairs and maintenance expense was \$362,000, \$417,000 and \$499,000 for 1995, 1994 and 1993, respectively.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Income Taxes

 As discussed in Note 1, the Company adopted SFAS No. 109, during the fiscal year ended September 30, 1993. Under SFAS 109, the deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates. Prior to fiscal year 1993, the Company accounted for income taxes in accordance with SFAS 96. As permitted by SFAS 109, prior period financial statements have not been restated; the cumulative effect of adopting SFAS 109 on prior years was not significant.

Income tax expense (benefit) consists of the following:

(Dollars in thousands)	1995	1994	1993
	-----	-----	-----
Current tax provision:			
Federal	\$ -	\$ (477)	\$ 675
State	86	436	219
Deferred tax provision	-	265	(392)
	-----	-----	-----
	\$ 86	\$ 224	\$ 502
	=====	=====	=====

The income tax (benefit) expense is reflected in the accompanying statements of income as follows:

(Dollars in thousands)	1995	1994	1993
------------------------	------	------	------

	-----	-----	-----
Continuing operations	\$ 86	\$ 577	\$ 271
Discontinued operations	-	(353)	231
	-----	-----	-----
	\$ 86	\$ 224	\$ 502
	=====	=====	=====

The Company's effective income tax rate from continuing operations differed from the Federal statutory rate as follows:

	1995	1994	1993
	-----	-----	-----
Federal statutory tax rate	34%	34%	34%
State taxes, net of federal tax effect	2%	38%	7%
Amortization of goodwill	1%	1%	2%
Impairment loss on long-lived assets	18%	-	-
Current FSC earnings permanently deferred	-	-	(10%)
Change in valuation allowances	(9%)	-	-
Worthless stock deduction	(40%)	-	-
Reversal of prior year contingencies	-	-	(14%)
Other, net	(3%)	7%	-
	-----	-----	-----
	3%	80%	19%
	=====	=====	=====

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Income Taxes (continued)

The deferred tax assets and liabilities as of September 30, 1995 and 1994 consist of the following tax effects relating to temporary differences and carryforwards:

	(Dollars in thousands)	1995	1994
		-----	-----
Current deferred tax assets (liabilities):			
Net deferral of income from discontinued operations		\$ (295)	\$ -
Net operating loss		-	1,134
Loss provisions for discontinued operations		-	2,458
Investment in subsidiary held for sale		-	1,394
Bad debt reserve		41	35
Inventory valuation		261	467
Inventory capitalization		70	58
Vacation pay		180	195
Warranty and other sale obligations		50	201
Other		178	192
		-----	-----
		485	6,134
Valuation allowance		(485)	(5,828)
		-----	-----
Net current deferred tax assets		\$ -	\$ 306
Noncurrent Deferred tax assets (liabilities):		=====	=====
Net operating loss		\$ 5,288	\$ -
Property, plant and equipment		(408)	(493)
Other		200	187
Net long-term deferred tax asset (liabilities)		-----	-----
		5,080	(306)
Valuation allowance		(5,080)	-
Other credits		(779)	(542)
Noncurrent net deferred tax asset (liabilities) and other credits		-----	-----
		\$ (779)	\$ (848)
		=====	=====

During the year ended September 30, 1994, a valuation allowance of \$5,828,000 was established. The valuation allowance at September 30, 1995 is \$5,565,000. During the year ended September 30, 1995, the valuation allowance decreased by \$263,000.

At September 30, 1995, the company had an unused Federal net operating loss carryforward of approximately \$15,553,000. The Federal net operating loss carryforward if unused will begin to expire during the year ended September 30, 2009.

During 1995, the Company received a net cash refund for income taxes of \$266,000 and, for 1994 and 1993 made cash payments for income taxes of \$365,000 and \$312,000, respectively.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Accrued Liabilities

Accrued liabilities consist of the following:

(Dollars in thousands)	1995 -----	1994 -----
Contract billings in excess of costs and estimated earnings	\$ -	\$ 1,911
Salaries, wages and related expenses	666	1,265
Interest expense	881	655
Deferred income - ProQuip sale	750	-
Warranty and other sale obligations	223	584
Acquisition costs	373	405
Commissions	269	397
Legal and professional fees	89	341
Contingent liabilities	185	150
Other	293	557
	-----	-----
	\$ 3,729	\$ 6,265
	=====	=====

(7) Indebtedness

Indebtedness consists of the following:

(Dollars in thousands)	1995 -----	1994 -----
Term loan	\$ 1,998	\$11,041
Note payable	3,000	3,000
Line-of-credit	3,408	4,000
Capitalized lease obligations	-	141
	-----	-----
	8,406	18,182
Less current portion	2,184	16,038
	-----	-----
	\$ 6,222	\$ 2,144
	=====	=====

The Company paid \$8,000,000 on its term loan as a result of the sale of the Company's ProQuip subsidiary during November 1994. The loan agreement covering the term loan was amended in November 1995 and now provides for principal payments as follows: \$738,000, fiscal year 1996; \$604,000, fiscal year 1997; \$604,000, fiscal year 1998; and the balance of \$52,000 is payable on October 31, 1998. The term debt is collateralized by accounts receivable, inventories, real estate, machinery and equipment. The interest on the debt is payable monthly at the rate of prime plus 1-1/2% (10.25% at September 30, 1995).

The Company borrowed \$3,000,000 from a finance company in December 1993 and the note payable agreement for this loan was modified in December 1994. On December 27, 1995, the lender agreed to extend the due date to December 31, 1996. Interest is presently accruing at the rate of \$1,250 per day (15.2% per annum). The finance company has loans from an affiliate of the Company. Since the modification in December 1994, one-third of the interest accrued is paid and as

of September 30, 1995 and 1994 accrued but unpaid interest was \$781,000 and \$508,000, respectively.

The Company has a line of credit available in the amount of \$4,000,000 with

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Indebtedness (continued)

interest payable monthly at a rate of prime plus .625% (9.375% at September 30, 1995). As of September 30, 1995, the Company had standby letters of credit outstanding of \$89,400 against the line of credit. In October 1995 the maturity date of the line of credit was extended and expires on October 31, 1998. The line of credit is collateralized by a guarantee from a former shareholder.

The weighted average interest rate for the note payable and line of credit was 13.2%, 12.9%, and 6.6% during 1995, 1994, and 1993, respectively.

Cash payments for interest were \$695,000, \$1,109,000 and \$1,139,000 for 1995, 1994 and 1993, respectively.

(8) Shareholders' Equity

The Company has outstanding stock options which were granted under a 1982 Stock Option Plan. All options are exercisable 20% per year, on a cumulative basis, after a two-year waiting period and expire ten years and six months after they are granted. The Plan expired in 1992 and no further options may be granted. At September 30, 1995, options were outstanding and exercisable to purchase 5,000 shares at \$6.50 per share. During 1995 and 1994, no options were exercised. The Company has a Restricted Stock Incentive Plan, which awards restricted common stock of the Company to officers and other key employees. During the first quarter of 1995, 32,500 shares were granted, amounting to \$14,375 based on the market value of the stock at the date of grant. The Plan expired on December 31, 1994. During 1994, 15,000 shares were granted, amounting to \$18,750 based on the market value of the stock at the date of grant. For accounting purposes, the value of the grants represents compensation, which has been deferred and is being amortized over the 5-year and 10-year vesting periods. The shares granted during 1995 and 1994 are recorded as a component of Shareholders' Equity. The value of the grants, net of accumulated amortization and write-offs, was \$29,000 at September 30, 1995 and \$18,000 at September 30, 1994.

The Company's term loan obligations prohibit the payment of dividends.

(9) Earnings (Loss) Per Share

Earnings (loss) per share is computed on the basis of the weighted average number of shares outstanding plus the common stock equivalents which would arise from the exercise of stock options, unless such common stock equivalents would be anti-dilutive. Weighted average outstanding shares are: 1995, 3,559,789; 1994, 3,529,881; and 1993, 3,527,835.

(10) Pension Plans

The Company maintains a savings and retirement plan (Internal Revenue Code Section 401(k) Plan) covering substantially all employees. The Company plan allows eligible employees to contribute a percentage of their compensation; the Company makes additional contributions in amounts as determined by management and the Board of Directors. The expense for the plan was \$346,000, \$420,000 and \$420,000 for 1995, 1994 and 1993, respectively.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Commitments and Contingencies

The Company may be obligated for certain environmental cleanup costs in connection with the sale of a subsidiary in 1989, and is potentially liable for another environmental matter as described in Note 12.

The Company guaranteed the performance of a contract of United Telecontrol Electronics, Inc. ("UTE"), a wholly owned subsidiary which is now in liquidation, as described in Note 16. In addition, UTE was served a subpoena, on March 12, 1990, by the Defense Criminal Investigative Services of the U.S. Government

Inspector General's office, for various records relating to UTE's performance of a now completed government contract. During the ensuing investigation, UTE has at all times cooperated with the Government. UTE entered into settlement discussions with the United States Attorney's Office, the Air Force Debarment Authority, and the Department of Justice. As a result of these discussions, in December 1992 UTE entered a plea agreement under which it agreed to plead guilty to one count of conspiracy to defraud the United States and one count of mail fraud. Pursuant to this settlement agreement, in April 1993 UTE entered its plea in United States District Court. UTE has recently signed settlement agreements with the various parties which resolve all outstanding disputes and claims with the United States Government. Under the terms of these agreements, the Company would be released from performance guarantees it provided, and all claims against it associated therewith. The Company and UTE in turn would release the government from all claims for equitable adjustment under these contracts. This settlement is subject to notification of the creditors and the entry of a formal order of the bankruptcy court. The Company believes there will be no adverse consequences to the Company in connection with any future agreements or actions on these matters due to the bankruptcy status of UTE.

During 1994, two separate legal actions against the Company related to compensation matters were commenced by two former company officer/ directors. Management is vigorously defending the actions and believes the likelihood of a loss in either action is not probable. The final outcome of these actions is not presently determinable and, therefore no provision for any liability that may result has been recorded in the Company's financial statements.

In February 1995, Ling Electronics Inc. ("Ling"), a wholly owned subsidiary of the Company, made a voluntary disclosure to the United States Department of Commerce regarding unlicensed exports of certain products shipped in the first four months of fiscal 1995. Ling is fully cooperating with the Office of Export Enforcement which has not concluded its investigation or taken any action to date. Possible administrative sanctions include: no action; a warning letter; denial of export privileges; and/or imposition of civil penalties. Foreign sales represent a significant portion of Ling's total revenue. The final outcome of this matter is not presently determinable and, therefore no provision for any liability that may result has been recorded in the Company's financial statements.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Commitments and Contingencies (continued)

Future minimum rental payments required under noncancelable operating leases are \$539,000, 1996; \$536,000, 1997; \$523,000, 1998; \$495,000, 1999; and \$452,000, 2000. Rent expense under all leases was \$564,000, \$672,000 and \$626,000 for 1995, 1994 and 1993, respectively.

(12) Potential Environmental Liability

The Company is potentially liable in connection with an environmental matter; no amount is reflected in the Company's financial statements in respect to the following:

In October 1989, the Environmental Protection Agency (EPA) issued an Order under Section 106(a) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) alleging that there has been a release of hazardous materials into the environment at a site in Malta, New York (Site) and directing the respondents named in the Order, including the Company, to undertake a remedial investigation and feasibility study (RI/FS) of the Site. The Order states that responsibility to undertake the RI/FS (estimated to cost between \$1.5 and \$2.5 million) is a joint and several obligation of the various potentially responsible parties (PRPs), including the Company, named in the Order. The PRPs named in the Order are most of the parties (other than federal government agencies) who have at any time owned or operated any portion of the Site, which, beginning in 1945, has been used primarily for development and testing of rocket fuels, propellants and other propulsion systems. The Company has leased a small portion of the Site, for unrelated activities, since 1976.

Since the Company believes that it has not been involved with the release of any hazardous substances at the Site and that issuance of the Order to it is, therefore, unjustified and an arbitrary and capricious abuse of EPA's discretion under CERCLA, the Company has advised EPA that it cannot comply with the Order (which became effective November 3, 1989). To date EPA has not, to the best of

the Company's knowledge, taken any steps to enforce the Order against the Company; and, the Company understands that one of the other PRP's named in the Order has been carrying out the RI/FS as directed by the Order.

While the Company believes that the expense (including any liability) it will incur in connection with this matter will not be material, the costs that it might incur to establish its nonresponsibility, should EPA seek to enforce the Order against the Company, could be significant. At this time, however, the Company is unable to estimate the amount of such costs. If EPA seeks to enforce the Order against the Company and the Company is unable to establish that it is not responsible, the Company could be liable for substantial amounts under CERCLA, including fines of up to \$25,000 per day for failure to comply with the Order and punitive damages equal to as much as three times EPA's cost to undertake the work itself.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Going Concern

The Company's ability to continue as a going concern, given its shareholders' deficiency, is dependent upon achieving an orderly liquidation of its United Telecontrol Electronics, Inc. ("UTE") subsidiary (See Note 16), and its ability to demonstrate ongoing income and cash flow from operations. The orderly liquidation of UTE is underway and appropriate Bankruptcy Court approvals are expected to occur during calendar year 1996. Subsequent to year end, in October and November 1995, the line of credit and term loan were extended for three years, respectively. In addition, on December 27, 1995, the due date on the note payable was extended to December 31, 1996. The Company's business plans developed for fiscal 1996 are focused on achieving profitability and positive cash flow. There is, however, no assurance that the Company will be able to achieve these objectives.

(14) Related Party Transactions

During 1995 and 1994, the Company made several rental payments for laboratory space to an officer/director of the Lawrence Insurance Group Inc. and purchased various insurance coverage from the Lawrence Insurance Group Inc. or companies owned directly or indirectly by the Lawrence Insurance Group Inc. totalling \$493,000 and \$444,000, respectively. During 1993, the Company paid management fees and purchased various insurance coverage from the Lawrence Insurance Group Inc. or companies owned directly or indirectly by the Lawrence Insurance Group Inc. for \$560,000. (Several companies of the Lawrence Insurance Group Inc. ("LIG") collectively own approximately 24% of the Company's Common Stock. In addition, an LIG subsidiary which is now in liquidation, owns an additional 25% of the Company's Common Stock.)

During November 1993, the Company sold its facility located on New Karner Road in the Town of Colonie, N.Y. to the Secretary\Director of the Lawrence Insurance Group Inc. for \$1,975,000. The sale resulted in a gain of \$1,856,000 in fiscal 1994, of which \$1,450,000 of the proceeds were utilized to reduce long-term debt.

(15) Fourth Quarter Adjustments

During the fourth quarter of 1995, the Company recorded the following adjustments: goodwill write-off, \$1,590,000; inventory write-off and reserve increases, \$774,000; accounts receivable write-down and allowance increases, \$128,000; severance expenses, \$35,000; and all other, \$64,000. These adjustments reduced fourth quarter and full year income before income taxes from continuing operations by \$2,591,000.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Discontinued Operations

The Company's United Telecontrol Electronics, Inc. ("UTE") subsidiary, the sole component of the Defense/Aerospace segment, filed for voluntary bankruptcy under Chapter 11 of the Federal Bankruptcy Code in April 1994. This action was taken after UTE was notified by the U.S. Air Force that its \$7.8 million Request for Equitable Adjustment on the Advanced Medium Range Air to Air Missile ("AMRAAM") launcher contract was denied. Subsequent to the bankruptcy filing, UTE attempted

to reorganize and continued to operate as a debtor-in-possession. However, during October 1994, UTE commenced an orderly liquidation. Accordingly, the Company no longer includes Defense/Aerospace amongst its reportable business segments, UTE is reported as a discontinued operation at September 30, 1995, and the consolidated financial statements have been reclassified to report separately the net liabilities and operating results of the business. The Company's prior years financial statements have been restated to conform to this treatment.

In 1990, when the AMRAAM contract was awarded, the Company guaranteed the performance by UTE on this contract. The guaranty states, among other things, that if the Government terminates the AMRAAM launcher contract due to a default by UTE and awards the uncompleted portion of the contract to another source at a fair and reasonable price, the Company shall be liable for any excess costs incurred by the Government as a result of such procurement and for the repayment of any unrecouped partial payments, progress payments or advanced payments paid to UTE by the Government. In addition, the guaranty provides that the Company would be liable for all costs and expenses paid or incurred by the Government in enforcing the guaranty. The Government has not terminated the contract due to default. UTE has recently signed settlement agreements with the various parties which resolve all outstanding disputes and claims with the United States Government. Under the terms of these agreements, the Company would be released from the performance guarantee it provided, and all claims against it associated therewith. The Company and UTE in turn would release the government from all claims for equitable adjustment under these contracts. This settlement is subject to notification of the creditors and the entry of a formal order of the bankruptcy court. The Company and UTE are also party to a settlement agreement, which was reached with the official committee of the unsecured creditors of UTE in a hearing before the bankruptcy court. This settlement is also subject to entry of a formal order of the bankruptcy court.

Included in the fiscal 1994 loss from discontinued operations was a \$15,415,000 before income tax charge to write-down the carrying value of all UTE related assets to their estimated net realizable value, including the establishment of a reserve for the future costs of the termination and final liquidation of UTE. The Company expects that the final liquidation of UTE and related court approval will occur in calendar year 1996. At that time the final adjustments will be made.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Discontinued Operations (continued)

Discontinued operations consist of the following:

(Dollars in thousands)	1995 -----	1994 -----	1993 -----
Sales	\$ 0 =====	\$ 2,299 =====	\$ 26,506 =====
(Loss) income from operations			
before income tax	\$ 0	\$ (24,872)	\$ 125
Income tax (benefit) expense	0	(353)	231
Net loss from discontinued operations	----- \$ 0 =====	----- \$ (24,519) =====	----- \$ (106) =====

The assets and liabilities of the Company's discontinued operations at September 30, 1995 and 1994 are as follows:

(Dollars in thousands)	1995 -----	1994 -----
Assets:		
Cash	\$ 162	\$ 78
Assets held for sale	1,658	2,400
Total Assets	----- \$ 1,820	----- \$ 2,478
Liabilities:		
Post-petition liabilities	\$ 166	\$ 824
Pre-petition liabilities	4,410	4,410

Total Liabilities	----- \$ 4,576 -----	----- \$ 5,234 -----
Net Liabilities	=====	=====

(17) Sale of Subsidiary - ProQuip, Inc.

On November 22, 1994, the Company sold all of the outstanding capital stock of its ProQuip Inc. subsidiary to Phase Metrics of San Diego, CA. The Company received \$13,250,000 in cash from Phase Metrics and ProQuip forgave a \$316,000 intercompany debt due from the Company. The net proceeds from the sale were used to reduce term debt by \$8,000,000 and to increase working capital by \$3,776,000.

The sale resulted in a \$6,779,000 gain, which was recorded during the first quarter of fiscal year 1995. In addition, \$750,000 of the net proceeds has been escrowed to provide a fund for any indemnity payments that the Company may be obligated to pay Phase Metrics. Any amount not required for this purpose will be returned to the Company and will be recorded as income in a future period.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Sale of Subsidiary - ProQuip, Inc. (continued)

ProQuip, a component of the Test & Measurements segment, is included in the Company's financial statements for the years ended September 30, 1995 (through November 22, 1994, the date of its sale), 1994, and 1993 as follows:

(Dollars in thousands)	1995 -----	1994 -----	1993 -----
Sales	\$ 2,584 =====	\$ 15,231 =====	\$ 10,698 =====
Income from continuing operations before income tax	\$ 730	\$ 4,019	\$ 2,302
Income tax expense	293	1,564	894
Net Income	\$ 437 =====	\$ 2,455 =====	\$ 1,408 =====

The following unaudited condensed pro forma income statement from continuing operations for the year ended September 30, 1995 and 1994 reflects the effects of the sale of ProQuip, assuming the sale had occurred October 1, 1993. The pro forma adjusted results include a reduction of interest on term debt, assuming a payment of \$8,000,000 was made; a reduction of interest on the line of credit, assuming the excess net proceeds after the term debt pay down are used to reduce or pay down any outstanding line of credit balance; and interest income earned on excess cash after the pay down of the term debt and line of credit.

(Dollars in thousands)	1995 Pro Forma -----	1994 Pro Forma -----
Sales	\$ 27,164 =====	\$25,003 =====
Operating Income	\$ (3,074) -----	\$ (3,801) -----
Interest Expense	914	290
Other Income (expense), net	(346) -----	1,670 -----
Income (loss) from continuing operations before income tax	(4,334)	(2,421)
Income tax (benefit) expense	(142) -----	(645) -----
Income (loss) from continuing operations	\$ (4,192) =====	\$ (1,776) =====

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(18) Impairment Loss on Long-Lived Assets

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of" (SFAS 121). SFAS 121 requires that long-lived assets and identifiable intangibles to be held and used by an entity shall be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

During 1995, the Company elected to adopt the provisions of SFAS 121. Accordingly, the realizability of goodwill associated the Company's investment in Ling Electronics, Inc. (Ling), a wholly owned subsidiary, was analyzed for impairment due to its history of operating and cash flow losses. The Company determined that the goodwill would not likely be recoverable based on the estimated future cash flows at Ling. As a result, a \$1,590,000 impairment loss was recognized to reduce the carrying value of the Company's investment in Ling.

(19) Information on Business Segments

The Company's operations comprise two business segments.

Technology - provides contract research and development, design and prototype manufacturing services in mechanical engineering, machinery dynamics and diagnostics, tribology, electrical engineering, measurement science, and energy technology.

Test and Measurement - develops and manufactures high-accuracy inspection systems, shock and vibration testing systems, and electronic instruments using noncontact measurement techniques. The information below includes the results of ProQuip, Inc. which was sold in November 1994 (See Note 17).

A summary of financial data for these business segments at September 30, 1995, 1994, 1993, and for the fiscal years then ended follows:

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Information on Business Segments (continued)

(Dollars in thousands)		SALES		
	1995	1994	1993	
	-----	-----	-----	
Technology	\$11,608	\$10,513	\$13,105	
Test and Measurement	18,140	29,721	28,395	
	-----	-----	-----	
	\$29,748	\$40,234	\$41,500	
	=====	=====	=====	
OPERATING INCOME (LOSS)				
	1995	1994	1993	
	-----	-----	-----	
Technology	\$ (463)	\$ (1,903)	\$ (379)	
Test and Measurement	(1,889)	2,171	3,022	
	-----	-----	-----	
	\$ (2,352)	\$ 268	\$ 2,643	
	=====	=====	=====	
DEPRECIATION				
	1995	1994	1993	
	-----	-----	-----	
Technology	\$ 440	\$ 510	\$ 631	
Test and Measurement	203	298	533	
Corporate	3	5	6	

----- \$ 646 =====	----- \$ 813 =====	----- \$ 1,170 =====
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ASSETS EMPLOYED

	----- 1995 -----	----- 1994 -----	----- 1993 -----
Technology	\$ 5,753	\$ 6,120	\$ 7,772
Test and Measurement	7,492	18,167	15,134
Corporate	1,238	1,030	2,024
	-----	-----	-----
	\$14,483	\$25,317	\$24,930
	=====	=====	=====

CAPITAL EXPENDITURES

	----- 1995 -----	----- 1994 -----	----- 1993 -----
Technology	\$ 227	\$ 219	\$ 352
Test and Measurement	437	426	184
Corporate	3	0	4
	-----	-----	-----
	\$ 667	\$ 645	\$ 540
	=====	=====	=====

The U.S. Government is the largest customer of the Technology segment and accounted for 30%, 17% and 23% of consolidated revenues in 1995, 1994 and 1993, respectively. The largest single government agency customer of the Technology segment accounted for 23%, 12% and 12% of the Company's consolidated revenues in 1995, 1994 and 1993, respectively. The largest customer of the Test & Measurement segment accounted for 7%, 13%, and 15% of consolidated revenues in 1995, 1994, and 1993, respectively.

Exhibit 4.66

PROMISSORY NOTE

\$4,000,000

New York, New York
October 31, 1995

ON OCTOBER 31, 1998, (the "Maturity Date") for value received, the undersigned promises to pay to the order of CHEMICAL BANK (the "Bank") at any of its banking offices in New York, in lawful money of the United States and immediately available funds, the principal amount of Four Million Dollars (\$4,000,000) (the "Note Amount") or the aggregate unpaid principal balance of all advances made by the Bank to the undersigned and recorded on the schedule annexed hereto and made a part hereof, whichever is less, together with interest in like money and funds on the unpaid principal amount hereof from time to time outstanding, from the date hereof until the Maturity Date (or such earlier date, if any, on which this note shall become due by acceleration or otherwise), at a fluctuating rate per annum equal to .625 of 1% above the rate publicly announced by the Bank at its principal office from time to time as its prime rate, and from and after the Maturity Date (or such earlier date, if any, on which this note shall become due by acceleration or otherwise) at a rate per annum equal to 2% above that rate charged on such date until the unpaid principal amount hereof shall be paid in full, after as well as before judgment. Interest shall be payable monthly on the last day of each month and upon maturity and upon payment in full of the unpaid principal amount hereof. Each change in the interest rate hereon resulting from a change in such prime rate of the Bank shall become effective as of the opening of business on the day on which such change in such prime rate occurs. Interest shall be calculated on the basis of a 360 day year for actual days elapsed.

Anything in this note to the contrary notwithstanding, no advances shall be made hereunder, no letters of credit shall be issued by the Bank for the account of the undersigned ("Letters of Credit") and no drafts shall be drawn by the undersigned and accepted by the Bank ("Acceptances") if, as a result thereof, the aggregate unpaid principal balance of all advances made by the Bank to the undersigned hereunder plus the aggregate undrawn face amount of all Letters of Credit, the aggregate unreimbursed amount of all drafts drawn under Letters of Credit and the aggregate outstanding face amount of Acceptances would exceed the Note Amount.

At any time the undersigned requests an advance to be made under this note, the undersigned shall submit with each request a certificate executed by a duly authorized officer of the maker, certifying as of the date of such request, that no event referred to in the following paragraph shall have occurred and be continuing. Upon the filing of a voluntary petition under the Federal Bankruptcy Code (the "Code"), any obligation to lend by the Bank to the undersigned hereunder shall immediately terminate. Upon the occurrence of any other event referred to in the following paragraph the Bank's obligation to lend to the undersigned hereunder may be terminated by the Bank by written notice to the undersigned.

Upon the occurrence, with respect to the maker, of any of the following: default in payment when due of any sums payable hereunder or pursuant to any Acceptances of Letters of Credit, or the filing of an involuntary petition under the Code, which remains unstayed and undismissed for a period of sixty (60) days; making any material misrepresentation to Bank in obtaining credit; the occurrence of a default pursuant to the terms of any guarantee on behalf of the Bank of any obligations of the undersigned to the Bank; the undersigned fails to execute, upon the Bank's written request, an amendment to this note in order to incorporate herein any or all of the events of default arising from related financial covenants or definitions, referred to in Section 2.5 of Amendment Two to the Amended and Restated Loan Agreement with Waiver dated November 22, 1994 and any documents related to such Section 2.5 and executed in connection therewith, as amended and may be hereinafter amended, between the undersigned and The Chase Manhattan Bank, N.A.; then all accrued principal and interest under this note shall be due and payable immediately without notice or demand.

Each advance, and each payment made on account of the principal thereof, may be endorsed by the holder on an attachment hereto on the date such advance is made or a payment in readily available funds is received. This note shall be used to record all advances and payments of principal made hereunder until it is

surrendered to the undersigned by the Bank and it shall continue to be used even though there may be periods prior to such surrender when no amount of principal or interest is owing hereunder.

This note shall be governed by, and construed in accordance with, the laws of the State of New York.

MECHANICAL TECHNOLOGY INCORPORATED

By: /s/ R. Wayne Diesel

Title: President & CEO

GUARANTY

Guaranty dated as of October 31, 1995 in favor of CHEMICAL BANK, a New York banking corporation (the "Bank") with an office located at 12 Corporate Woods Boulevard, Albany, New York, 12211.

The following terms shall have the following meanings unless the context hereof shall otherwise require:

"Borrower" shall mean MECHANICAL TECHNOLOGY INCORPORATED, a New York corporation located at Latham, New York.

"Guarantor" shall mean MASCO CORPORATION, a Delaware corporation, located at 21001 Van Born Road, Taylor, Michigan 48180.

"Guaranty" shall mean this Agreement of Guaranty.

"Liabilities" shall mean any and all of the obligations and liabilities of the Guarantor to the Bank hereunder.

"Obligations" shall mean any and all indebtedness of the Borrower to the Bank under that certain promissory note dated October 31, 1995 attached hereto as Annex A, as well as any costs and attorney's fees which may be or become due and owing in any manner to the Bank on account of said promissory note.

In consideration of advances, loans, extensions of credit and other financial accommodations now existing or hereafter made, to or for the account or benefit of the Borrower by the Bank, and as an inducement therefor, the Guarantor hereby absolutely and unconditionally guaranties to the Bank the prompt payment, when due, of the Obligations.

The Liabilities of the Guarantor hereunder shall not exceed the principal sum of \$4,000,000 exclusive of expenses, costs and attorney's fees, which may be or become due and owing in any fashion to the Bank on account of said Obligations; it being the express intention of this Guaranty that the Guarantor shall be liable hereunder for any expenses, costs and attorney's fees, arising out of or in any way connected with the Obligations hereby guaranteed, in addition to the principal sum of \$4,000,000. The Liabilities of the Guarantor hereunder for the payment of interest shall be limited to an amount not to exceed the sum of all accrued interest unpaid prior to, plus an amount not to exceed six (6) months of interest which may become due after, the occurrence of any event referred to in the fifth full paragraph commencing on the second page hereof; it being the express intention of this Guaranty that the Guarantor shall be liable hereunder with respect to interest upon the Obligations equal to that amount, in addition to the principal sum of \$4,000,000. It is understood that the Obligations of the Borrower to the Bank may at any time and from time to time exceed the liability of the Guarantor hereunder, without impairing or affecting this Guaranty.

The Guarantor consents that the Obligations or the liability of any other party liable for or upon the Obligations may, from time to time, in whole or in part, be created, accrued, renewed, extended, modified, accelerated, compromised, settled or released by the Bank, and the Bank may accept or refuse payment, in whole or in part, from any party, for or upon the Obligations, all without any notice to, further assent by or reservation of any rights against the Guarantor and without affecting or releasing the Guarantor's liability hereunder; provided, however, no modification (other than an extension of the due date for the principal amount of the Obligations) shall allow the Bank to increase the amount of any of the Obligations which otherwise would have been payable by the Guarantor absent such modification, but in the event the Bank and the Guarantor agree to any modification to the Obligations which increases the amount of the Obligations which would have been payable by the Guarantor except for the provisions of the preceding clause, the Guarantor shall continue to remain liable to the Bank pursuant to the terms of this Guaranty for the amount of such Obligations as if such modification had not occurred.

The Guarantor waives any and all notice of acceptance of the Guaranty or the creation or accrual of any of said Obligations, or of any renewals or extensions thereof from time to time or of the reliance by Bank upon this Guaranty. The Obligations shall conclusively be presumed to have been had or

consummated in reliance upon this Guaranty. The Guarantor further waives protest, demand for payment, notice of default or nonpayment to or upon the Guarantor, the Borrower or any other party liable for or upon any of the Obligations as well as the performance by the Bank of any conditions precedent upon which the Guarantor might otherwise rely and which are required in accordance with applicable law.

The Bank shall not be liable for its failure to collect or realize upon the Obligations or any part thereof, or for any delay in so doing, nor shall the Bank be required or obligated to take any action whatsoever with regard thereto.

Notwithstanding any payments which may be made hereunder, until the Obligations have been fully paid the Guarantor shall not be subrogated to the rights of the Bank with respect to the Obligations, and shall not seek reimbursement of such payments from the Borrower. Until the Obligations have been fully paid, all amounts received by the Guarantor from the Borrower shall be received in trust for, and immediately paid to, the Bank on behalf of the Borrower and on account of the Obligations.

If any of the following events should occur:

1. default in any of the Obligations;
2. the Guarantor violates any terms, covenant or condition of this Guaranty;
3. the occurrence of any "Event of Default" (as defined in any present or future agreement by Guarantor with Bank) by the Guarantor with respect to payment or performance under any present or future agreement with the Bank;
4. the Guarantor commences any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeks to have an order for relief entered with respect to it, or seeks to be adjudicated a bankrupt or insolvent, or seeks reorganization, arrangement, adjustment, liquidation, dissolution, composition or other relief with respect to it or its debts, or seeks the appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its property;
5. the Guarantor makes a general assignment for the benefit of creditors;
6. there is commenced against the Guarantor, any case, proceeding or other action of a nature referred to above or seeking the issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its property, which case, proceeding or other action results in the entry of an order for relief or remains undismissed, undischarged or unbonded for a period of 60 days;
7. the Guarantor takes any action indicating its consent to, approval of, or acquiescence in, or in furtherance of, any of the acts set forth above;
8. the Guarantor admits in writing its inability to pay its debts as they mature;
9. the Guarantor terminates or dissolves or suspends its usual business activities;

then, and in any such event, the Bank may declare the Liabilities to be, and the same shall become, immediately due and payable.

This Guaranty shall be and shall remain in full force and effect and even though there may, from time to time, be no Obligation outstanding. This Guaranty shall be binding upon the Guarantor and Guarantor's, successors and assigns any or all of whom shall, nevertheless, remain liable with respect to the Obligations.

Any payment on account of or reacknowledgment of the Obligations by the Borrower, or any other party liable therefor shall be deemed to be made on behalf of the Guarantor and shall serve to start anew the statutory period of limitations applicable to the Obligations.

No notice of termination of this Guaranty or executory agreement and no course of dealing between the Guarantor and the Bank shall be effective to change or modify the Guaranty in whole or in part during the term hereof; nor

shall any change, modification or waiver of any of the provisions of the Obligations or any part thereof, or waiver of any rights or powers of the Bank, or consent by the Bank, be valid or effective unless received in writing in accordance with the provisions hereof and signed by an authorized officer of the Bank.

This Guaranty is a continuing, absolute and unconditional guaranty of payment regardless of the validity, regularity or enforceability of the Obligations and shall remain in full force and effect irrespective of any interruptions in the business relation of the Borrower with the Bank; provided, however, a) that the undersigned may upon five (5) days prior written notice, delivered personally or received by certified mail, return receipt requested, addressed to the Bank's office at 270 Park Avenue, New York, New York 10017, Attention: Rose Mary Bradley, V.P., terminate this Guaranty with respect to all Liabilities of the Borrower incurred or contracted by the Borrower or acquired by the Bank after the effective date of such notice of termination, and b) notwithstanding the provisions of clause a) above, this Guaranty may not be terminated by the Guarantor without the Bank's prior written consent prior to October 31, 1998. The Guarantor shall remain liable to the Bank for all Obligations of the Borrower to the Bank incurred on or prior to the effective date of any notice of termination made by the Guarantor pursuant to the terms of this Guaranty.

This Guaranty terminates, supersedes and cancels Guarantor's Guaranty to the Bank dated July 22, 1992. Notwithstanding anything to the contrary contained elsewhere in this Guaranty, upon Guarantor's payment to the Bank of all Obligations due and owing to the Bank as of the date of such payment, this Guarantee shall automatically terminate in its entirety effective as of the date of such payment.

In consideration of the execution of this Guaranty by the Guarantor on behalf of the Bank, Guarantor understands that the Bank agrees that it shall use its best efforts to promptly furnish to the Guarantor copies of all written notices sent to the Borrower in accordance with any agreement between the Borrower and the Bank pertaining to any failure by the Borrower to comply with any of the terms or conditions of any note, loan agreement or other debt restructuring agreement between the Bank and the Borrower and others pertaining to the Obligations, provided that any failure by the Bank to provide any such notice shall not in any manner affect the enforceability of any of the Guarantor's Liabilities hereunder, which shall remain in full force and effect regardless of the Bank's failure to furnish any such notice to the Guarantor.

Any notice to the Bank shall be deemed effective only if sent to the Bank at its office set forth above or at such other place as the Bank designates in writing. Any notice to the Guarantor shall be deemed sufficient if sent to the Guarantor to the attention of its President, with a copy to its Vice President and General Counsel at its address set forth above or at such other place as the Guarantor shall designate in writing.

The guarantor agrees that if for any reason (including without limitation the bankruptcy of the Borrower) any payment in partial or full satisfaction of the Obligations is or, is required to be, returned or rescinded such Obligations shall, for purposes of this Guaranty; be deemed not to have been so satisfied, notwithstanding that any such payment had previously been applied by Bank to any of such Obligations; and this Guaranty shall thereupon continue to be in full force and effect or be deemed reinstated (notwithstanding its termination), as the case may be, all as though such application by Bank had not been made and all such Obligations shall be due and payable on demand.

The execution and delivery hereafter to the Bank by the Guarantor of a new instrument of Guaranty shall not terminate, supersede or cancel this instrument, unless expressly so provided therein, and all rights and remedies of the Bank hereunder or under any instrument of Guaranty hereafter executed and delivered to the Bank by the Guarantor shall be cumulative and may be exercised singly or concurrently.

The term "Bank" as used throughout this Guaranty shall be deemed to include the Bank, all of the branches, divisions and departments of any individual, partnership or corporation acting as nominee or agent for the Bank, any corporation, the stock of which is owned or controlled, directly or indirectly, by the Bank, and any indorsees, successors or assignees of the Bank. The term "Borrower" and "Guarantor" as used throughout this instrument shall include the corporations named herein respectively as the Borrower or

the Guarantor and any other corporation into or with which the Borrower or Guarantor shall have or has been merged, consolidated, reorganized or absorbed.

The Guarantor agrees that, whenever an attorney is used to obtain payment under or otherwise enforce this Guaranty or to enforce, declare or adjudicate any rights or obligations under this Guaranty, whether by suit or by any other means whatsoever, the costs and expenses of collection, including the reasonable fees of counsel, shall be payable by the Guarantor if the Bank obtains a final judgment against the Guarantor.

The Bank and the Guarantor, in any litigation (relating to this Guaranty) in which Bank and any of them shall be adverse parties, waive trial by jury and the Guarantor also waives the right to interpose any defense based upon laches, set-off or counterclaim, except for any mandatory counterclaims which must be asserted pursuant to applicable law.

The Guaranty shall be governed by and construed in accordance with the laws of the State of New York.

Any provision hereof which may prove unenforceable under any law shall not affect the validity of any other provision hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and the seal the day and year first above written.

MASCO CORPORATION

By: /s/ John R. Leekley

Title: Vice President

CHEMICAL BANK

By: /s/ Allan O. Birkett

Title: Assistant Vice President

MECHANICAL TECHNOLOGY INCORPORATED

to

THE CHASE MANHATTAN BANK, N.A.

MORTGAGE AND SECURITY AGREEMENT

\$340,000

Dated as of October 06, 1995

Street Address: 950 Albany-Shaker Road
 968 Albany-Shaker Road
 Colonie, New York

Tax Account Number: 18-1-24
 18-1-25

After Recording Please Return to:

Nixon, Hargrave, Devans & Doyle LLP
 Clinton Square
 Rochester, New York 14603
Attention: Real Estate Department

MORTGAGE AND SECURITY AGREEMENT

THIS MORTGAGE, dated as of October 06, 1995, is given by MECHANICAL TECHNOLOGY INCORPORATED, a New York corporation having a principal place of business at 968 Albany-Shaker Road, Latham, New York ("Mortgagor"), to THE CHASE MANHATTAN BANK, N.A., a national banking association having its principal office at One Chase Square, Rochester, New York ("Mortgagee").

RECITALS

WHEREAS, Mortgagor is the owner of certain real property located at 950 Albany-Shaker Road and, 968 Albany-Shaker Road in the Town of Colonie, Albany County, New York, which is more particularly bounded and described in SCHEDULE "A" attached hereto (the "Premises"); and

WHEREAS, Mortgagee has agreed to make a loan to the Mortgagor in the principal amount of \$340,000 (the "Loan"); and

WHEREAS, The Loan will be evidenced by certain Mortgage Note of the Mortgagor to the Mortgagee in the principal amount of \$340,000, dated October 06, 1995 (the "Note"), and will be secured by this Mortgage which is intended to be recorded in the Albany County Clerk's Office;

NOW, THEREFORE, in consideration of the respective representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

GRANTING CLAUSE

To secure the payment of the principal sum of \$340,000, lawful money of the United States of America, the maximum amount of principal indebtedness which is or under any contingency may be secured by this Mortgage, to be paid according to the terms of the Note with interest thereon at the per annum rate specified therein, together with all other sums which may from time to time become due and payable to Mortgagee by reason of the exercise of its rights and remedies under the terms of the Note or this Mortgage, Mortgagor hereby mortgages to Mortgagee all of the following:

A. The Premises;

B. All of the buildings, structures and other improvements now or hereafter erected on the Premises (collectively, the "Improvements");

C. All of the right, title and interest of Mortgagor in and to all streets, roads, vaults and public places, opened or proposed, in front of, adjacent to or adjoining the Premises, the Improvements or any part thereof and all air rights, parking areas, easements and rights of way, public or private, now or hereafter used in connection therewith (collectively, the "Appurtenances");

D. All of the right, title and interest of Mortgagor in and to all machinery, apparatus, equipment, fittings, fixtures and articles of personal property installed in, attached to or used or useable in connection with the present or future use of the Premises or the present or future operation or maintenance of the Improvements, whether now owned or hereafter acquired by Mortgagor, including, but not limited to, all heating, lighting, laundry, incinerating and power equipment, engines, pipes, pumps, tanks, motors, conduits, switchboards, plumbing, lifting, cleaning, fire prevention, fire extinguishing, refrigerating, ventilating and communications apparatus, exhaust and heater fans, air-cooling and air-conditioning apparatus, elevators, escalators, shades, awnings, screens, storm doors and windows, stoves, refrigerators, attached cabinets, partitions, ducts and compressors (which machinery, apparatus, equipment, fittings, fixtures and articles of personal property, all replacements thereof, substitutions therefor and additions thereto, together with the proceeds thereof, are hereafter collectively referred to as the "Equipment");

E. All awards heretofore made and hereafter to be made by reason of a taking or condemnation affecting the Premises, the Improvements, the Appurtenances, the Equipment or any part thereof by competent authority as a result of the exercise of the power of eminent domain, including, but not limited to, any awards or payments for use and occupation or for change of grade of streets (collectively, "Condemnation Awards"), which awards, together with any and all claims of Mortgagor

with respect thereto, are hereby assigned to and pledged with Mortgagee;

F. All insurance proceeds heretofore paid and hereafter to be paid by reason of any loss or damage to the Improvements, the Equipment or any part thereof by fire, flood or other casualty (collectively, "Casualty Insurance Proceeds"), which proceeds, together with any and all claims of Mortgagor with respect thereto, are hereby assigned to and pledged with Mortgagee; and

G. All of the right, title and interest of Mortgagor in and to all leases, subleases, tenancies, subtenancies and occupancies now or hereafter affecting the Premises, the Improvements or any part thereof and all amendments, modifications, extensions and renewals thereof (collectively, the "Assigned Leases"), together with (1) all of the rents, issues and profits which may be or become due, or to which Mortgagor may now or hereafter become entitled, arising or issuing out of the Assigned Leases or from or out of the Premises, the Improvements or any part thereof (collectively, "Rents") and (2) all insurance proceeds heretofore paid and hereafter to be paid by reason of any loss of income from the Premises, the Improvements or any part thereof, including, but not limited to, any use or occupancy loss, business interruption or interruption of rental payments under the Assigned Leases or any part thereof (collectively, "Business Interruption Insurance Proceeds"), which rents, issues, profits and insurance proceeds, together with any and all claims of Mortgagor with respect thereto, are hereby assigned to and pledged with Mortgagee;

all of which rights, titles, interests and estates, together with the appurtenances thereto, all other incidents of ownership therein and all further and additional rights, titles, interests and estates which Mortgagor may hereafter acquire therein, are intended to be covered by the lien of the Mortgage.

SECURITY AGREEMENT

To further secure the payment of the Loan, Mortgagor hereby grants to Mortgagee a security interest in all of the Equipment, Condemnation Awards, Casualty Insurance Proceeds, Rents, Business Interruption Insurance Proceeds, general intangibles and other contract rights described in the spreader provision of this Agreement (collectively, the "Collateral") to the full extent of its interest therein, and this Agreement shall constitute a security agreement under Article 9 of the Uniform Commercial Code with respect to all of the Collateral. Mortgagor shall execute and deliver to Mortgagee, upon request, such UCC-1 financing statements, UCC-3 amendments, UCC-3 continuation statements and other instruments as Mortgagee may require in order to impose, confirm, renew or perfect the security interest created by this Agreement upon any of the Collateral. Mortgagor hereby appoints Mortgagee its agent and attorney-in-fact (which appointment shall be deemed to be an agency coupled with an interest), with full power of substitution, to execute, deliver and file on its behalf any UCC-1 financing statements, UCC-3 amendments, UCC-3 continuation statements and other instruments which Mortgagor has failed or refused to execute and deliver to Mortgagee within 10 days after notice and request therefor by Mortgagee.

Mortgagor does hereby covenant and agree with Mortgagee as follows:

Part 1. Warranties.

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Mortgagor WARRANTS title to the Premises and the Collateral (collectively, the "Mortgaged Property") and further represents and warrants to Mortgagee:

1. That the grant of this Mortgage does not conflict

with any charter, by-laws, indenture, contract or agreement to which Mortgagor is a party or by which it is bound, or with any statute, rule, regulation, decree or judgment binding upon it; and

2. Mortgagor is duly organized and existing under the jurisdiction of its incorporation, and that the execution, delivery and performance hereof and of every term, covenant or condition herein provided are within its corporate powers, and has been duly authorized by all necessary stockholder and corporate action.

Part 2. General Covenants.

- -----
Mortgagor COVENANTS and agrees with Mortgagee as follows.

1. This Mortgage shall be a continuing security for the payment of the Loan until Mortgagor shall demand in writing after and at a time when the Loan shall be fully paid that Mortgagee execute and deliver to Mortgagor a discharge hereof in form suitable for recording.

2. The Mortgagor hereby waives presentment, demand of payment, protest, notice of acceptance, and notice of non-payment of any instrument on which Mortgagor is or may become liable, or notice of any other factor which might increase Mortgagor's risk, and any other action or condition prior to Mortgagee's reliance hereon.
This Mortgage shall be enforceable as to all or any part of the Loan despite Mortgagor's discharge in bankruptcy (except as may be otherwise ordered in a bankruptcy proceeding) or adjustment of all or any of the Loan in insolvency proceedings or pursuant to some other compromise with creditors.

3. Mortgagor will, during the time until the Loan shall be fully paid and satisfied, keep the Improvements and Equipment insured against loss or damage by fire and by such other hazards as Mortgagee may reasonably require, to an amount to be approved by Mortgagee not exceeding in the aggregate one hundred per cent of their full insurable value and in a company or companies to be approved by Mortgagee, and will assign and deliver, upon request, the policy or policies of such insurance to Mortgagee, which policy or policies shall have endorsed thereon the standard New York Mortgagee clause in the name of Mortgagee, so and in such manner and form that it shall at all time and times, upon such request, until the full payment of the Loan, have and hold the said policy or policies as a collateral and further security for the payment of the Loan, and if Mortgagor fails to perform or comply with any of the foregoing, Mortgagee may procure such insurance from year to year, in an amount in the aggregate not exceeding one hundred per cent of the full insurable value of the Improvements and Equipment for the purposes aforesaid, and pay the premium or premiums therefor, and that Mortgagor will pay to Mortgagee, such premium or premiums so paid, with interest from the time of payment, on demand, and that the same shall be deemed to be secured by the Mortgage, and shall be collectible thereupon and thereby in like manner as the principal moneys, and that should Mortgagee by reason of such insurance against loss by fire or other insured casualty receive any sum or sums of money for damage by fire or other insured casualty, such amount may be retained and applied by Mortgagee toward payment of the Loan, or the same may be paid over either wholly or in part to Mortgagor for the repair of the Improvements and Equipment or for the erection of new Improvements and Equipment in their place or for such other purpose or object and upon such conditions as shall be satisfactory to Mortgagee, any such alternative, however, to be solely within the discretion of Mortgagee, and if Mortgagee receives and retains insurance money for damage by fire or other insured casualty to the Mortgaged Property, the lien of the Mortgage shall be affected only by a reduction of the amount of said lien by the amount of such insurance money received and retained by Mortgagee.

4. None of the Improvements or Equipment shall be

removed (except to the extent replaced by Improvements or Equipment of comparable value), demolished or substantially altered without the prior written consent of Mortgagee; provided, however that Mortgagor shall have the right, to remove, from time to time, any Equipment which has become worn out or obsolete or is defective or was improperly installed if, prior to or simultaneously with such removal, such Equipment is replaced with other Equipment of like kind and equivalent value which is free and clear of all liens, security interests, encumbrances, conditional sales contracts, installment contracts or other financing devices. Such replacement Equipment shall immediately become subject to the lien of and security interest created by this mortgage without any further action on the part of Mortgagor.

5. Mortgagor will not abandon the Mortgaged Property or cause or permit any waste to the Mortgaged Property and will at all times maintain the Mortgaged Property in a reasonably good condition, and will comply and cause all occupants of the Mortgaged Property to comply, with all laws and ordinances relating to the maintenance or use of the Mortgaged Property and with all requirements, orders and notices of violation thereof issued by any governmental department. Mortgagor will pay all license fees and similar municipal charges for the use of vaults or other areas now or hereafter used in connection with the Mortgaged Property and will not, unless so required by any governmental agency having jurisdiction, discontinue such use without the prior written consent of Mortgagee. Within 60 days after notice and demand by Mortgagee, Mortgagor will restore or repair the Mortgaged Property as specified in such notice and demand. Mortgagor will permit Mortgagee and its representatives to enter the Mortgaged Property at reasonable times to inspect the same, and in case of any default under this paragraph, to enter the Mortgaged Property to protect, restore or repair any part thereof.

6. Mortgagor will pay within 30 days from the date the same become due and payable all taxes, assessments, or water rates and any and all charges necessary to be paid to preserve this Mortgage lien, and Mortgagor will pay immediately upon demand any additional Mortgage tax which may become due and payable as a condition to foreclosure hereof or which Mortgagee may reasonably believe to be due and payable at any time.

7. Mortgagor will not hereafter, without the prior written consent of Mortgagee, grant or permit any other Mortgage, security interest, lien, pledge or charge of any kind upon the Mortgaged Property, except: (i) as may be granted to Mortgagee, or (ii) contractors', subcontractors', materialmen's, mechanics', carriers', workmen's or other like liens arising in the ordinary course of business which are discharged of record or bonded within 30 days after the filing or recording thereof. If notwithstanding the foregoing sentence and without Mortgagee's said consent Mortgagor grants or permits any such mortgage or security interest on or after the date hereof, such mortgage or security interest shall be junior and subordinate to the lien of this Mortgage.

8. Mortgagor will not, without the prior written consent of Mortgagee, assign the rents or any part thereof, from the Mortgaged Property; nor consent to the cancellation or surrender of, or accept prepayment of rents under any lease now or hereafter covering the Mortgaged Property or any part thereof having an unexpired term of more than 1 year; nor modify any such lease so as to shorten the term, decrease the rent, accelerate the payment of rent or change the terms of any renewal option, and any such purported assignment, cancellation, surrender, prepayment or modification made without the written consent of Mortgagee shall be void as against Mortgagee. The provisions of the preceding sentence shall be enforceable as provided in Section 291-f of the Real Property Law of the State of New York with respect to leases in existence at the time of execution and delivery hereof and covered by said section. Mortgagor will upon demand of Mortgagee enter into an agreement with Mortgagee pursuant to said Section 291-f with respect to any lease

hereafter executed covering the Mortgaged Property or any part thereof, and Mortgagor hereby appoints Mortgagee attorney-in-fact of Mortgagor to execute and deliver any such agreement on behalf of Mortgagor and to deliver to the tenant to whose lease such agreement relates the written notice referred to in said Section 291-f. Mortgagor will perform and comply with the terms of all leases covering the Mortgaged Property or any part thereof on its part to be performed or complied with.

9. Mortgagor will, within five days upon request in person or within ten days upon request by mail, furnish a written, duly acknowledged statement of the amount of the Loan.

10. Mortgagor will maintain full and correct books and records showing in detail the earnings and expenses of the Mortgaged Property; will permit Mortgagee and its representatives to examine said books and records and all supporting vouchers and data at any time and from time to time upon request by Mortgagee at the Mortgaged Property or at such other place in the town and county in which the Mortgaged Property is located as such books and records are customarily kept; and at any time and from time to time will furnish to Mortgagee at its request a statement showing in detail all such earnings and expenses since the last such statement verified by the affidavit of Mortgagor's principal executive officer.

11. This Mortgage constitutes a security agreement under the New York Uniform Commercial Code and creates a security interest in all Mortgaged Property (and the proceeds thereof) which might otherwise be deemed "personal property." Mortgagor shall execute, deliver, file and refile any financing statement, continuation statements, or other security agreements Mortgagee may require from time to time, to confirm the lien of this Mortgage with respect to such property. Without limiting the foregoing, Mortgagor hereby irrevocably appoints Mortgagee and its successors in interest as attorney-in-fact of Mortgagor to execute, deliver and file such instruments for and on behalf of the Mortgagor.

12. Mortgagor shall execute and deliver, upon demand, any further assurance of title and other further instrument or instruments, including, but not limited to, Mortgages or corrections or amendments thereto, security agreements, financing statements, and assignments so as to reaffirm, to correct or to perfect the evidence of the lien of the Mortgagee to all or any part of the Mortgaged Property intended to be Mortgaged, whether now so Mortgaged, later substituted for Mortgaged Property, or acquired subsequent to the date hereof.

13. In the event of any default hereunder, following any notice and opportunity to cure provided herein, Mortgagee may cause title to the Mortgaged Property to be examined or updated by any reputable title insurance or abstract company licensed to do business in the State of New York and a survey of the Mortgaged Property to be prepared or redated by any reputable surveyor licensed to do business in the State of New York and the cost thereof shall be paid by Mortgagor upon demand.

14. If any action or proceeding is commenced (except an action to foreclose this Mortgage or to collect the Loan) to which action or proceeding Mortgagee is made a party, or in which it becomes necessary to defend or uphold the lien of this Mortgage, all sums paid by Mortgagee for the expense of any litigation to prosecute or defend the rights and lien created by this Mortgage (including reasonable counsel fees), shall be paid by Mortgagor to Mortgagee immediately upon demand.

15. The following sums, together with interest thereon from the dates of payment thereof by Mortgagee at a rate of 15% per annum or, if less, at the maximum rate permitted by law, shall be added to the Loan and shall be a lien on the Mortgaged property and shall be deemed to be secured by this Mortgage prior to any right, title to, interest in, or claim upon the Mortgaged property attaching or accruing subsequent to the lien of this Mortgage, without regard to whether or not the Loan shall be or

shall be declared to be due and payable by acceleration or otherwise: (i) all amounts for which Mortgagee shall demand payment from Mortgagor pursuant to and under any provision in this Mortgage; and (ii) if Mortgagor fails to comply with or perform any covenant or agreement herein (other than those in Part 3 hereof), all costs of compliance or performance by Mortgagee, which Mortgagee, at its sole option, may undertake in whole or in part and in such manner as Mortgagee in its sole discretion may elect without any notice or demand of any kind to Mortgagor except and only to the extent hereinbefore expressly provided.

Part 3. Environmental Covenants.

1. As used in this Mortgage, the following capitalized terms shall have the meanings set forth below:

(a) "Environmental Agreement" means that certain Environmental Compliance and Indemnification Agreement given by Mortgagor to Mortgagee, dated as of July 22, 1992.

(b) "Environmental Laws" mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the decisions, orders, directives, rules, regulations, standards, criteria and guidance documents that are generally applicable and consistently applied, published in writing and available from the appropriate federal, state and local governmental agencies and authorities with respect thereto.

(c) "Environmental Permits" mean all permits, licenses, approvals, authorizations, consents or registrations required by any applicable Environmental Law in connection with the ownership, use and/or operation of the Premises for the storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances or the sale, transfer or conveyance of the Premises.

(d) "Hazardous Substance" means (i) any radioactive materials, asbestos, polychlorinated biphenyls, petroleum and petroleum products and methane, and (ii) any hazardous materials, hazardous wastes, and hazardous or toxic substances as such terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), the Resource Conservation and Recovery Act as amended (42 U.S.C. Sections 6901, et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. Sections 2601, et seq.), Articles 15 and 27 of the New York State Environmental Conservation Law or any other applicable Environmental Law and the regulations promulgated thereunder.

(e) "Release" has the same meaning as given to that term in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.), and the regulations promulgated thereunder.

2. ENVIRONMENTAL INSPECTION AND CLEAN UP PRIOR TO FORECLOSURE. If Mortgagee elects to foreclose this Mortgage or to take a deed in lieu of foreclosure, Mortgagor shall deliver the Mortgaged Property to Mortgagee free of any Hazardous Substances, except any Hazardous Substances existing in such a manner as would not constitute a violation of any applicable Environmental Law, so that the condition of the Mortgaged Property shall conform with all Environmental Laws then applicable to the Mortgaged Property and comply with the terms and conditions of all Environmental Permits then required in connection with the ownership, use, operation, sale transfer or conveyance of the Mortgaged Property. Mortgagee may require that a full or supplemental environmental inspection and audit report

with respect to the Mortgaged Property of a scope and level of detail satisfactory to Mortgagee be prepared by an environmental engineer or other qualified person acceptable to Mortgagee. If, at the time Mortgagee requires such an environmental audit report, Mortgagor is in default of this Mortgage, and provided the time period for any notice and opportunity to cure provided herein has expired, the environmental report shall be prepared at Mortgagor's sole cost and expense. If Mortgagor is not in default at such time, then such environmental report shall be prepared at Mortgagee's sole expense. Said audit may include physical inspection of the Mortgaged Property, a visual inspection of any property adjacent to or within the immediate vicinity of the Mortgaged Property, personnel interviews and a review of all Environmental Permits. If Mortgagee requires, such inspection shall also include a records search and/or subsurface testing for the presence of Hazardous Substances in the soil, subsoil, bedrock, surface water and/or groundwater. If said audit report indicates the presence of any Hazardous Substance existing in such a manner as would constitute a violation of any applicable Environmental Law, or a Release or the substantial threat of a Release of any Hazardous Substance which would cause a violation of any applicable Environmental Law on, at or from the Mortgaged Property, Mortgagor shall promptly undertake and diligently pursue to completion all investigative, containment, removal, clean up and other remedial actions necessary to comply with all Environmental Laws, using methods acceptable to the appropriate federal, state and local regulatory authorities. If Mortgagor shall fail to promptly undertake or diligently pursue to completion all such actions, Mortgagee shall have the right, but not the obligation, upon ten days written notice to Mortgagor (or without notice in the case of emergency), to take or complete such actions on behalf of Mortgagor. The contractors and/or subcontractors selected by Mortgagee for this purpose shall have the right to enter the Mortgaged Property with such persons, machinery and equipment and to undertake such investigative, containment, removal, clean up and other remedial actions as they shall deem necessary and appropriate without thereby incurring any liability to Mortgagor on account thereof. Mortgagor agrees to cooperate with all contractors and/or subcontractors engaged in such actions. Mortgagor shall be liable to Mortgagee for all costs and expenses, including, without limitation, attorneys' and experts' fees, expenses and disbursements, paid or incurred on account of such actions and shall promptly reimburse Mortgagee therefor on demand. Until paid by Mortgagor, all such costs and expenses and the cost of the environmental inspection and audit report, together with interest thereon at the maximum interest rate permitted by law, shall be secured by this Mortgage and may be added to the judgment in any foreclosure action.

Part 4. Default Provisions.

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1. Without limitation of and in addition to any rights of Mortgagee under the Note, the whole of the Loan shall become due and immediately payable at the option of Mortgagee, without notice, presentation or demand of any kind except as hereinafter expressly provided, all others being hereby waived, and thereupon Mortgagee shall have the right, among others, to foreclose this Mortgage, upon any of the following events of default:

(a) Mortgagor shall fail to pay when due, whether by acceleration or otherwise, any of the principal of or interest on the Loan, and such failure shall have continued for a period of ten (10) days after notice.

(b) Mortgagor shall fail, in any material respect, to pay, perform or comply with any of the provisions, covenants or agreements herein, or in the Environmental Agreement, within 10 days after written notice and demand from Mortgagee to Mortgagor.

(c) Any material warranty of Mortgagor herein contained or in the Environmental Agreement shall be untrue or misleading in any material respect on the date when made.

(d) A conveyance of the Mortgaged Property or any part thereof to any person.

(e) Mortgagor shall fail to pay any contractors', subcontractors', suppliers', mechanics' or laborers' liens of any and all types and descriptions as are now filed or recorded or hereafter become filed or recorded against the Mortgaged property, and the same shall not be discharged of record or fully bonded within 60 days after the filing or recording thereof; and in such event, the Mortgagee may pay such principal, interest, lien amount, or part thereof, and the amount so paid, with interest thereon from time of such payment, may be added to the Loan and shall be a lien on the Mortgaged property prior to any right, or title to, interest in or claim upon the Mortgaged property attaching or accruing subsequent to the lien of this Mortgage, and shall be deemed to be secured by this Mortgage.

(f) Mortgagor shall: (1) admit in writing an inability to pay debts; (2) institute proceedings under any law relating to bankruptcy, insolvency, assignment for the benefit of creditors, or the reorganization, arrangement or relief of Loan; (3) permit any of said proceedings to be instituted against it or permit a trustee or receiver to be appointed in respect of the Mortgaged property or the greater part of its properties, unless such proceeding or appointment is contested and dismissed or stayed within 60 days and prior to adjudication as a bankrupt or insolvent; or (4) permit any other act of insolvency or bankruptcy.

(g) If Mortgagor (i) shall fail to maintain its corporate existence or shall dissolve or otherwise dispose of all or substantially all of its assets; or (ii) shall consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it without the prior written consent of Mortgagee.

(h) Mortgagor shall fail to pay the principal of or interest on any other debt, liability or obligation, or any part thereof, whether by acceleration or otherwise, which is owed by Mortgagor to Mortgagee and such failure shall continue for more than any applicable grace or cure period with respect thereto.

2. After any default hereunder, Mortgagor shall, upon demand, surrender possession of the Mortgaged Property to Mortgagee, and Mortgagee may enter upon the Mortgaged Property in a manner consistent with applicable law and let the same and collect all the rents, income and profits therefrom, which are due, or to become due, and apply the same, after payment of all charges and expenses, on account of the Loan; and the said rents, income and profits and all the leases existing at the time of such default are hereby assigned to Mortgagee as further security for the payment of the Loan. Mortgagee may also dispossess, by the usual summary proceedings or otherwise, any tenant defaulting in the payment to Mortgagee of any rent. In the event that Mortgagor occupies the same or any portion thereof, Mortgagor agrees to surrender possession thereof to Mortgagee immediately upon any default hereunder and, if Mortgagor remains in possession thereof after any default, the possessions shall be as tenant of Mortgagee and Mortgagor agrees to pay in advance upon demand and to Mortgagee a reasonable monthly rental for the Mortgaged property so occupied and in default so doing Mortgagor may also be dispossessed by the usual summary proceeding or otherwise. This covenant shall become effective immediately after the happening of any default and whether or not foreclosure has been instituted and without applying for the appointment of a receiver, solely on the determination of Mortgagee who shall give notice of such determination to Mortgagor. In case of foreclosure and the appointment of a receiver of said rents, income and profits, this covenant shall inure to the benefit of such receiver.

3. Mortgagee shall be entitled to the appointment of a receiver of the rents and profits of the Mortgaged Property in any action to foreclose this Mortgage, without notice and without

regard to the adequacy of any security for the Loan and without regard to the solvency of any person, firm or corporation liable for the payment thereof. Such receiver shall be entitled to recover possession of the Mortgaged Property from the owner or owners thereof and all persons in possession of the whole or any part thereof. In case of sale under foreclosure, the Mortgaged Property may be sold in one parcel, any provision of law to the contrary notwithstanding.

4. Mortgagee may resort for the payment of the Loan to any securities therefor, in such order and manner as it may see fit, and Mortgagee may maintain an action to foreclose this Mortgage notwithstanding the pendency of any action to recover any part of the Loan, or the recovery of any judgment in such action, nor shall Mortgagee be required during the pendency of any action to foreclose this Mortgage, to obtain leave of any court in order to commence or maintain any other action to recover any part of the Loan. No act of Mortgagee shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision. Mortgagee shall not be limited exclusively to the rights and remedies herein stated but shall be entitled to every right and remedy now or hereafter afforded at law or in equity.

5. In event of a default hereunder and if an action is commenced for the foreclosure of this Mortgage, Mortgagee shall be entitled to recover all sums due hereunder, and under the Loan, statutory costs and disbursements, any additional allowance made pursuant to Section 8303, Civil Practice Law and Rules, and in addition thereto, reasonable attorneys' fees, the amount of all of which shall be added to the Loan and shall be a lien on the Mortgaged Property, prior to any right, or title to, interest in or claim upon the Mortgaged Property attaching or accruing subsequent to the lien of this Mortgage, and shall be deemed to be secured by this Mortgage.

Part 5. Construction, Amendment and Miscellaneous.

1. This Mortgage is made and accepted subject to the trust fund provisions of Section 13 of the Lien Law of the State of New York.

2. The rights of Mortgagee herein specified shall be in addition to its rights under Section 254 of the Real Property Law of the State of New York.

3. This Mortgage shall not be modified, amended, released, discharged or changed in any respect except by written instrument signed by the parties hereto or their legal representatives. All covenants and provisions of every kind in this Mortgage shall bind and benefit the parties hereto and their respective legal representatives, distributees, successors and assigns. As used throughout this Mortgage, the term "Mortgagee" and all words referring to Mortgagee shall mean and include any holder of this Mortgage and the term "Mortgagor" and all words referring to Mortgagor shall mean and include any subsequent owner or owners of the Mortgaged property.

4. No waiver by Mortgagee of the breach of any of the foregoing covenants or failure of Mortgagee to exercise any option given to it shall be deemed to be a waiver of any other breach of the same or any other covenant or of its rights thereafter to exercise any such option. No delay by Mortgagee in exercising any right or remedy hereunder or otherwise afforded by law shall operate as a waiver thereof or preclude the exercise thereof during the continuance of any default hereunder.

5. Any consent of Mortgagee asked or given under any of the provisions hereof shall not be binding upon Mortgagee unless the same shall be in writing and signed by Mortgagee or its representative.

6. Notice and demand or request may be in writing and may be reserved in person or by mail.

7. Any action or proceeding commenced by Mortgagee or Mortgagor upon or affecting this Mortgage or the Loan, including an action to foreclose this Mortgage, shall be brought and be triable in Monroe County, State of New York, unless Mortgagee, in its sole discretion, shall select such other county as would be, absent this covenant, the proper county in which to bring such action. Service of process may be by registered or certified mail addressed to Mortgagor at its address first above recited or to such other address of Mortgagor which Mortgagee shall have obtained by actual or written notice.

8. If any provision herein shall be deemed invalid, such provision shall be deemed omitted to the extent invalid, but the remainder of such provision and the remaining provisions hereof shall be given full effect.

9. This Mortgage shall be effective as a Uniform Commercial Code Financing Statement given by Mortgagor as debtor to Mortgagee as secured party. This "Financing Statement" covers goods described herein by item or type which are or are to be affixed to the real property described in Schedule A annexed hereto.

IN WITNESS WHEREOF, Mortgagor and Mortgagee have caused this Agreement to be duly executed as of the day and year first above written.

MECHANICAL TECHNOLOGY
INCORPORATED

By: /s/ StephenT.Wilson

Its: Chief Financial Officer

CHASE LINCOLN FIRST BANK, N.A.

By: /s/ John H. Watt, Jr.

John H. Watt, Jr.
Vice President

STATE OF NEW YORK)
: SS.:
COUNTY OF ALBANY)

On this 12nd day of October, 1995, before me personally came Stephen T. Wilson, to me known, who, being by me duly sworn, did depose and say that he resides at Delmar, New York ; that he is the Chief Financial Officer of MECHANICAL TECHNOLOGY INCORPORATED, the corporation described in and which executed the within instrument; and that he signed his name thereto by authority of the Board of Directors of said corporation.

M. Sheila Lamb

Notary Public

STATE OF NEW YORK)
: SS.:
COUNTY OF MONROE)

On this 10nd day of October, 1995, before me personally came John H. Watt, Jr., to me known, who, being by me duly sworn, did depose and say that he resides at in Pittsford, New York; that he is a Vice President of CHASE LINCOLN FIRST BANK, N.A.,

the national banking association described in and which executed the within instrument; and that he signed his name thereto by authority of the Board of Directors of said corporation.

Rose L. Short

Notary Public

SCHEDULE A
to
CONSOLIDATION AGREEMENT

Granted by Mechanical Technology Incorporated
to
Chase Lincoln First Bank, N.A.

PARCEL A

All that certain tract, piece or parcel of land situate, lying and being in the Town of Colonie, Albany County, New York, lying generally Westerly of Albany-Shaker Road (County Road No. 151) and being further bounded and described as follows:

BEGINNING at a point at the intersection of the division line between the lands now or formerly of Mechanical Technology, Inc. on the North and the lands now or formerly of Eugene LeMoine on the South with the Westerly boundary of Albany-Shaker Road (County Road No. 151) and runs thence from said point of beginning South 79 deg. 44 min. West along the said above first mentioned division line 161.40 feet to its intersection with the common division line between the lands now or formerly of Mechanical Technology Inc. on the West and the lands now or formerly of Eugene LeMoine and lands now or formerly of Edward McNeil on the East; thence along the above last mentioned common division line the following two (2) courses: South 11 deg. 59 min. East 195.00 feet to an angle point; thence South 11 deg. 36 min. East 152.84 feet to its intersection with the division line between the lands now or formerly of Mechanical Technology, Inc. on the North and the lands now or formerly of the Idlewood Club Inc. on the South; thence North 86 deg. 15 min. West along the above last mentioned division line 1,023.97 feet to its intersection with the division line between lands now or formerly of Mechanical Technology Inc. on the East and the lands now or formerly David J. and Hazel Willig on the West; thence North 19 deg. 17 min. East along the above last mentioned division line 425.54 feet to its intersection with the common division line between the lands now or formerly of Mechanical Technology, Inc. on the Northeast and the lands now or formerly of David J. and Hazel Willig and lands now or formerly of British American Development Corp. on the Southwest; thence North 42 deg. 11 min. West along the above last mentioned common division line 739.06 feet to its intersection line with the division line between the lands now or formerly of Mechanical Technology Inc. on the Southeast and the lands now or formerly of John and Marion A. Faddegon on the Northwest; thence along the above last mentioned division line the following three (3) courses: 1) North 35 deg. 40 min. East 507.58 feet to a point; 2) thence North 82 deg. 29 min. East 271.04 feet to a point; and 3) thence North 80 deg. 11 min. East 123.17 feet to a point; thence through the lands now or formerly of Mechanical Technology Inc. the following two (2) courses: South 04 deg. 46 min. East 717.74 feet to a point; thence North 85 deg. 14 min. East 689.09 feet to a point on the above mentioned Westerly boundary of Albany-Shaker Road (County Road NO. 151); thence along the said above mentioned Westerly highway boundary South 04 deg. 06 min. East, 458.92 feet to the point or place of beginning and containing 26.52 acres of land more or less.

Tax Account Number: Portion of 18-1-24

Property Address: Portion of 968 Albany-Shaker

PARCEL B

All that certain tract, piece or parcel of land situate, lying and being in the Town of Colonie, Albany County, New York, lying generally Westerly of Albany-Shaker Road (County Road No. 151) and being further bounded and described as follows:

BEGINNING at a point of the intersection of the common division line between the lands now or formerly of Mechanical Technology, Inc. on the Southwest and the lands now or formerly of Office Assistance Inc. and lands now or formerly of Wanton S. Budlong, Jr. on the Northeast with the Westerly boundary of Albany-Shaker Road (County Road No. 151) and runs thence from said point of beginning along the above mentioned Westerly highway boundary the following four (4) courses: 1) South 17 deg. 47 min. West 44.51 feet to a point; 2) thence South 12 deg. 46 min. West 50.20 feet to a point; 3) thence South 02 deg. 14 min. West 92.82 feet to a point; and 4) thence South 04 deg. 06 min. East 74.60 feet to a point; thence through the lands now or formerly of Mechanical Technology Inc. the following two (2) courses: South 85 deg. 14 min. West 689.09 feet to a point; thence North 04 deg. 46 min. West 717.74 feet to a point on the division line between the lands now or formerly of Mechanical Technology Inc. on the South and the lands now or formerly of John and Marion A. Faddegon on the North; thence along the above last mentioned division line the following two (2) courses: North 80 deg. 11 min. East 26.61 feet to a point; thence North 74 deg. 23 min. East 104.24 feet to its intersection with the above first mentioned common division line; thence South 56 deg. 05 min. East along the said above first mentioned common division line 774.44 feet to the point or place of beginning and containing 8.87 acres of land more or less.

EXCEPTING AND RESERVING THEREFROM, all that certain piece or parcel of land described in a certain Notice of Appropriation dated September 27, 1990 and recorded the same day in the Albany County Clerk's Office in Book 2424 of Deeds at page 132.

Tax Account Number: Portion of 18-1-24
Property Address: Portion of 968 Albany-Shaker Road, Latham, New York 12210

PARCEL C

ALL THAT TRACT PIECE OR PARCEL OF LAND, situate, lying and being in the Town of Colonie, Albany County, New York, lying along the Westerly side of the Albany-Shaker Road, and being further bounded and described as follows:

BEGINNING at an iron pipe in the westerly line of the Albany-Shaker Road distant North 11 deg. 21 min. west, ninety-five (95) feet from an iron pipe in the north-easterly corner of the lands now or formerly of Edward McNeil and runs thence along the westerly side of the Albany-Shaker Road, north 11 deg. 21 min. west, one hundred feet (100.0') to an elm tree; thence along the southerly line of lands now or formerly of Kate Male, south 80 deg. 22 min. west, one hundred sixty-three feet (163.0') to an iron pipe; thence south 11 deg. 21 min. east, one hundred feet (100.0') to an iron pipe; thence north 80 deg. 22 min. east, one hundred sixty-three feet (163.0') to the point or place of beginning and containing about 0.374 of an acre of land. The above bearings being as surveyed by C.T. Male Associates, Charles T. Male, Jr. L.S., June 7, 1956.

Being and intending to convey the same premises

conveyed to mortgagor by deed dated November 3, 1981 and recorded
in the Albany County Clerk's Office on November 18, 1981 in
Book 2214 of Deeds at Page 845.

Tax Account Number:

Property Address: 950 Albany-Shaker Road
 Latham, New York 12110

MORTGAGE NOTE

U.S. \$340,000

Albany, New York
As of October 06, 1995

FOR VALUE RECEIVED, Mechanical Technology Incorporated, a New York corporation having an address at 968 Albany-Shaker Road, Latham, New York 12210 (the "Borrower"), hereby unconditionally promises to pay to the order of The Chase Manhattan Bank, N.A., a national banking association (the "Bank"), the principal sum of Three Hundred Forty Thousand and 00/100 Dollars (\$340,000) together with interest thereon from the date hereof at the rates hereinafter provided. This Note is a Note referred to in, and is entitled to the benefits of, the Amended and Restated Loan Agreement dated as of July 22, 1992, as the same may be amended from time to time (the "Loan Agreement") by and between the Borrower and the Bank. The Loan Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the occurrence of certain stated events and all of the terms and conditions of the Loan Agreement are incorporated by reference herein and made a part hereof. Capitalized terms used herein and not otherwise defined here are used herein with the same meaning as set forth in the Loan Agreement.

1. All payments of principal and interest shall be payable in lawful money of the United States of America in immediately available funds by depositing the same in the Operating Account, or in such other manner or at such other place as the holder of this Note may direct the Borrower by written notice. The Borrower hereby irrevocably authorizes the Bank to charge the Operating Account for the amount then due and payable pursuant to this Note subject to the terms of any agreement which maybe entered into between the Bank and the Borrower pertaining to the administration of the Operating Account and in effect at the time of payment. All overdue payments of principal and, to the extent permitted by law, interest shall bear interest at the Default Interest Rate from the date such payment was due until the date of payment. All payments hereunder shall be applied first to the payment of accrued but unpaid interest, if any, and then in reduction of the principal balance hereof.

2. This Note shall bear interest at the rates provided in the Loan Agreement.

3. This Note is in addition to Notes issued by the Borrower to the Bank pursuant to and under the Loan Agreement dated as of July 22, 1992 (the "Other Notes").

4. Principal payments on this Note and the Other Notes shall be due in the aggregate amounts and on the dates specified on the Amortization Schedule set forth in Section 2.5 of the Loan Agreement. The Bank may apply any and all payments of the principal of the Loan evidenced by this Note and the Other Notes to this Note or to the Other Notes as the Bank may elect in its sole discretion. The outstanding principal balance of this Note, together with all interest accrued thereon, shall be due and payable in full on October 31, 1995, unless such Maturity Date is extended by the Bank pursuant to a written instrument as provided by Article IV of the Loan Agreement.

5. This Note is subject to the express condition that at no time shall the Borrower be obligated or required to pay interest on the principal balance at a rate which could subject the Bank to either civil or criminal liability as a result of being in excess of the maximum rate which the Borrower is permitted by law to contract or agree to pay. If by the terms of this Note the Borrower is at any time required or obligated to pay interest on the principal balance at a rate in excess of such maximum rate, the rate of interest under this Note shall be deemed to be immediately reduced to such maximum rate and interest payable hereunder shall be computed at such maximum rate and the portion of all prior interest payments in excess of such maximum rate shall be applied to and shall be deemed to have been payments in reduction of the principal balance hereof.

6. This Note may not be waived, changed, modified or discharged orally, but only by agreement in writing, signed by the party against whom any enforcement of any waiver, change, modification or discharge is sought.

7. This Note shall be construed in accordance with and governed by the laws of the State of New York.

8. The Borrower hereby waives valuation and appraisal, demand, presentment for payment, notice of dishonor, protest and notice of protest of this Note.

9. The Borrower represents that the Borrower has full power, authority and legal right to execute and deliver this Note and that the debt hereunder constitutes a valid and binding obligation of the Borrower.

10. Without limitation of any other security securing the "Loan" under the Loan Agreement, and in addition thereto, that portion of such Loan evidenced by this Note is secured by the Mortgage dated October 06, 1995 granted by Borrower to Chase.

IN WITNESS WHEREOF, Mechanical Technology Incorporated has caused this Note to be executed and delivered in its name by its duly authorized officer.

DATED: as of October 06, 1995

MECHANICAL TECHNOLOGY
INCORPORATED

By: /s/ Stephen T. Wilson

Its: Chief Financial Officer

AMENDMENT THREE TO
AMENDED AND RESTATED LOAN AGREEMENT

This Amendment Three is dated as of November 30, 1995 and is made by and between MECHANICAL TECHNOLOGY INCORPORATED, a corporation organized under the laws of New York (the "Borrower") and THE CHASE MANHATTAN BANK, N.A., a national banking association organized under the laws of the United States of America and the successor in interest to Chase Lincoln First Bank, N.A. (the "Bank").

Statement of the Premises

The Borrower and the Bank previously entered into an Amended and Restated Loan Agreement dated as of July 22, 1992 as amended by Amendment One thereto dated as of August 1, 1994 and Amendment Two thereto dated as of November 22, 1994 (the "Loan Agreement"). The Borrower and the Bank wish to extend the "Maturity Date" under the Loan Agreement in conjunction with an extension of the maturity of the Borrower's obligations to Chemical Bank and to make certain other amendments to the Loan Agreement.

Statement of Consideration

Accordingly, in consideration of the premises and under the authority of Section 5-1103 of the New York General Obligations Law, the Borrower and the Bank agree as follows.

Agreement

1. Defined Terms. The terms "this Agreement", "hereunder" and similar references in the Loan Agreement shall be deemed to refer to the Loan Agreement as amended hereby. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Amendment. Effective as of October 31, 1995, the Loan Agreement is hereby amended, as follows:

2.1 Section 1.1 of the Loan Agreement is amended by changing the definitions of "Extended Maturity Date" and "Maturity Date" to read, in their entirety, respectively, as follows:

"Extended Maturity Date" means October 31, 1998

"Maturity Date" means October 31, 1998.

2.2 Section 1.1 of the Loan Agreement is amended by adding the following definitions thereto, as follows:

"Additional Loans" means the Additional Loan or Loans which were made by the Bank to the Borrower pursuant to and under Section 2.6 of the Loan Agreement as added by Amendment Two to the Loan Agreement as in effect immediately prior to Amendment Three to this Loan Agreement.

"1995 Installment" means the installment payment of \$250,000 due no later than December 31, 1995 pursuant to Subsection (A) of Section 2.5 as amended by Amendment Three to this Loan Agreement.

"UTE Proceeds" means any proceeds received by or on behalf of the Borrower after October 31, 1995 pursuant to and under the Settlement and Claims Agreement and Order Approving Same entered in the bankruptcy proceeding of United Telecontrol Electronics, Inc., as Debtor, in the United States Bankruptcy Court for the District of New Jersey.

2.3 Section 2.1 of the Loan Agreement is amended by adding the following sentence at the end thereof.

The Bank and the Borrower acknowledge and agree that, as of October 31, 1995, after giving effect to all applications of proceeds of Escrow Monies and UTE Proceeds through such date as well as the incurrence of all Additional Loans through such date, \$1,962,710.10 is the aggregate principal amount outstanding under

the Loan (including all Additional Loans) as of the close of business on October 31, 1995.

2.4 Subsection (A) of Section 2.5 of the Loan Agreement is hereby amended to read in its entirety, as follows:

(A) The aggregate principal of the Loan outstanding as at the close of business on October 31, 1995 shall be payable as follows: (i) the Borrower shall make a principal payment on the Loan in the amount of \$250,000 no later than December 31, 1995 (the "1995 Installment"); and (ii) the Borrower shall pay thirty-four consecutive, monthly principal payments due on the last day of each month, commencing on January 31, 1996 and continuing through and ending on the Extended Maturity Date in substantially equal amounts, as follows: thirty-three payments of \$50,373 and a final and thirty-fourth payment of \$50,401.10.

2.5 Section 2.6 is hereby amended to read in its entirety, as follows:

SECTION 2.6 UTE Proceeds. If payment of UTE Proceeds shall be received sooner than December 31, 1995, up to \$250,000 of the UTE Proceeds shall be first applied to payment of the Loan in satisfaction, pro tanto, of the 1995 Installment and, then, up to \$50,000 of the UTE Proceeds shall be remitted to the Borrower, free and clear of any lien of the Bank. If the 1995 Installment shall have been fully paid and the UTE Proceeds shall subsequently be received and if no Default shall then exist, such UTE Proceeds shall be remitted to the Borrower, free and clear of any lien of the Bank.

2.6 Section 2.7 of the Loan Agreement is hereby amended by deleting the first sentence of such section.

3. Waiver. All Defaults, if any, which exist on the date hereof (November 30, 1995) are hereby waived by the Bank, together with the right of the Bank to assert an Event of Default under Article VII of the Loan Agreement on the basis of such Defaults.

4. Conditions of Effectiveness. This Amendment Three shall become effective when and only when this Amendment Three shall have been executed by the Borrower and the Bank, and all the following items shall have been completed, each document being in form and substance satisfactory to the Bank, the Borrower and their respective counsel.

4.1 Consummation of Extension by Chemical Bank. Chemical Bank shall have extended its \$4,000,000 line of credit for an additional three-year period (the "Chemical Extension"), and the Chemical Extension shall be in full force and effect.

4.2 Payment of Restructuring Fee. The Borrower shall have paid the Bank a restructuring fee of \$30,000.

4.3 Confirmation of Security Documents. All guaranties and security interests which were in force on October 31, 1995 shall be confirmed by the parties thereto.

4.4 Resolutions. The Borrower shall have delivered to the Bank certified copies of the resolutions of the Board of Directors of the Borrower approving this Amendment Three.

4.5 Evidence of Bank Authority. The execution and delivery by an officer of the Bank of a certificate stating that this Amendment Three has been approved on behalf of the Bank by all necessary and applicable procedures of the Bank in full concordance with all applicable policies and requirements of the Bank.

4.5 Legal Expense. The Borrower shall have paid all reasonable legal fees and disbursements of outside counsel to the Bank incurred on and after October 30, 1995 in connection with the preparation and negotiation of this Amendment Three and all ancillary documents up to a maximum aggregate amount of \$7,500.

5. Effect on the Loan Documents.

5.1 Except as specifically amended or waived above, the Loan Agreement and all Security Documents other than those which are expressly released by the Bank concurrently herewith shall remain in full force and effect and are hereby ratified and confirmed.

5.2 The execution, delivery and effectiveness of this Amendment Three shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Bank under the Loan Agreement or any Security Document or any agreement or instrument ancillary thereto, nor constitute a waiver of any provision of any thereof.

5.3 The Borrower acknowledges that as of the date of this Amendment Three, there exists no defense, counterclaim or set-off to payment of the "Loan" (as defined in the Loan Agreement) in accordance with its terms.

5.4 The Borrower acknowledges that as of the date of this Amendment Three the Borrower owes to the Bank the principal amount specified in Section 2.1 of the Loan Agreement under and pursuant to each evidence of indebtedness listed on such Schedule 1 hereto.

6. Execution in Counterparts. This Amendment Three may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all or which taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment Three to be executed by their respective representatives thereunto duly authorized, as of the date first above written.

MECHANICAL TECHNOLOGY INCORPORATED
By: /s/ R. Wayne Diesel

Its: President

THE CHASE MANHATTAN BANK, N.A.

By: /s/ John H. Watt, Jr.

Its: Vice President

SCHEDULE 1 TO AMENDMENT THREE

- 1. Restated Mortgage Note dated as of July 24, 1992 issued by Borrower to Bank in the original principal amount of \$5,000,000.
- 2. Mortgage Note dated as of October 6, 1995 issued by Borrower to Bank in the original principal amount of \$340,000.

Exhibit 10.9

May 17, 1995

Mr. Creighton Brittell
President
First Commercial Credit Corp.
Capital Center - 5th Floor
99 Pine Street
Albany, New York 12207

Dear Mr. Brittell:

In connection with our ongoing discussions to renegotiate the terms of the Claim Participation Agreement dated December 14, 1994 between First Commercial Credit Corp. ("FCCC") and Mechanical Technology Incorporated, the due date of May 31, 1995 is approaching when the entire amount is due and payable in full.

In order to allow our negotiations to conclude in a mutually, successful manner, we hereby request a thirty day extension of the due date until June 30, 1995.

Please acknowledge FCCC's agreement to this extension by signing the duplicate copy of this letter enclosed herewith where indicated below and returning the executed copy to me.

Sincerely,

/s/ Stephen T. Wilson

Stephen T. Wilson
Chief Financial Officer

Agreed and accepted, this 30th day of May, 1995.

First Commercial Credit Corp.

by: /s/ Creighton W. Brittell

June 27, 1995

Mr. Creighton Brittell
President
First Commercial Credit Corp.
Capital Center - 5th Floor
99 Pine Street
Albany, New York 12207

Dear Mr. Brittell:

As you are aware, our ongoing discussions to renegotiate the terms of the Claim Participation Agreement dated December 14, 1994 between First Commercial Credit Corp. ("FCCC") and Mechanical Technology Incorporated, have not concluded and the extended due date of June 30, 1995 is approaching when the entire amount is due and payable in full.

In order to allow our negotiations to conclude in a mutually, successful manner, we hereby request a ninety day extension of the due date until September 30, 1995.

Please acknowledge FCCC's agreement to this extension by signing the duplicate copy of this letter enclosed herewith where indicated below and returning the executed copy to me.

Sincerely,

/s/ Stephen T. Wilson

Stephen T. Wilson
Chief Financial Officer

Agreed and accepted, this 28th day of June, 1995.

First Commercial Credit Corp.

by: /s/ Creighton Brittell

September 19, 1995

Mr. Creighton Brittell
President
First Commercial Credit Corp.
Capital Center - 5th Floor
99 Pine Street
Albany, New York 12207

Dear Mr. Brittell:

Discussions to renegotiate the terms of the Claim Participation Agreement dated December 14, 1994 between First Commercial Credit Corp. ("FCCC") and Mechanical Technology Incorporated, have not concluded and the extended due date of September 30, 1995 is approaching when the entire amount is due and payable in full.

In order to allow our negotiations to conclude in a mutually, successful manner, we hereby request a thirty one day extension of the due date until October 31, 1995.

Please acknowledge FCCC's agreement to this extension by signing the duplicate copy of this letter enclosed herewith where indicated below and returning the executed copy to me.

Sincerely,

/s/ Stephen T. Wilson

Stephen T. Wilson
Chief Financial Officer

Agreed and accepted, this 21st day of September, 1995.

First Commercial Credit Corp.

by: /s/ Creighton W. Brittell

cc. Timothy McGinn

October 23, 1995

Mr. Creighton Brittell
President
First Commercial Credit Corp.
Capital Center - 5th Floor
99 Pine Street
Albany, New York 12207

Dear Mr. Brittell:

Discussions to renegotiate the terms of the Claim Participation Agreement dated December 14, 1994 between First Commercial Credit Corp. ("FCCC") and Mechanical Technology Incorporated, have not concluded and the extended due date of October 31, 1995 is approaching when the entire amount is due and payable in full.

In order to allow our negotiations to conclude in a mutually, successful manner, we hereby request an extension of the due date until December 31, 1995.

Please acknowledge FCCC's agreement to this extension by signing the duplicate copy of this letter enclosed herewith where indicated below and returning the executed copy to me.

Sincerely,

/s/ Stephen T. Wilson

Stephen T. Wilson
Chief Financial Officer

Agreed and accepted, this 25th day of October, 1995.

First Commercial Credit Corp.

by: /s/ Creighton W. Brittell

cc. Timothy McGinn

December 27, 1995

Mr. Creighton Brittell
President
First Commercial Credit Corp.
Capital Center - 5th Floor
99 Pine Street
Albany, New York 12207

Dear Mr. Brittell:

Discussions to renegotiate the terms of the Claim Participation Agreement dated December 14, 1994 between First Commercial Credit Corp. ("FCCC") and Mechanical Technology Incorporated, have not concluded and the extended due date of December 31, 1995 is approaching when the entire amount is due and payable in full.

In order to allow our negotiations to conclude in a mutually, successful manner, we hereby request an extension of the due date until December 31, 1996.

Please acknowledge FCCC's agreement to this extension by signing the duplicate copy of this letter enclosed herewith where indicated below and returning the executed copy to me.

Sincerely,

/s/ Stephen T. Wilson

Stephen T. Wilson
Chief Financial Officer

Agreed and accepted, this 27th day of December, 1995.

First Commercial Credit Corp.

by: /s/ Creighton Brittell

Creighton Brittell, President

cc. Timothy McGinn

SUBSIDIARIES OF MECHANICAL TECHNOLOGY INCORPORATED

Subsidiary Name -----	Jurisdiction of Incorporation or Organization -----
Turbonetics Energy, Inc.	New York
Ling Electronics, Inc.	United Kingdom
United Telecontrol Electronics, Inc. 1	New Jersey
UTE Microwave, Inc. 2	New Jersey
ProQuip International, Inc. 3	Guam
Ling Electronics, Inc.	California

1United Telecontrol Electronics, Inc. ("UTE") is a wholly-owned subsidiary of the registrant which filed for Chapter 11 bankruptcy protection under the Federal Bankruptcy Code in April 1994. During October 1994, UTE commenced an orderly liquidation which was pending as of the date of this report.

2United Telecontrol Electronics, Inc. owns 60% of the outstanding stock of UTE Microwave, Inc.; the remaining shares are owned by unrelated parties.

3ProQuip International, Inc. was a wholly-owned subsidiary of ProQuip, Inc. prior to Company sale of ProQuip in November 1994; pursuant to the sale of ProQuip, Inc., the Company retained ProQuip International, Inc.

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