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

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 1998
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 11, 1998 (based on the last sale price of \$8.50 per share for such stock reported by OTC Bulletin Board for that date) was approximately \$32,296,183.

As of December 11, 1998, the registrant had 7,179,770 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 18, 1999	Part III

PART I

ITEM 1: BUSINESS

During the last two and a half years, MTI has undergone significant change. In May 1996, First Albany Companies, Inc. ("FAC") acquired a substantial interest in MTI and led a series of financial and strategic transactions that have significantly changed MTI's operations and fiscal well-being. In July 1996, MTI received an infusion of capital through a private placement of its Common Stock. In December 1996, MTI and FAC succeeded in restructuring a significant outstanding debt of the Company by swapping the debt for Common Stock. This allowed the Company to

receive an unqualified opinion in 1996 from its Independent Auditors, Coopers & Lybrand L.L.P., for the first time since 1992. On June 27, 1997, the Company transferred a portion of the Technology Division to Plug Power, L.L.C. ("Plug Power") to form a joint venture between the Company and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy, Corp. Plug Power has focused exclusively on the research and development of an economically viable Proton Exchange Membrane ("PEM") fuel cell. On September 30, 1997, the Company sold all of the assets of its L.A.B. Division to Noonan Machine Company of Franklin Park, Illinois. The proceeds from this sale were used to pay down outstanding debt and build working capital. On March 31, 1998, the Company sold the remainder of its Technology Division to a subsidiary of Foster-Miller, Inc., a Waltham, Massachusetts-based technology company. These divestitures have enabled the Company to continue to invest in fuel cell technology through Plug Power and to better focus on its profitable test and measurement business. In June, 1998, the Company raised approximately \$7.2 million in a rights offering and committed to invest approximately \$5 million of the proceeds in Plug Power, now an industry leader in development of fuel cells in the United States.

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

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

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

The Company believes that the test and measurement industry will undergo substantial consolidation in the near future. The challenges facing MTI today are similar to those facing other smaller companies in industries where consolidation is a part of the landscape. The Company believes that consolidation may become a competitive necessity and that Advanced Products and Ling are well-positioned to combine with complementary, synergistic businesses to enhance and expand product offerings and increase profitability and market position. Accordingly, the Company is actively exploring strategic acquisitions and alliances for these business units.

Plug Power, the Company's fuel cell joint venture, is developing a proton exchange membrane fuel cell for residential and automotive applications. In June 1998, Plug Power introduced the world's first fuel cell powered home. In September 1998, Plug Power announced a preliminary agreement with GE Power Systems to market and distribute Plug Power's residential fuel cell units worldwide. Plug Power continues to need substantial investment to continue its research and

development of the fuel cell and is aggressively pursuing additional funding sources.

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

On June 27, 1997, the Company and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Co. formed a joint venture, Plug Power, L.L.C. ("Plug Power"), to further develop the Company's Proton Exchange Membrane Fuel Cell technology. In exchange for its contribution of contracts and intellectual property and certain other net assets that had comprised the fuel cell research and development business activity of the Technology segment (which assets had a net book value of \$357 thousand), the Company received a 50% interest in Plug Power. The Company's interest in Plug Power may be reduced in certain circumstances. EDC made an initial cash contribution of \$4.75 million in exchange for the remaining 50% interest in Plug Power. The Company's investment in Plug Power is included in the balance sheet caption "Investment in Joint Venture"; the assets contributed by the Company to Plug Power had previously been included in the assets of the Company's Technology segment. See the supplemental disclosure regarding Contribution of Net Assets to Joint Venture in the Consolidated Statements of Cash Flows for additional information regarding the assets contributed by the Company to Plug Power.

On April 15, 1998, EDC contributed \$2.25 million in cash to Plug Power. The Company contributed a below-market lease for office and manufacturing facilities in Latham, New York valued at \$2 million and purchased a one-year option to match the remaining \$250 thousand of EDC's contribution. In May 1998, EDC contributed an additional \$2 million to Plug Power and the Company purchased another one-year option to match that contribution. The Company paid approximately \$191 thousand for the options, which mature in April 1999 (\$250 thousand) and May 1999 (\$2 million). If the Company does not exercise its options, they will lapse.

In August 1998, the Company committed to contribute an additional \$5 million dollars (in cash, accounts receivable and research credits) to Plug Power between August 5, 1998 and March 31, 1999 and recorded a liability representing this obligation. Such contributions will increase the Company's total contributions to Plug Power (including contributions of cash, assets, research credits and a below market lease) to \$11.75 million over the period commencing on June 27, 1997 and ending on March 31, 1999.

On August 5, 1998, the Company made a short term loan to Plug Power of \$500 thousand, which was subsequently contributed to capital on September 23, 1998. The Company also converted \$500 thousand of its accounts receivable from Plug Power to capital on September 23, 1998. At September 30, 1998, the remaining obligation to provide additional funds to Plug Power was \$4 million. The Company has recorded its proportionate share of Plug Power's losses to the extent of its recorded investment in Plug Power (including the foregoing obligation to contribute an additional \$4 million through March 31, 1999).

On September 30, 1998, the Company completed the sale of 1,196,399 shares of common stock to current shareholders through a rights offering. The offering raised approximately \$7,178 thousand before offering costs of approximately \$186 thousand for net proceeds of approximately \$6,992 thousand. The Company will use some or all of the proceeds of the offering for investment in and/or loans to Plug Power. In addition, some proceeds may be used for acquisitions for the Company's core businesses, efforts to increase market share, working capital, general corporate purposes and other capital expenditures.

The sale of the Company's Technology Division, the sole component of the Technology segment, to NYFM, Incorporated (a wholly owned subsidiary of Foster-Miller, Inc., a Waltham, Massachusetts-based technology company) on March 31, 1998 completed management's planned sale of non-core businesses. Accordingly, the Company no longer includes Technology among

its reportable business segments and now operates in only one segment, Test and Measurement. The Technology Division is reported as a discontinued operation as of December 26, 1997, and the consolidated financial statements have been restated to report separately the net assets and operating results of the business. Net assets of the discontinued operation were \$8 thousand and \$3,186 thousand at September 30, 1998 and 1997, respectively and the loss on discontinued operations in 1998 included a loss from operations of \$516 thousand and a loss on disposal of \$1,769 thousand. The loss on disposal includes a provision for estimated operating results prior to disposal. The Company's prior year financial statements have been restated to conform to this treatment. See Note 15 to the accompanying Consolidated Financial Statements.

On September 30, 1997, the Company sold all of the assets of its L.A.B.

division to Noonan Machine Company of Franklin Park, IL. The Company received \$2,600 thousand in cash and two notes, totaling \$650 thousand, from Noonan Machine Company. The purchaser has requested that the principal amount of the note be reduced to reflect the resale value of certain assets of L.A.B. The Company is enforcing its rights with respect to the note. The net proceeds from the sale were used to pay down all outstanding debt and build working capital. The sale of L.A.B. resulted in a \$2,012 thousand gain, which was recorded in the fourth quarter of fiscal year 1997.

On December 27, 1996, the Company and First Albany Companies, Inc. ("FAC") entered into a Settlement Agreement and Release whereby the Company issued FAC 1.0 million shares of Common Stock in full satisfaction of its obligations pursuant to the Claim Participation Agreement dated December 21, 1993 and amended December 14, 1994, among United Telecontrol Electronics, Inc. ("UTE"), the Company and First Commercial Credit Corporation, in the principal amount of \$3.0 million plus accrued interest of \$1.2 million. As a result, the Company in the first quarter of fiscal 1997 realized a gain on the extinguishment of debt totaling \$2.5 million, net of approximately \$100 thousand of transaction related expenses and net of taxes of \$106 thousand.

The Company's wholly owned subsidiary, UTE of Asbury Park, New Jersey, filed for voluntary bankruptcy under Chapter 11 of the Federal Bankruptcy Code in April 1994. During October 1994, UTE commenced an orderly liquidation and final court approval occurred during the third quarter of fiscal 1996. Accordingly, the Company no longer includes Defense/Aerospace amongst its reportable business segments and UTE has been classified as a "discontinued operation" in the Company's Financial Statements. (See Note 15 to the accompanying Consolidated Financial Statements).

During November 1994, the Company sold all of the outstanding capital stock of its subsidiary, ProQuip Inc. ("ProQuip") of Santa Clara, CA for approximately \$13.3 million. The sale resulted in a gain of approximately \$6.8 million in fiscal 1995 and \$750 thousand, as a result of the release of escrow funds, in fiscal 1996. (See Note 16 to the accompanying Consolidated Financial Statements).

Business Segments

The Company currently conducts business in one business segment: Test and Measurement. 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 the Advanced Products Division, Ling Electronics, Inc. and the L.A.B. Division (sold on September 30, 1997).

Advanced Products designs, manufactures and markets high-performance test and measurement instruments and systems. These products are categorized in two general product families: non-contact sensing instrumentation and computer-based balancing systems. The Division's largest customers include industry leaders in the computer, electronic, semiconductor, automotive, aerospace, aircraft and bioengineering fields.

The non-contact sensing instrumentation products utilize fiber optic, laser and capacitance technology to perform high precision position measurements for product design and quality control inspection requirements, primarily in the semiconductor and computer disk drive

industries. Product trademarks such as the Fotonic Sensor and Accumeasure are recognized worldwide.

The Division's computer-based aircraft engine balancing systems include an on-wing jet engine balancing system used by both commercial and military aircraft fleet maintenance personnel. This product provides trim balancing and vibration analysis in the field or in test cells.

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

The L.A.B. Division, which was sold on September 30, 1997, designed, manufactured and marketed mechanically-driven and hydraulically-driven test systems for package and product reliability testing. Among other uses, this equipment simulates the conditions a product will encounter during transportation and distribution including shock, compression, vibration and impact. This type of testing is widely conducted by businesses involved in product design, packaging and distribution.

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

Backlog

The backlog of orders believed to be firm as of September 30, is \$2,071,000 for 1998 and \$3,861,000 for 1997. The backlog relates to contracts awarded by government agencies or commercial customers. Approximately \$110 thousand of the orders included in the September 30, 1998 backlog may not be filled during the Company's current fiscal year.

Marketing and Sales

The Company sells its products and services through a combination of a direct sales force, manufacturer's representatives, distributors and commission salespeople. 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.

Research and Development

The Company conducts considerable research and development to support existing products and develop new products. (See the accompanying Consolidated Statements of Operations). The Company holds patents and rights in various fields of technology. 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 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 units are subject to intense

competition. 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 primary competitive considerations in the test and measurement segment are: product quality and performance, price and timely delivery. The Company believes that its product development skills and reputation are competitive advantages.

Employees

The total number of employees of the Company and its subsidiaries was 123 as of September 30, 1998, compared to 178 as of the beginning of the fiscal year.

Executive Officers

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

Position or Office	Name	Age
Chief Executive Officer, and a Director	George C. McNamee	52
Vice President and Chief Financial Officer	Cynthia A. Scheuer	37
Vice President and General Manager, Advanced Products	Denis P. Chaves	58
President and Chief Executive Officer Ling Electronics, Inc.	James R. Clemens	49

Mr. McNamee has been Chief Executive Officer of the Company since April 1998 and a director since 1996.

Ms. Scheuer was appointed Vice President and Chief Financial Officer of the Company in November 1997. Prior to joining the Company, she was a senior business assurance manager at Coopers & Lybrand L.L.P. where she was employed since 1983.

Mr. Chaves has been Vice President and General Manager of the Company's Advanced Products Division since 1987 and was Vice President and General Manager of the Company's L.A.B. Division from January 1994 until it was sold in September, 1997. Previously, he served as Manager of Corporate Marketing for the Company from 1981 to 1987.

Mr. Clemens has been President and Chief Executive Officer of Ling Electronics, Inc., a wholly owned subsidiary of the Company, since April 1998. Mr. Clemens was previously Vice President and General Manager of Ling from April 1997 to April 1998. From December 1994 to March 1997, he was a site manager for Teleflex Control. From September 1992 to November 1994, he was President and Chief Operating Officer of MTI's former subsidiary United Telecontrol Electronics, Inc.

ITEM 2: PROPERTIES

The Company owns and leases property in New York and California. In management's opinion, the facilities are generally well-maintained and adequate to meet the Company's current and future needs.

The Company's corporate headquarters are located on a 36 acre site in Latham, New York. The site includes three separate buildings that contain a total of approximately 116,000 square feet. In October 1998, the Company completed construction of a new manufacturing and office facility for Advanced Products and corporate headquarters. The former Advanced Products facility has been renovated and is being rented to Plug Power, as part of the Company's capital

contribution to Plug Power. See "Significant Developments in the Business". The lease expires on September 30, 2008. The third building is being rented to Plug Power and NYFM, Incorporated. Both Plug Power's and NYFM Incorporated's leases expire on March 31, 1999.

Ling Electronics', Inc. leases approximately 85,000 square feet of office and manufacturing space in Anaheim, California. The lease will expire in June of 2003.

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

ITEM 3: LEGAL PROCEEDINGS

At any point in time, the Company and its subsidiaries may be involved in various lawsuits or other legal proceedings; these could arise from the sale of products or services or from other matters relating to its regular business activities, may relate to compliance with various governmental regulations and requirements, or may be based on other transactions or circumstances. The Company does not believe there are any such proceedings presently pending that could have a material adverse effect on the Company's financial condition except for the matters described in Note 13 to the accompanying Consolidated Financial Statements (which description is incorporated herein by reference).

On or about February 6, 1997, Ling Holdings Group, Inc. ("Holdings")

commenced an action against the Company and its former chief executive officer, R. Wayne Diesel, in the Superior Court, Orange County, California, entitled Ling Holdings Group, Inc. v. Mechanical Technology Inc. et al, No. 775074. In that action, Holdings alleged nine causes of action against the Company for breach of contract and tort. All of the claims related to a Stock Purchase Agreement between Holdings and the Company. In the action, Holdings sought specific performance of the Stock Purchase Agreement (i.e., the sale of two subsidiaries of the Company, Ling Electronics, Inc. and Ling Electronics Limited), as well as compensatory and punitive damages. The Company asserted counterclaims.

In August 1998, all but five of Holdings' causes of action were dismissed with prejudice. The remaining causes of action were dismissed with prejudice in an oral statement of decision by the court after a trial, which began on September 21 and concluded September 30, 1998. The Company's counterclaims were dismissed, as well. The judgment, based upon the court's September 30 statement of decision, was entered November 17, 1998. Holdings will have 60 days from the mailing of notice of entry of the judgment to appeal.

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 1998.

PART II

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

Price Range of Common Stock

Since August 1994, the Company's Common Stock has been traded on the over-the-counter market and is listed under the symbol MKTY on the OTC Bulletin Board. Set forth below are the highest and lowest prices at which shares of the Company's Common Stock have been traded during each of the Company's last two fiscal years.

	High	Low
Fiscal Year 1998		
First Quarter	6-3/4	3-3/4
Second Quarter	8-1/8	3-1/2

Third Quarter	8-1/8	5-11/16
Fourth Quarter	9-3/8	6

Fiscal Year 1997

First Quarter	2-7/8	1-1/2
Second Quarter	2-3/4	1-7/8
Third Quarter	3-1/2	1-7/8
Fourth Quarter	4-1/3	2-1/4

Number of Equity Security Holders

As of December 11, 1998, the Company had approximately 538 holders of its \$1.00 par value Common Stock. In addition, there are approximately 1,356 beneficial owners holding stock in "street" name.

Dividends

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 has never paid and 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:

Statement of Earnings Data	(In thousands, except per share data)				
	1998	Restated 1997	Restated 1996	Restated 1995	Restated 1994
Net Sales	\$ 21,028	\$ 24,102	\$ 22,755	\$ 18,140	\$ 29,721
Gain on sale of subsidiary/division or building	-	2,012	750	6,779	1,856
(Loss) Income from Continuing Operations Before Extraordinary Item and Income Taxes	(2,006)	2,701	673	3,352	816
(Loss) Income from Continuing Operations before Extraordinary Item	(2,031)	2,558	598	3,256	201
Extraordinary Item - Gain on Extinguishment of Debt, net of taxes (\$106)	-	2,507	-	-	-
(Loss) Income from Continuing Operations	(2,031)	5,065	598	3,256	201
(Loss) Income from Discontinued Operations, Net of Taxes	(2,285) (1)	(545)	3,150	(334)	(24,579) (2)
Net (Loss) Income	\$ (4,316)	\$ 4,520	\$ 3,748	\$ 2,922	\$ (24,378)
Diluted Earnings Per Share (3)					
(Loss) Income from Continuing Operations before Extraordinary Item	\$ (0.35)	\$ 0.45	\$ 0.15	\$ 0.91	\$ 0.05
Extraordinary Item	-	0.44	-	-	-

(Loss)Income from Discontinued Operations	(0.38)	(0.09)	0.81	(0.09)	6.96
Net (Loss)Income	\$ (0.73)	\$ 0.80	\$ 0.96	\$ 0.82	\$ (6.91)
Weighted Average Shares Outstanding and Equivalents	5,937,158	5,672,045	3,911,952	3,559,789	3,529,881
Balance Sheet Data:					
Working Capital (Deficit)	\$ 5,779	\$ 7,696	\$ 7,086	\$ 2,712	\$ (6,219)
Total Assets	21,128	14,003	13,481	13,444	23,971
Total Long-Term Debt	0	0	5,508	6,960	11,182
Total Shareholders' Equity (Deficit)	11,124	8,213	2,164	(3,490)	(6,418)

(1) Includes a net charge of \$1,769 related to the discontinuance of the Company's Technology Division.

(2) Includes a net charge of \$15,415 related to the discontinuance of the Company's United Telecontrol Electronics, Inc. subsidiary.

(3) Earnings per share have been restated to comply with SFAS No. 128, "Earnings Per Share."

Prior years have been restated to reflect the Technology and Defense/Aerospace segments as discontinued operations. (See Note 15 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

Results of Operations: 1998 in Comparison with 1997

The following three paragraphs summarize significant organizational changes, which impact the comparison of 1998 and 1997 results of operations.

On June 27, 1997, the Company and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Co. formed a joint venture, Plug Power L.L.C. ("Plug Power") to further develop the Company's Proton Exchange Membrane Fuel Cell technology. In exchange for its contribution of employees, contracts, intellectual property and certain other assets that had comprised the fuel cell research and development business activity of the Technology segment (which assets had a net book value of \$357 thousand), the Company received a 50% interest in Plug Power. The Company's interest in Plug Power may be reduced in certain circumstances. EDC made an initial cash contribution of \$4.75 million in exchange for the remaining 50% interest in Plug Power. The Company's investment in Plug Power is

included in the balance sheet caption "Investment in Joint Venture"; the assets contributed by the Company to Plug Power had previously been included in the assets of the Company's Technology segment. See the supplemental disclosure regarding Contribution of Net Assets to Joint Venture in the Consolidated Statements of Cash Flows for additional information regarding the assets contributed by the Company to Plug Power.

The sale of the Company's Technology Division, the sole component of the Technology segment, to NYFM, Incorporated (a wholly owned subsidiary of Foster-Miller, Inc., a Waltham, Massachusetts-based technology company) on March 31, 1998 completed management's planned sale of non-core businesses. Accordingly, the Company no longer includes Technology among its reportable business segments and now operates in only one segment, Test and Measurement. The Technology Division is reported as a discontinued operation as of December 26, 1997, and the consolidated financial

statements have been restated to report separately the net assets and operating results of the business. Net assets of the discontinued operation were \$8 thousand and \$3,186 thousand at September 30, 1998 and 1997, respectively and the loss on discontinued operations included a loss from operations of \$516 thousand and a loss on disposal of \$1,769 thousand at September 30, 1998. The loss on disposal includes a provision for estimated operating results prior to disposal. The Company's prior year financial statements have been restated to conform to this treatment.

On September 30, 1997, the Company sold all of the assets of its L.A.B. Division to Noonan Machine Company of Franklin Park, IL. The Company received \$2,600 thousand in cash and two notes, totaling \$650 thousand, from Noonan Machine Company. The purchaser has requested that the principal amount of the note be reduced to reflect the resale value of certain assets of L.A.B. The Company is enforcing its rights with respect to the note. The net proceeds from the sale were used to pay down all outstanding debt and build working capital. The sale of L.A.B. resulted in a \$2,012 thousand gain, which was recorded in the fourth quarter of fiscal year 1997. In addition, \$250 thousand of the proceeds associated with one of the notes was recorded as deferred revenue due to the possible reduction of the \$250 thousand note receivable, in the event of a sale of certain fixed assets, in accordance with the terms of the note.

The following is management's discussion and analysis of certain significant factors, which have affected the Company's results of operations for 1998 compared to 1997. This discussion relates only to the Company's continuing operations.

Sales for fiscal 1998 totaled \$21.0 million compared to \$24.1 million for the prior year, a decrease of \$3.1 million or 12.8%. This decrease is attributable to the reduction of sales resulting from the sale of the L.A.B. Division on September 30, 1997, which reported sales of \$3.3 million and operating income of \$500 thousand at September 30, 1997. Advanced Products reported a sales increase of 26.2% and Ling reported a sales decrease of 11.3% in the year ended September 30, 1998.

Selling, general and administrative expenses for fiscal 1998 were 27.6% of sales, as compared to 29.1% in 1997. Product development and research costs during fiscal 1998 were 4% of sales, compared to 4.2% for 1997. Lower levels of general/administrative expenses for fiscal 1998 resulted primarily from cost reduction efforts during fiscal 1998 as well as the elimination of costs for L.A.B. of \$600 thousand.

Operating income of \$2 million at September 30, 1998 represented a \$400 thousand or 24% increase from the \$1.6 million operating income recorded during the same period last year. The increase is the result of increased sales levels for Advanced Products and improved margins as a result of cost control measures. Excluding the L.A.B. division results in 1997, operating income increased \$900 thousand.

In addition to the matters noted above, during the fourth quarter of fiscal 1998, the Company recorded a \$3.8 million loss from the recognition of the Company's proportionate share of losses of the Plug Power joint venture compared to a \$300 thousand loss in 1997. During the fourth quarter of fiscal 1997, the Company recorded a \$2.0 million gain on the sale of the L.A.B. Division. Further, the Company recorded a \$2.5 million extraordinary gain, net of taxes, on the extinguishment of debt during the first quarter of fiscal 1997.

Results during fiscal 1998 were enhanced by lower interest expense, principally resulting from reduced indebtedness. Moreover, the Company benefited from reduced income tax expense due to the loss generated by discontinued operations and the use of net operating loss carryforwards. However, as a result of recent ownership changes, the availability of further net operating loss carryforwards to offset future taxable income will be significantly limited pursuant to the Internal Revenue Code.

Results of Operations: 1997 in Comparison with 1996

The following three paragraphs summarize significant organizational changes, which impact the comparison of 1997 and 1996 results of operations.

On September 30, 1997, the Company sold all of the assets of its L.A.B. Division to Noonan Machine Company of Franklin Park, IL. The Company received \$2,600 thousand in cash and two notes, totaling \$650 thousand, from Noonan Machine Company. The purchaser has requested that the principal amount of the note be reduced to reflect the resale value of certain assets of L.A.B. The Company is enforcing its rights with respect to the note. The net proceeds from the sale were used to pay down all outstanding debt and build working capital. The sale of L.A.B. resulted in a \$2,012 thousand gain, which was recorded in the fourth quarter of fiscal year 1997. In addition, \$250 thousand of the proceeds associated with one of the notes was recorded as deferred revenue due to the possible reduction of the \$250 thousand note receivable, in the event of a sale of certain fixed assets, in accordance with the terms of the note.

On June 27, 1997, the Company and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Co. formed a joint venture, Plug Power L.L.C. ("Plug Power") to further develop the Company's Proton Exchange Membrane Fuel Cell technology. In exchange for its contribution of employees, contracts, intellectual property and certain other assets that had comprised the fuel cell research and development business activity of the Technology segment (which assets had a net book value of \$357 thousand), the Company received a 50% interest in Plug Power. The Company's interest in Plug Power may be reduced in certain circumstances. EDC made an initial cash contribution of \$4.75 million in exchange for the remaining 50% interest in Plug Power. The Company's investment in Plug Power is included in the balance sheet caption "Investment in Joint Venture"; the assets contributed by the Company to Plug Power had previously been

included in the assets of the Company's Technology segment. See the supplemental disclosure regarding Contribution of Net Assets to Joint Venture in the Consolidated Statements of Cash Flows for additional information regarding the assets contributed by the Company to Plug Power.

On December 27, 1996, the Company and First Albany Companies, Inc. ("FAC") entered into a Settlement Agreement and Release whereby the Company issued FAC 1.0 million shares of Common Stock in full satisfaction of its obligations pursuant to the certain Claim Participation Agreement dated December 21, 1993 and amended December 14, 1994, among United Telecontrol Electronics, Inc. ("UTE"), the Company and First Commercial Credit Corporation, in the principal amount of \$3.0 million plus accrued interest of \$1.2 million. As a result, the Company in the first quarter of fiscal 1997 realized a gain on the extinguishment of debt totaling \$2.5 million, net of approximately \$100 thousand of transaction related expenses and net of taxes of \$106 thousand. (See "Liquidity and Capital Resources", below.)

The following is management's discussion and analysis of certain significant factors, which have affected the Company's results of operations for 1997 compared to 1996. This discussion relates only to the Company's continuing operations.

Sales for fiscal 1997 totaled \$24.1 million compared to \$22.8 million for the prior year, an increase of 5.9% in fiscal 1997 compared to fiscal 1996. L.A.B and Advanced Products reported sales increases of 7.8% and 19.4%, respectively and Ling reported a sales decrease of 0.2%.

Selling, general and administrative expenses for fiscal 1997 were 29.1% of sales, as compared to 31.1% in 1996. Product development and research costs during fiscal 1997 were 4.2% of sales, compared to 3.0% for 1996. Lower levels of general/administrative expenses for fiscal 1997 resulted primarily from cost reduction efforts during fiscal 1997 as well as certain expenses having been incurred during 1996 in connection with the now-discontinued efforts to sell Ling.

Company 1997 operating income totaled \$1.6 million compared to \$1.1 million for fiscal 1996, or an increase of \$500 thousand. The increase in operating income is primarily due to continuing growth of revenues. Increased operating income was achieved in spite of higher product development costs. All divisions reported improvements, however, Ling continues to experience an operating loss.

In addition to the matters noted above, during the fourth quarter of fiscal 1997, the Company recorded a \$2.0 million gain on the sale of the

L.A.B. Division and a \$330 thousand loss from the recognition of the Company's proportionate share of the loss of the Plug Power joint venture. Sales for the L.A.B. Division were \$3.3 million in 1997 and \$3.1 million in 1996. Further, the Company recorded a \$2.5 million extraordinary gain, net of taxes, on the extinguishment of debt during the first quarter of fiscal 1997. Fiscal 1996 results included a \$750 thousand gain from the sale of its former subsidiary ProQuip, as a result of the removal of contingencies.

Results during fiscal 1997 were further enhanced by lower interest expense, principally resulting from reduced indebtedness. Moreover, the Company has benefited from reduced income tax expense due to the use of net operating loss carryforwards. However, as a result of recent ownership changes, the availability of further net operating loss carryforwards to

offset future taxable income will be significantly limited pursuant to the Internal Revenue Code.

Liquidity and Capital Resources

At September 30, 1998, the Company's order backlog was \$2.1 million, a decrease of \$1.8 million from the prior year-end. This reduction reflects a decline due to orders expected in the fourth quarter of 1998 being shifted to the next fiscal year.

Inventories increased by \$362 thousand in 1998 to support increased sales levels at Advanced Products. Additionally, accounts receivable increased by \$477 thousand in 1998 due to the timing of sales at the end of the fiscal year.

Cash flow from continuing operations was \$513 thousand in 1998 compared with \$1,089 thousand in 1997 and (\$49) thousand in 1996. Cash flow from operating activities was impacted in 1998 and 1997 by positive operating income and fluctuations in working capital components.

Working capital was \$5.8 million at September 30, 1998, a \$1.9 million decrease from \$7.7 million at fiscal year-end 1997. Capital used during fiscal 1998 was principally to fund short term operating cash flow requirements and pay construction costs.

Capital expenditures were \$3,166 thousand for 1998, \$377 thousand for 1997 and \$170 thousand for 1996. The increased capital expenditures in 1998 were in accordance with the higher level of planned expenditures and the construction of a new facility for Advanced Products and corporate headquarters and renovations to an existing building leased to Plug Power. Capital expenditures in 1999 are expected to be about \$4.4 million, which consists of additional expenditures associated with the construction of the new facility, computer software and hardware costs and manufacturing equipment. The Company expects to finance these expenditures with cash from operations and existing credit facilities. As of September 30, 1998, the Company was committed to construction costs of approximately \$2,856 thousand.

Cash and cash equivalents were \$5,567 thousand at September 30, 1998 compared to \$1,421 thousand at September 30, 1997, this increase is attributable to \$6,992 thousand of net cash proceeds from the sale of common shares to existing shareholders through a rights offering, which closed on September 30, 1998 net of payments associated with the Company's construction project.

At September 30, 1998 and 1997, there were no borrowings outstanding on the lines of credit. The Company has a working capital line of credit available in the amount of \$4 million and a \$1 million equipment line of credit. These lines of credit expire on January 31, 2000.

The reduction in net assets of discontinued operations of \$3,178 thousand includes the transfer of \$878 thousand of assets to continuing operations (principally land, building and management information systems) as well as the accrual for the loss on disposal of the Technology Division. Such accrual included a provision for estimated operating results prior to disposal and an estimate of the loss on disposal and winddown of the Technology Division, which totaled \$1,769 thousand. The sale of the Technology Division was completed as of March 31, 1998.

On July 31, 1998, Plug Power asked the Company to commit to contribute \$5 million (in cash, other assets and research credits) to Plug Power to fund continuing operations for the period August 1, 1998 through March 31, 1999. The Company has committed to the \$5 million contribution request, which will be funded by the proceeds from the rights offering. On August 5, 1998, EDC and the Company each made short-term loans of \$500 thousand to Plug Power, which were subsequently contributed to capital on September 23, 1998. On September 23, 1998, the Company also contributed \$500 thousand of accounts receivable from Plug Power to equity. A liability for \$4 million was recorded as of September 30, 1998 to reflect the Company's additional obligation to fund Plug Power during 1999. In addition, Plug Power will continue to need substantial investment for the foreseeable future. Plug Power continues to pursue strategic partners and additional sources of capital. Plug Power is currently negotiating with several strategic partners and has signed a preliminary Memorandum of Understanding with General Electric Power Systems. There is no assurance, however, that Plug Power will successfully conclude any transactions with strategic partners or find other sources of capital. If other sources of funding cannot be found, the Company will be faced with contributing and/or lending additional capital to Plug Power or dilution of its interest in Plug Power. If EDC and the Company stop funding Plug Power and no additional sources of capital are found, Plug Power will not be able to continue as a going concern.

During fiscal 1996, First Albany Companies, Inc. ("FAC") had purchased 909,091 shares of the Company's Common Stock from the New York State Superintendent of Insurance as the court-ordered liquidator of United Community Insurance Company ("UCIC"). In connection with this purchase, FAC also acquired certain rights to an obligation ("Term Loan") due from the same finance company ("FCCC") to whom the Company was obligated under the Note Payable. FCCC was in default of its Term Loan to UCIC. FAC, as the owner of the rights to the Term Loan, filed suit seeking payment and obtained a summary judgment. Collateral for the FCCC Term Loan included the Company's Note Payable to FCCC. FAC exercised its rights to the collateral securing the Term Loan, including the right to obtain payment on the Note Payable directly from the Company. On December 27, 1996, the Company and FAC entered into an agreement under which the Company issued to FAC 1.0 million shares of Common Stock in full satisfaction of the Note Payable of \$3 million and accrued interest of \$1.2 million. Accordingly, the Company realized a gain on the extinguishment of debt totaling \$2.5 million, net of approximately \$100 thousand of transaction related expenses and net of taxes of \$106 thousand.

The Company benefited in fiscal 1997 from the sale of the L.A.B. Division on September 30, 1997, with cash proceeds of \$2.6 million and two notes receivable for a total of \$650 thousand. The cash proceeds were used to pay off the remaining balance on the Company's term loan to Chase Manhattan Bank and to provide for general working capital needs.

The Company anticipates that it will be able to meet the liquidity needs of its continuing operations from cash flow generated by operations and borrowing under its existing lines of credit.

Debt

The Industrial Development Agency for the Town of Colonie has agreed to issue \$6 million in Industrial Development Revenue Bonds ("IDR") on behalf of the Company to assist in the construction of a new building for

Advanced Products and the Company's corporate staff and renovation of existing buildings leased to Plug Power. The construction project is due to be completed as of April 1999. First Albany Companies, Inc. ("FAC"), which owns 34% of the Company's stock, will underwrite the sale of the IDR Bonds. Proceeds of the IDR Bonds will be deposited with a trustee for the bondholders. The Company may draw the bond proceeds to cover qualified project costs. The bond closing is expected to be completed on or about December 17, 1998. FAC will receive no fees for underwriting the IDR Bonds but will be reimbursed for its out of pocket costs.

Year 2000

General

Mechanical Technology Incorporated's company-wide Year 2000 plan is proceeding on schedule. The plan is addressing the issue of computer programs and embedded computer chips being unable to distinguish between the year 1900 and the year 2000 as well as the ability to recognize the leap year date of February 29, 2000. The plan has been divided into six areas: (1) Systems evaluation, (2) Software evaluation, (3) Third-party suppliers, (4) Facility systems, (5) Products and (6) Contingency plans. The general phases common to all segments are: (1) Inventorying Year 2000 items, (2) Assigning priorities to identified items, (3) Assessing the Year 2000 compliance of items determined to be material to the Company, (4) Repairing or replacing material items that are determined not to be Year 2000 compliant, (5) Testing material items and (6) Designing and implementing contingency and business continuation plans for each organization and company location.

Systems Evaluation

At September 30, 1998, all internal systems have been identified, inventoried, prioritized and assessed for Year 2000 compliance. Systems found to be totally non-compliant were replaced, the remaining systems were found to be in compliance. Plans are being developed to ensure that staff are available to oversee restarting certain machines and manually adjusting their dates.

Software Evaluation

At September 30, 1998, all software material to the Company has been identified, evaluated, and placed into one of three categories: (1) Found to be in full compliance and certified as such by vendors, (2) Identified as requiring update or (3) Identified as requiring replacement with compliant software. Those in the latter category have been included in the current budget.

Third-Party Suppliers

This phase of the Year 2000 Plan will be completed by the end of the 2nd Quarter of fiscal 1999. These third-party suppliers are in the process of implementing their own plans with an expected completion date of 1999. If any provider is not successfully compliant, the Company will evaluate selecting alternative providers at that time.

Facility Systems

The facility systems review is complete. All systems are believed to be Year 2000 compliant including telephone, fire alarm, security, elevator and network components.

Products

The Company has evaluated both current product offerings and products in the field to determine their ability to comply with Year 2000 issues. The products were found to be non-compliant, compliant if modifications are made, fully compliant or not impacted (that is, the product does not have a computer or contains an embedded computer but does not use a date function). Those products identified as non-compliant are products in the field that are not Year 2000 compliant, cannot be modified and must be replaced. Products which can be modified will have upgrades available for sale during fiscal 1999.

Contingency Plans

This phase is currently being developed. Contingency plans should be in place by the end of the 2nd Quarter of fiscal 1999.

Costs

The total cost associated with required modifications to become Year 2000 compliant is not expected to be material to the Company's financial position. The estimated total cost of the Year 2000 project is approximately \$120 thousand, which includes software, hardware and cabling upgrade and replacement costs. This estimate does not include the Company's potential share of Year 2000 costs that may be incurred by joint ventures, in which the company participates but is not the operator. The total amount expended on the Plan through September 30,

1998 was \$34 thousand for the upgrade and replacement of hardware.

Risks

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers and customers, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition. The Year 2000 Plan is expected to significantly reduce the Company's level of uncertainty about the Year 2000 problem and, in particular, about the Year 2000 compliance and readiness of its material customers. The Company believes that, with the implementation and completion of the Year 2000 Plan as scheduled, the possibility of significant interruptions of normal operations should be reduced.

Statements in this Form 10-K or in documents incorporated herein by reference that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future revenues, expenses and profits. These forward looking statements are subject to known and unknown risks, uncertainties or other factors that may cause the actual results of the Company to be materially different from the historical results or from any results expressed or implied by the forward looking statements. Such risks and factors include, but are not limited to, those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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 33 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 18, 1999 (the "1999 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 1999 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 1999 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 1999 Proxy Statement is incorporated herein by reference.

PART IV

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

(a) (1) 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 herein 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.
4.1	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, 1998 between the registrant and Chase Lincoln relating to an \$8,000,000 term loan to finance the registrant's acquisition of ProQuip, Inc. (the "ProQuip Loan Agreement").(1)
- 4.31 Negative Pledge Agreement, dated as of September 30, 1988, executed by the registrant in favor of Chase Lincoln in connection with the ProQuip Loan Agreement.(1)
- 4.32 Security Agreement, dated as of September 30, 1988, executed by the registrant in favor of Chase Lincoln and securing the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements (the "Chase Lincoln Security Agreement").(1)
- 4.33 First Amendment to Loan Agreement, dated as of February 21, 1990, amending certain provisions of the ProQuip Loan Agreement.(1)
- 4.34 Form of Note, in the amount of \$3,375,817.80, executed by the registrant on February 21, 1990 to evidence its indebtedness under the ProQuip Loan Agreement.(1)
- 4.35 Amendment Number One to Security Agreement, executed by the registrant on February 21, 1990, amending the Chase Lincoln Security Agreement.(1)
- 4.36 Mortgage, dated February 21, 1990, executed by the registrant in favor of Chase Lincoln and securing the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(1)
- 4.37 Second Amendment to Loan Agreement, dated as of January 1, 1991, amending certain provisions of the ProQuip Loan Agreement. (2)
- 4.38 Mortgage Modification and Allocation Agreement, dated January 1, 1991, executed by the registrant and Chase Lincoln.(2)
- 4.40 Form of Payment Guaranty, dated as of September 1, 1988 [as of September 30, 1988, in the case of ProQuip, Inc.], executed by the subsidiaries of the registrant in favor of Chase Lincoln and guaranteeing payment of the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(1)
- 4.41 Form of Negative Pledge Agreement, dated as of September 30, 1988, executed by the subsidiaries of the registrant in favor of Chase Lincoln in connection with the

ProQuip Loan Agreement.(1)

- 4.42 Form of Security Agreement, dated as of September 30, 1988, executed by the subsidiaries of the registrant in favor of Chase Lincoln and securing the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(1)
- 4.43 Acknowledgment, Confirmation and Further Agreement, made as of February 21, 1990, executed by the subsidiaries of the registrant in favor of Chase Lincoln with respect to the registrant's obligations under the UTE and ProQuip Loan Agreements.(1)
- 4.50 Debt Restructure Agreement, made as of February 21, 1990, between the registrant, Chase Lincoln, and Manufacturers Hanover Trust Company ("Manufacturers Hanover"), providing for a restructuring of the registrant's indebtedness to Chase Lincoln under the UTE and ProQuip Loan Agreements and of the registrant's outstanding indebtedness to Manufacturers Hanover (the "MHTCo. Existing Debt"), among other things.(1)
- 4.55 Second Amendment to Debt Restructure Agreement, made as of January 1, 1991, between the registrant, Chase Lincoln, and Manufacturers Hanover, amending certain provisions of the Debt Restructure Agreement.(2)
- 4.56 Second Debt Restructure Agreement, as of July 22, 1992, between the registrant, Chase Lincoln First Bank, N. A. ("CLFB"), and Chemical Bank ("Chemical"), as successor in interest to Manufacturers Hanover Trust Company, providing for a restructuring of the registrant's indebtedness to CLFB under the UTE and ProQuip Loan Agreements and of the registrant's outstanding indebtedness to Chemical, among other things.(3)
- 4.63 Promissory Note, in the amount of \$4,000,000 and dated July 22, 1992, executed by the registrant to evidence its indebtedness to Chemical from time to time with respect to a line of credit in such amount (The Chemical Line of Credit).(3)
- 4.64 Form of Payment Guaranty, dated as of July 24, 1992, executed by Masco Corporation in favor of Chemical and guaranteeing payment of the registrant's obligations to Chemical under the Chemical Line of Credit.(3)
- 4.65 Promissory Note, in the amount of \$4,000,000 and dated October 31, 1994, extending the maturity date of the Promissory note dated July 22, 1992, executed by the registrant to evidence its indebtedness to Chemical under The Chemical Line of Credit.(8)
- 4.66 Promissory Note, in the amount of \$4,000,000 and dated October 31, 1995, extending the maturity date of the Promissory note dated October 31, 1994, executed by the registrant to evidence its indebtedness to Chemical under The Chemical Line of Credit.(9)
- 4.67 Form of Payment Guaranty, dated October 31, 1995 executed by Masco Corporation in favor of Chemical and guaranteeing payment of the registrant's obligations to Chemical under the

Chemical Line of Credit.(9)

- 4.80 Amended and Restated Loan Agreement, dated as of July 22, 1992, between the registrant and Chase Lincoln First Bank, N.A., which amends, restates, combines, and supersedes in full the UTE and the ProQuip loan agreements.(3)
- 4.81 Form of Note, in the amount of \$5,000,000, executed by the registrant on July 24, 1992 to evidence its indebtedness to CLFB under the July 22, 1992 Loan Agreement.(3)
- 4.82 Form of Note, in the amount of \$7,984,770, executed by the registrant on July 24, 1992 to evidence its indebtedness to CLFB under the July 22, 1992 Loan Agreement.(3)
- 4.83 Additional Mortgage Note, dated July 24, 1992, executed by the registrant in favor of CLFB and securing the registrant's obligation to CLFB under the Loan Agreement.(3)
- 4.84 Additional Mortgage and Security Agreement, dated as of July 22, 1992, executed by the registrant in favor of CLFB and securing the registrant's obligations to CLFB.(3)
- 4.85 Mortgage Consolidation, Spreader, Modification Extension and Security Agreement, dated July 22, 1992, executed by the registrant and CLFB.(3)
- 4.86 Confirmation of Guaranties and Security Agreements, dated July 22, 1992, executed by subsidiaries of the registrant in favor of CLFB with respect to the registrant's obligations to CLFB.(3)
- 4.87 Consent and waiver, dated December 21, 1993, from CLFB to the registrant with respect to the Amended and Restated Loan Agreement.(5)
- 4.88 Amendment One to Amended and Restated Loan Agreement, dated as of August 1, 1994, between the registrant and Chase Manhattan Bank, N. A. which amends the Amended and Restated Loan Agreement to defer the payment due on June 30, 1994.(6)
- 4.89 Amendment Two to Amended and Restated Loan Agreement with waiver, dated as of November 22,1994, between the registrant and Chase Manhattan Bank, N. A. which amends the Amended and Restated Loan Agreement and waives any existing defaults.(8)
- 4.90 Additional Mortgage and Security Consolidation Agreement, dated as of October 6, 1995 executed by the registrant in favor of Chase Manhattan Bank, N.A. and securing the registrant's obligations to Chase Manhattan Bank, N.A.(9)
- 4.91 Form of Note, in the amount of \$340,000,executed by the registrant on October 6, 1995 to evidence its indebtedness to Chase Manhattan Bank, N.A. under the July 22, 1992 Loan Agreement.(9)
- 4.92 Amendment Three to Amended and Restated Loan Agreement with waiver, dated as of November 30,1995, between the registrant and Chase Manhattan Bank, N. A. which amends the Amended and Restated Loan Agreement and waives any

existing defaults.(9)

- 4.93 Credit Agreement dated as of September 22, 1998 among Mechanical Technology Incorporated and KeyBank National Association ("KeyBank").
- 4.94 Security Agreement, dated as of September 22, 1998, executed by the registrant in favor of KeyBank and securing the registrant's obligations to KeyBank.
- 4.95 Security Agreement, dated as of September 22, 1998, executed by Ling Electronics, Inc. (a wholly-owned subsidiary of the registrant) in favor of KeyBank and securing the registrant's obligations to KeyBank.
- 4.96 Guaranty of Payment and Performance, dated as of September 22, 1998, executed by Ling Electronics, Inc. (a wholly-owned subsidiary of the registrant) in favor of KeyBank and guaranteeing payment of the registrant's obligations to KeyBank.
- 10.1 Mechanical Technology Incorporated Restricted Stock Incentive Plan-filed as Exhibit 28.1 to the registrant's Form S-8 Registration Statement No. 33-26326 and incorporated herein by reference.
- 10.3 MTI Employee 1982 Stock Option Plan.(1)
- 10.4 Agreement, dated December 21, 1993, between UTE, First Commercial Credit Corporation ("FCCC") and the registrant, relating to an advance against certain receivables.(5)
- 10.6 Agreement, dated June 2, 1993, between the registrant and Mr. Harry Apkarian, Director, regarding his employment.(5)
- 10.7 Agreement, dated February 22, 1994, between the registrant and Mr. R. Wayne Diesel, President and Chief Executive Officer, regarding his employment.(8)
- 10.8 Agreement, dated December 14, 1994, between FCCC and the registrant, modifying the Agreement dated December 21, 1993 relating to an advance against certain receivables.(8)
- 10.9 Agreement, dated May 30, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.10 Agreement, dated June 28, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.11 Agreement, dated September 21,1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14,1994 relating to an advance against certain receivables.(9)
- 10.12 Agreement, dated October 25, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.13 Agreement, dated December 27, 1995, between FCCC and the registrant, extending the maturity

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

- 10.14 Mechanical Technology Incorporated Stock Incentive Plan - included as Appendix A to the registrant's Proxy Statement, filed pursuant to Regulation 14A, for its December 20, 1996 Special Meeting of Shareholders and incorporated herein by reference. (10)
- 10.15 Agreement, dated December 6, 1996, between the registrant and Mr. Martin J. Mastroianni, President and Chief Operating Officer, regarding his employment. (10)
- 10.16 Settlement Agreement and Release, dated as of December 27, 1996, between First Albany Companies Inc. and the registrant, with respect to the registrant's indebtedness and obligations under the Agreement dated December 14, 1994 between FCCC and the registrant relating to an advance against certain receivables. (10)
- 10.17 Agreement, dated March 14, 1997, between the Registrant and Mr. James Clemens, Vice President and General Manager of Ling Electronic, Inc., regarding his employment. (11)
- 10.18 Limited Liability Company Agreement of Plug Power, L.L.C., dated June 27, 1997, between Edison Development Corporation and Mechanical Technology, Incorporated. (12)(13)
- 10.19 Contribution Agreement, dated June 27, 1997, between Mechanical Technology, Incorporated and Plug Power, L.L.C. (12)(13)
- 10.20 Asset Purchase Agreement, dated as of September 22, 1997, between Mechanical Technology, Incorporated and Noonan Machine Company. (12)
- 10.21 Asset Purchase Agreement between MTI and NYFM, Incorporated, dated as of March 31, 1998. (14)
- 10.22 Option Agreement-Contribution Match between Plug Power, L.L.C. and MTI, dated as of April 24, 1998. (14)
- 10.23 Option Agreement-Contribution Match between Plug Power, L.L.C. and MTI, dated as of June 15, 1998. (14)
- 10.24 Contribution Agreement between Edison Development Corporation and MTI, dated as of June 10, 1998. (14)
- 10.25 Form of Notice of Guaranteed Delivery for Subscription Certificate. (14)
- 10.26 Form of American Stock Transfer & Trust Co. Agency Agreement. (14)
- 10.27 Form of Instructions for Subscription Certificate. (14)
- 10.28 Agreement between Mechanical Technology, Inc. and Malone & Tate Builders, Inc. for Building 1 Construction. (15)
- 10.29 Mechanical Technology, Incorporated/Plug Power, L.L.C. Lease for Building III. (15)
- 21 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.

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

(10) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for its fiscal year ended September 30, 1996.

(11) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 8-K Report dated May 12, 1997.

(12) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form 10-K Report for the fiscal year ended September 30, 1997.

(13) Refiled herewith after confidential treatment request with respect to certain schedules and exhibits was denied by the Commission. Confidential treatment with respect to certain schedules and exhibits was granted.

(14) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Form S-2 dated August 18, 1998.

(15) Filed as an Exhibit (bearing the same exhibit number) to the registrant's Report on Form 10-Q for the period ended June 26, 1998.

(a) (2) Schedule. The following consolidated financial statement schedule for each of the three years in the period ended September 30, 1998 is included pursuant to Item 14(d):

Report of Independent Accountants on Financial Statements
Schedule

Schedule II--Valuation and Qualifying Accounts

(a) (3) One report on Form 8-K was filed during the quarter ending September 30, 1998.

The Company filed a Form 8-K Report, dated September 10, 1998, reporting under item 5 thereof Plug Power LLC's (a joint venture between MTI and DTE) its preliminary approval from its Board of Managers concerning its understanding with GE Power Systems, to brand, market and distribute Plug Power's residential fuel cells through a joint venture marketing subsidiary.

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 16, 1998 By: /s/ G.C. McNamee
George C. McNamee
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/ George C. McNamee George C. McNamee	Chief Executive Officer and Chairman of the Board of Directors	12/16/98
/s/ Cynthia A. Scheuer Cynthia A. Scheuer	Chief Financial Officer (Principal Financial and Accounting Officer)	"
/s/ Dale W. Church Dale W. Church	Director	"
/s/ Edward A. Dohring Edward A. Dohring	Director	"
/s/ Alan P. Goldberg Alan P. Goldberg	Director	"
/s/ E. Dennis O'Connor E. Dennis O'Connor	Director	"
/s/ Walter L. Robb Dr. Walter L. Robb	Director	"
/s/ Beno Sternlicht Dr. Beno Sternlicht	Director	"

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders
of Mechanical Technology Incorporated

Our audits of the consolidated financial statements referred to in our report dated November 6, 1998 appearing on page F-2 of this Form 10-K of Mechanical Technology Incorporated also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers L.L.P.

Albany, New York
November 6, 1998

SCHEDULE II

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN THOUSANDS)

Description	Balance at beginning of period	Additions		Deductions	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
Allowance for doubtful accounts					
Year ended September 30:					
1998	\$ 94	\$ 95	\$ -	\$ 90	\$ 99
1997	73	49	-	28	94
1996	58	26	-	11	73

Valuation allowance
for deferred tax assets

Year ended
September 30:

1998	\$ 2,754	\$ 1,335	\$ -	\$ -	\$ 4,089
1997	4,264	-	-	1,510	2,754
1996	5,565	-	-	1,301	4,264

Includes accounts written off as uncollectible, recoveries and the effect of currency exchange rates.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Statements of Shareholders' Equity for the Years Ended September 30, 1998, 1997 and 1996	F-6
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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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and retained earnings and of cash flows present fairly, in all material respects, the financial position of Mechanical Technology Incorporated and Subsidiaries at September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers L.L.P.

Albany, New York
November 6, 1998

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 1998 and 1997

(Dollars in thousands)	
1998	Restated 1997
-----	-----

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 5,567	\$ 1,421
Accounts receivable, less allowance of \$99 (1998) and \$94 (1997)	4,959	4,482
Accounts receivable - Joint Venture	87	-
Inventories	3,748	3,386
Taxes receivable	8	
Note receivable - current	327	315
Prepaid expenses and other current assets	472	102
Net assets of a discontinued operation	8	3,186
	-----	-----
Total Current Assets	15,176	12,892
Property, Plant and Equipment, net	4,467	749
Note receivable - noncurrent	264	335
Investment in Joint Venture	1,221	27
	-----	-----
Total Assets	\$21,128	\$ 14,003
	=====	=====

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
September 30, 1998 and 1997

(Dollars in thousands)
Restated
1998 1997

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Income taxes payable	\$ 5	\$ 73
Accounts payable	2,064	1,389
Accrued liabilities	3,328	3,734
Contribution payable-Joint Venture	4,000	-
Total Current Liabilities	9,397	5,196

LONG-TERM LIABILITIES

Deferred income taxes and other credits	607	594
	-----	-----
Total Liabilities	\$10,004	\$ 5,790
	-----	-----

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Common stock, par value \$1 per share,

authorized 15,000,000; issued		
7,182,645 (1998) and 5,908,661 (1997)	7,183	5,909
Paid-in capital	19,866	13,923
Deficit	(15,885)	(11,569)
	-----	-----
	11,164	8,263
Foreign currency translation adjustment	(11)	(19)
Common stock in treasury, at cost,		
3,000 shares (1998 and 1997)	(29)	(29)
Restricted stock grants	-	(2)
	-----	-----
Total Shareholders' Equity	11,124	8,213
	-----	-----
Total Liabilities and Shareholder's Equity	\$21,128	\$ 14,003
	=====	=====

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended September 30, 1998, 1997 and 1996
(Dollars in thousands, except per share)

	1998	Restated 1997	Restated 1996
	-----	-----	-----
Net sales	\$21,028	\$ 24,102	\$ 22,755
Cost of sales	12,386	14,474	13,925
	-----	-----	-----
Gross profit	8,642	9,628	8,830
Selling, general and administrative expenses	5,812	7,015	7,071
Product development and research costs	831	1,020	690
	-----	-----	-----
Operating income	1,999	1,593	1,069
Interest expense	(102)	(323)	(790)
Gain on sale of division /subsidiary	-	2,012	750
Equity in joint venture loss	(3,806)	(330)	-
Other (expense) income, net	(97)	(251)	(356)
	-----	-----	-----
(Loss) Income from continuing operations before extraordinary item and income taxes	(2,006)	2,701	673
Income tax expense	25	143	75
	-----	-----	-----
(Loss) Income from continuing operations before extraordinary item	(2,031)	2,558	598
Extraordinary Item- gain on extinguishment of debt, net of taxes (\$106)	-	2,507	-
	-----	-----	-----
(Loss) Income from continuing operations	(2,031)	5,065	598
(Loss) Income from discontinued operations	(2,285)	(545)	3,150
	-----	-----	-----
Net (loss) income	\$ (4,316)	\$ 4,520	\$ 3,748

	=====	=====	=====
Earnings per share (Basic and Diluted):			
(Loss)income before extraordinary item	\$ (.35)	\$.45	\$.15
Extraordinary Item	-	.44	-
(Loss)income on discontinued operations	(.38)	(.09)	-
	-----	-----	-----
Net (Loss)income	\$ (.73)	\$.80	\$.15
	=====	=====	=====

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, 1998, 1997 and 1996
(Dollars in thousands)

	1998	Restated 1997	Restated 1996
	-----	-----	-----
COMMON STOCK			
Balance, October 1	\$ 5,909	\$ 4,902	\$ 3,569
Issuance of shares - options	78	-	-
Issuance of Shares	1,196	1,007	1,333
	-----	-----	-----
Balance, September 30	\$ 7,183	\$ 5,909	\$ 4,902
	=====	=====	=====
PAID-IN-CAPITAL			
Balance, October 1	\$ 13,923	\$ 13,423	\$ 12,856
Issuance of shares - options	147	-	-
Issuance of shares	5,796	500	567
	-----	-----	-----
Balance, September 30	\$ 19,866	\$ 13,923	\$ 13,423
	=====	=====	=====
DEFICIT			
Balance, October 1	\$ (11,569)	\$ (16,089)	\$ (19,837)
Net(loss)income	(4,316)	4,520	3,748
	-----	-----	-----
Balance, September 30	\$ (15,885)	\$ (11,569)	\$ (16,089)
	=====	=====	=====
FOREIGN CURRENCY TRANSLATION ADJUSTMENT			
Balance, October 1	\$ (19)	\$ (19)	\$ (20)
Adjustments	8	-	1
	-----	-----	-----
Balance, September 30	\$ (11)	\$ (19)	\$ (19)
	=====	=====	=====
TREASURY STOCK			
Balance, October 1	\$ (29)	\$ (29)	\$ (29)
Restricted stock grants	-	-	-
	-----	-----	-----
Balance, September 30	\$ (29)	\$ (29)	\$ (29)
	=====	=====	=====
RESTRICTED STOCK GRANTS			
Balance, October 1	\$ (2)	\$ (24)	\$ (29)
Grants issued/vested, net	2	22	5
	-----	-----	-----
Balance, September 30	\$ -	\$ (2)	\$ (24)
	=====	=====	=====
SHAREHOLDERS' EQUITY			
September 30	\$ 11,124	\$ 8,213	\$ (2,164)
	=====	=====	=====

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, 1998, 1997 and 1996
(Dollars in thousands)

	1998	Restated 1997	Restated 1996
	-----	-----	-----
OPERATING ACTIVITIES			
(Loss)Income from continuing operations	\$ (2,031)	\$ 5,065	\$ 598
Adjustments to reconcile net income to net cash provided (used) by continuing operations:			
Depreciation and amortization	323	243	233
Gain on extinguishment of debt, net of taxes	-	(2,507)	-
Gain on sale of subsidiaries	-	(2,012)	(750)
Equity in joint venture loss	3,806	330	-
Accounts receivable reserve	5	21	15
Loss on sale of fixed assets	9	-	-
Deferred income taxes and other credits	13	(170)	(15)
Other	-	31	29
Changes in operating assets and liabilities net of effects from discontinued operations:			
Accounts receivable	(1,069)	(44)	(1,635)
Inventories	(362)	228	(664)
Escrow deposit	-	-	750
Prepaid expenses and other current assets	(374)	(18)	240
Accounts payable	788	(87)	97
Income taxes	(76)	(49)	4
Accrued liabilities	(519)	58	1,049
	-----	-----	-----
Net cash provided (used) by continuing operations	513	1,089	(49)
	-----	-----	-----
Discontinued Operations:			
(Loss)/Income from discontinued operations	(2,285)	(574)	3,150
Adjustments to reconcile income to net cash provided (used) by discontinued operations:			
Changes in net assets/liabilities of discontinued operations	3,178	31	(1,598)
Net assets transferred from discontinued operations	(878)	-	-
	-----	-----	-----
Net cash provided (used) by discontinued operations	15	(543)	1,552
	-----	-----	-----
Net cash provided by operations	528	546	1,503
	-----	-----	-----
INVESTING ACTIVITIES			
Purchases of property, plant & equipment	(3,166)	(377)	(170)
Proceeds from sale of subsidiaries	-	2,600	750
Principal payments from note receivable	59	-	-
Note receivable Plug Power	(500)	-	-
	-----	-----	-----
Net cash (used)provided by investing activities	(3,607)	2,223	580
	-----	-----	-----
FINANCING ACTIVITIES			
Private placement of common stock, net expenses	-	-	1,900
Proceeds from options exercised	225	-	-
Proceeds from rights offering	7,178	-	-
Costs of rights offering	(186)	-	-
Net (payments) under line-of-credit and note agreement	-	(100)	(3,308)
Principal payments on long-term debt	-	(1,310)	(688)
	-----	-----	-----
Net cash provided(used)by financing activities	7,217	(1,410)	(2,096)

Effect of exchange rate changes on cash flows	8	-	1
Increase (decrease) in cash and cash equivalents	4,146	1,359	(12)
Cash and cash equivalents - beginning of year	1,421	62	74
Cash and cash equivalents - end of year	\$ 5,567	\$ 1,421	\$ 62

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For The Years Ended September 30, 1998, 1997 and 1996
(Dollars in thousands)

	1998	Restated 1997	Restated 1996
	-----	-----	-----
Supplemental Disclosures			
NONCASH INVESTING ACTIVITIES			
Contribution of net assets to joint venture			
Accounts receivable	\$ 500	\$ -	\$ -
Note receivable	500	-	-
Inventories	-	1	-
Property, plant and equipment, net	-	452	-
Accounts payable	-	(46)	-
Accrued liabilities	-	(50)	-
Contribution payable - Joint Venture	4,000	-	-
	-----	-----	-----
	\$ 5,000	\$ 357	\$ -
	-----	-----	-----
Proceeds from sale of subsidiary			
Notes receivable	\$ -	\$ 650	\$ -
	-----	-----	-----
Net noncash provided(used) in investing activities	\$ 5,000	\$ 1,007	\$ -
	-----	-----	-----
NONCASH FINANCING ACTIVITIES			
Conversion of Note Payable to Common Stock			
Note Payable extinguishment	\$ -	\$ (3,000)	\$ -
Common stock issued	-	1,500	-
Accrued interest - Note Payable	-	(1,213)	-
	-----	-----	-----
Net noncash used in financing activities	\$ -	\$ (2,713)	\$ -
	-----	-----	-----

Net noncash provided(used) in investing/financing activities	\$ 5,000	\$ (1,706)	\$ -
	=====	=====	=====

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. The Company has a 50% interest in a joint venture. The consolidated financial statements include the Company's investments in the joint venture (including obligations to invest), plus its share of undistributed earnings/losses. The investment is included in the financial line "Investment in Joint Venture".

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The fair value of the Company's financial instruments including cash and cash equivalents, line-of-credit, note payable and long-term debt, approximates carrying value. Fair values were estimated based on quoted market prices, where available, or on current rates offered to the Company for debt with similar terms and maturities.

Inventories

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

Property, Plant, and Equipment

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. Significant additions or improvements

extending assets' useful lives are capitalized; normal maintenance and repair costs are expensed as incurred. The cost of fully depreciated assets remaining in use are included in the respective asset and accumulated depreciation accounts. When items are sold or retired, related gains or losses are included in net income.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (continued)

Income Taxes

The Company accounts for taxes in accordance with Financial Accounting Standard No. 109, "Accounting for Income Taxes," which requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable for future years to differences between financial statement and tax bases of existing assets and liabilities. Under FAS No. 109, the effect of tax rate changes on deferred taxes is recognized in the income tax provision in the period that includes the enactment date. The provision for taxes is reduced by investment and other tax credits in the years such credits become available.

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. 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 estimable.

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 or losses resulting from the translation of the foreign subsidiary's balance sheet are accumulated in a separate component of shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with maturities of less than three months.

Earnings (Loss) Per Share

Effective October 1, 1997, the Company adopted Financial Accounting Standard No. 128, "Earnings per Share." In accordance with this Standard, net income(loss) per share is computed using the weighted average number of common shares outstanding during each year. Diluted net income(loss) per share includes the effects of all potentially dilutive securities. Earnings per share amounts for all periods presented have been computed in accordance with this Standard.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (continued)

Advertising

The costs of advertising are expensed as incurred. Advertising expense was approximately \$83, \$92 and \$82 thousand in 1998, 1997, and 1996, respectively.

Asset Impairment

The Company adopted SFAS No. 121, "Accounting For The Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of." This statement requires companies to record impairments to long-lived assets, certain identifiable intangibles, and related goodwill when events or changing circumstances indicate a probability that the carrying amount of an asset may not be fully recovered. Impairment losses are recognized when expected future cash flows are less than the asset's carrying value.

Reclassification and Restatement

Certain 1997 and 1996 amounts have been reclassified to conform with the 1998 presentation. The financial statements for 1997 and 1996 have also been restated to reflect the discontinuance of the Company's Technology Division (See Note 15).

(2) Inventories

Inventories consist of the following:

(Dollars in thousands)	1998	1997
	-----	-----
Finished goods	\$ 112	\$ 205
Work in process	791	967
Raw materials, components and assemblies	2,845	2,214
	-----	-----
	\$ 3,748	\$ 3,386
	=====	=====

(3) Property, Plant and Equipment

Property, plant and equipment consists of the following:

(Dollars in thousands)	1998	1997
	-----	-----
Land and improvements	\$ 125	\$ -
Buildings and improvements	6,111	-
Leasehold improvements	517	568
Machinery and equipment	4,285	3,092
Office furniture and fixtures	866	579
	-----	-----
	11,904	4,239

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Property, Plant and Equipment (continued)

(Dollars in thousands)	1998	1997
	-----	-----
Less accumulated depreciation	7,437	3,490
	-----	-----
	\$ 4,467	\$ 749
	=====	=====

At the beginning of 1998, assets with a net book value of \$878 thousand consisting primarily of land, building and management information systems

were transferred from discontinued operations to continuing operations.

Construction in progress, included in buildings and improvements, was approximately \$1,371 thousand in 1998.

At the end of 1998, the Company was committed to approximately \$2,856 thousand of future expenditures for new equipment and facilities.

Depreciation expense was \$317, \$216 and \$194 thousand for 1998, 1997 and 1996, respectively. Repairs and maintenance expense was \$177, \$175 and \$182 thousand for 1998, 1997 and 1996, respectively.

The cost and accumulated depreciation of buildings and improvements leased to Plug Power was:

(Dollars in thousands)	1998	1997	1996
	-----	-----	-----
Cost	\$ 1,547	\$ 21	\$ -
Accumulated depreciation	(660)	(17)	-
	-----	-----	-----
	\$ 887	\$ 4	\$ -
	=====	=====	=====

(4) Notes Receivable

Notes receivable consists of the following:

(Dollars in thousands)	1998	1997
	-----	-----
\$250 with an interest rate of 10%, interest and principal due September 30, 1998 (A)	\$ 250	\$ 250
\$400 with an interest rate of 10%, due in monthly installments through September 30, 2002	341	400
	-----	-----
Less: Current portion	591 (327)	650 (315)
	-----	-----
	\$ 264	\$ 335
	=====	=====

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Notes Receivable (continued)

(A) The principal amount of this note may be reduced in accordance with the terms of the note in the event of a sale of the fixed assets. The purchaser has requested that the principal amount of the note be reduced to reflect the resale value of certain assets of L.A.B. The Company is enforcing its rights with respect to the note and is currently negotiating the collection of this note.

(5) Investment in Joint Venture

On June 27, 1997, the Company and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Co. formed a joint venture, Plug Power, L.L.C. ("Plug Power"), to further develop the Company's Proton Exchange Membrane Fuel Cell technology. In exchange for its contribution of contracts and intellectual property and certain other net assets that had comprised the fuel cell research and development business activity of the Technology segment (which assets had a net book value of \$357 thousand), the Company received a 50% interest in Plug Power. The Company's interest in Plug Power may be reduced in certain circumstances. EDC made an initial cash contribution of \$4.75 million in exchange for the remaining 50% interest in Plug Power. The Company's investment in Plug Power is included in the balance sheet caption "Investment in Joint Venture"; the assets contributed by the Company to Plug Power had previously been included in the assets of the Company's Technology segment. See the supplemental disclosure regarding Contribution of Net Assets to Joint Venture in the Consolidated Statements of Cash Flows for additional information regarding

the assets contributed by the Company to Plug Power. The Company recorded the carrying value of the net assets contributed as its initial investment in Plug Power in recognition of the nature of the venture's undertaking.

On April 15, 1998, EDC contributed \$2.25 million in cash to Plug Power. The Company contributed a below-market lease for office and manufacturing facilities in Latham, New York valued at \$2 million and purchased a one-year option to match the remaining \$250 thousand of EDC's contribution. In May 1998, EDC contributed an additional \$2 million to Plug Power and the Company purchased another one-year option to match that contribution. The Company paid approximately \$191 thousand for the options, which mature in April 1999 (\$250 thousand) and May 1999 (\$2 million). If the Company does not exercise its options, they will lapse.

In August, 1998, the Company committed to contribute an additional \$5 million dollars (in cash, accounts receivable and research credits) to Plug Power between August 5, 1998 and March 31, 1999 and recorded a liability representing this obligation. Such contributions will increase the Company's total contributions to Plug Power (including contributions of cash, assets, research credits, and a below market lease) to \$11.75 million over the period commencing on June 27, 1997, and ending on March 31, 1999.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Investment in Joint Venture (continued)

On August 5, 1998, the Company made a short term loan to Plug Power of \$500 thousand, which was subsequently contributed to capital on September 23, 1998. The Company also converted \$500 thousand of its accounts receivable from Plug Power to capital on September 23, 1998. At September 30, 1998, the remaining obligation to provide additional funds to Plug Power was \$4 million.

The Company has recorded its proportionate share of Plug Power's losses to the extent of its recorded investment in Plug Power (including the foregoing obligation to contribute an additional \$4 million through March 31, 1999).

At September 30, 1998, the difference between the carrying value of the Company's investment in Plug Power and its interest in the underlying equity consists of the following:

(Dollars in thousands)	
Calculated 50% ownership	\$ 2,431
Unrecognized negative goodwill	(2,086)
Value of below market lease contribution	(2,000)
Calculated 50% of equity value under option	(1,125)
Contribution liability	4,000

Carrying value of Investment in Joint Venture	\$ 1,221
	=====

(6) Income Taxes

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.

Income tax expense (benefit) for the years ended September 30, consists of the following:

(Dollars in thousands)		1998	1997	1996
		-----	-----	-----
Continuing operations				
Federal	\$	15	\$ 62	\$ 44

State	10	81	31
Deferred	-	-	-
	-----	-----	-----
	25	143	75
	-----	-----	-----
Discontinued operations			
Federal	-	(17)	(8)
State	-	(12)	(3)
Deferred	-	-	-
	-----	-----	-----
	-	(29)	(11)
	=====	=====	=====

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Income Taxes (continued)

(Dollars in thousands)

	1998	1997	1996
	-----	-----	-----
Extraordinary Item			
Federal	-	28	-
State	-	78	-
Deferred	-	-	-
	-----	-----	-----
	-	106	-
	-----	-----	-----
	\$ 25	\$ 220	\$ 64
	=====	=====	=====

The significant components of deferred income tax expense (benefit) for the years ended September 30, are as follows:

(Dollars in thousands)

	1998	1997	1996
	-----	-----	-----
Continuing operations			
Deferred tax (benefit) expense	\$ (667)	\$ (356)	\$ (310)
Net operating loss carryforward	105	1,223	635
Valuation allowance	562	(867)	(325)
	-----	-----	-----
	-	-	-
	-----	-----	-----
Discontinued operations			
Deferred tax (benefit) expense	(508)	60	(52)
Net operating loss carryforward	(265)	(251)	1,028
Valuation allowance	773	191	(976)
	-----	-----	-----
	-	-	-
	-----	-----	-----
	\$ -	\$ -	\$ -
	=====	=====	=====
Extraordinary item			
Deferred tax (benefit) expense	-	(28)	-
Net operating loss carryforward	-	862	-
Valuation allowance	-	(834)	-
	-----	-----	-----
	-	-	-
	-----	-----	-----
	\$ -	\$ -	\$ -
	=====	=====	=====

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

	1998	1997	1996
	-----	-----	-----
Federal statutory tax rate	(34%)	34%	34%
State taxes, net of			
federal tax effect	-	2%	3%
Meals and entertainment	-	-	1%
Additional tax gain on sale of			
subsidiary	-	-	11%
Change in valuation allowances	28%	(32%)	(48%)
Alternative minimum tax	-	2%	7%
Other, net	7%	(1%)	3%
	-----	-----	-----
	1%	5%	11%
	=====	=====	=====

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Income Taxes (continued)

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

(Dollars in thousands)	1998	1997
	-----	-----
Current deferred tax assets:		
Loss provisions for Discontinued		
Operations	\$ 337	\$ -
Bad debt reserve	96	52
Inventory valuation	161	165
Inventory capitalization	20	40
Vacation pay	66	111
Warranty and other sale obligations	25	51
Other reserves and accruals	151	358
	-----	-----
	856	777
Valuation allowance	(856)	(777)
	-----	-----
Net current deferred tax assets	\$ -	\$ -
	=====	=====
Noncurrent deferred tax assets (liabilities):		
Net operating loss	\$ 1,951	\$ 1,791
Property, plant and equipment	(9)	(251)
Investment in Joint Venture	954	-
Other	187	288
Alternative minimum tax credit	150	149
	-----	-----
	3,233	1,977
Valuation allowance	(3,233)	(1,977)
Other credits	(607)	(594)
	-----	-----
Noncurrent net deferred tax		
liabilities and other credits	\$ (607)	\$ (594)
	=====	=====

The valuation allowance at year ended September 30, 1998 is \$4,089 thousand and at September 30, 1997 was \$2,754 thousand. During the year ended September 30, 1998, the valuation allowance increased by \$1,335 thousand.

At September 30, 1998, the Company has unused Federal net operating loss carryforwards of approximately \$5,738 thousand. The Federal net operating loss carryforwards if unused will begin to expire during the year ended September 30, 2009. The use of \$5,339 thousand of these carryforwards is limited on an annual basis, pursuant to the Internal Revenue Code, due to certain changes in ownership and equity transactions. For the year ended September 30, 1998, the Company has available alternative minimum tax credit carryforward of approximately \$150 thousand.

The Company made cash payments, net of refunds, for income taxes of \$42, \$361 and \$61 thousand for 1998, 1997 and 1996, respectively.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Accrued Liabilities

Accrued liabilities consist of the following:

(Dollars in thousands)	1998	1997
	-----	-----
Salaries, wages and related expenses	\$ 999	\$ 924
Acquisition and disposition costs	410	665
Legal and professional fees	305	445
Warranty and other sale obligations	607	329
Contingent liabilities	150	350
Accrued severance	143	300
Deferred income	267	250

Commissions	213	230
Interest expense	8	103
Other	226	138
	-----	-----
	\$ 3,328	\$ 3,734
	=====	=====

(8) Debt

The Company has a working capital line of credit available in the amount of \$4 million with interest payable monthly at a rate of prime (8.5% at September 30, 1998) or LIBOR plus 2.5% (7.875% at September 30, 1998), and a \$1 million equipment loan/lease line of credit at an interest rate of LIBOR plus 2.75% (8.125% at September 30, 1998). The lines of credit expire on January 31, 2000. No amounts were outstanding under these lines at September 30, 1998 and 1997.

The Industrial Development Agency for the Town of Colonie has agreed to issue \$6 million in Industrial Development Revenue ("IDR") Bonds on behalf of the Company to assist in the construction of a new building for Advanced Products and the Company's corporate staff and renovation of existing buildings leased to Plug Power. The construction project is due to be completed in April 1999. First Albany Companies Inc. ("FAC"), which owns 34% of the Company's stock, will underwrite the sale of the IDR Bonds. Proceeds of the IDR Bonds will be deposited with a trustee for the bondholders. The Company may draw the bond proceeds to cover qualified project costs. The bond closing is expected to be completed on or about December 17, 1998. FAC will receive no fees for underwriting the IDR Bonds but will be reimbursed for its out-of-pocket costs.

Additionally, KeyBank has agreed to issue a \$6 million direct pay letter of credit to enhance the \$6 million IDR Bonds to be issued on the Company's behalf on or about December 17, 1998. The KeyBank credit agreements require the Company to meet certain covenants, including a fixed charge coverage and leverage ratio. Further, if certain performance standards are achieved, the interest rates on the debt may be reduced.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Debt (continued)

The credit agreement also requires the Company to grant a first lien on all consolidated assets of the Company, exclusive of its investment in Plug Power, a first mortgage on all land and buildings owned by the Company and a first lien on any equipment purchased by the Company.

The weighted average interest rate for the Note Payable and Line of Credit draws during 1998 was 9.02%, 10.75% during 1997 and 13.2% during 1996.

Cash payments for interest were \$97, \$201 and \$477 thousand for 1998, 1997 and 1996, respectively.

(9) Shareholders' Equity

On September 30, 1998, the Company completed the sale of 1,196,399 shares of common stock to current shareholders through a rights offering. The offering raised approximately \$7,178 thousand before offering costs of approximately \$186 thousand for net proceeds of approximately \$6,992 thousand. The Company will use some or all of the proceeds of the offering for investment in and/or loans to Plug Power. In addition, some proceeds may be used for acquisitions for the Company's core businesses, efforts to increase market share, working capital, general corporate purposes and other capital expenditures.

The Company had a Restricted Stock Incentive Plan, which awarded restricted Common Stock of the Company to officers and other key

employees. The Plan expired on December 31, 1994 and no further awards may be granted. In fiscal year 1995, 32,500 shares were granted, valued at \$14,375 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 were recorded as a component of Shareholders' Equity. The value of the grants, net of accumulated amortization and write-offs, was \$0 at September 30, 1998 and \$2 thousand at September 30, 1997.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Shareholders' Equity (continued)

Changes in common shares for 1998, 1997 and 1996 are as follows:

Common Shares	1998	1997	1996
-----	-----	-----	-----
Balance, October 1	5,908,661	4,902,201	3,568,868
Issuance of shares for stock option exercises	77,585	-	-
Issuance of shares for stock sale	1,196,399	1,000,000	1,333,333
Issuance of shares - consultant	-	6,460	-
	-----	-----	-----
Balance, September 30	7,182,645	5,908,661	4,902,201
	=====	=====	=====
Treasury Shares			
Balance, October 1 and September 30	3,000	3,000	3,000
	=====	=====	=====

(10) Earnings per Share

The amounts used in computing earnings per share and the effect on income and the weighted average number of shares of potentially dilutive securities are as follows:

(Dollars in Thousands)	1998	1997	1996
-----	-----	-----	-----
(Loss) income before extraordinary item and available to common stockholders	\$ (2,031)	\$ 2,558	\$ 598

Weighted average number of
shares:

Weighted average number of shares used in net (loss)/ income per share	5,937,158	5,662,827	3,911,952
Effect of dilutive securities:			
Stock options	-	9,218	-

Weighted average number of shares used in diluted net (loss)/income per share	5,937,158	5,672,045	3,911,952

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Earnings per Share (continued)

During fiscal 1998, options to purchase 404,915 shares of common stock at prices ranging from \$2.44 to \$6 per share were outstanding but were not included in the computation of Earnings per Share-assuming dilution because the Company incurred a loss from continuing operations. Therefore, no potential common shares are included in the computation. The options, which expire between December 20, 2006 and August 31, 2008, were still outstanding at September 30, 1998. During fiscal 1997, options to purchase 195,000 shares of common stock at a price of \$3.44 per share were outstanding but were not included in the computation of Earnings per Share-assuming dilution because the exercise price was greater than the average market price of the common shares. Therefore, no potential common shares are included in the computation. The options, which expire August 27, 2007 were still outstanding at September 30, 1997.

(11) Stock Option Plan

During December 1996, the shareholders approved a new stock incentive plan. The plan provides that an initial aggregate number of 500,000 shares of common stock may be awarded or issued. The number of shares available under the plan may be increased by 10% of any increase in the number of outstanding shares of common stock for reasons other than shares issued under this plan. During 1998 and 1997, the number of shares available under the plan increased to 719,640 and 600,000 shares respectively. Under the plan, the Board of Directors is authorized to award stock options, stock appreciation rights, restricted stock, and other stock-based incentives to officers, employees and others. Options are generally exercisable in from one to five cumulative annual amounts beginning 12 months after the date of grant. Certain options granted may be exercisable immediately. Option exercise prices are not less than the market value of the shares on the date of grant. Unexercised options generally terminate ten years after grant.

For the purpose of applying Financial Accounting Standard No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation", the fair value of each option granted is estimated on the grant date using the Black-Scholes Single Option model. The dividend yield was 0% for 1998 and 1997, respectively. The expected volatility was 102% in 1998 and 78% and in 1997. The expected life of the options is 5 years. The risk free interest rate ranges from 5.52% to 5.85% in 1998 and 6.12% to 6.67% in 1997. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock options. Accordingly, no compensation cost has been recognized in 1998 or 1997. Had compensation cost and fair value been determined pursuant to FAS 123, net loss would increase from \$(4,316) to \$(4,773) thousand in 1998 and net income would decrease from \$4,520 to \$4,351 thousand in 1997. Basic and

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Stock Option Plan (continued)

diluted loss per share would increase from \$(.73) to \$(.80) in 1998 and basic and diluted earnings per share would decrease from \$0.80 to \$0.76 in 1997. The weighted average fair value of options granted during 1998 and 1997 for purposes of FAS 123, is \$4.70 and \$1.96 per share, respectively.

Activity with respect to the plan is as follows:

	1998	1997
	-----	-----
Shares under option at October 1	415,600	-
Options granted	198,500	423,100
Options exercised	(77,585)	-
Options canceled	(131,600)	(7,500)
	-----	-----
Shares under option at September 30	404,915	415,600
	=====	=====
Options exercisable at September 30	180,915	76,800
Shares available for granting of options	237,140	184,400

The weighted average exercise price is as follows:

	1998	1997
	-----	-----
Shares under option at October 1	\$ 2.93	\$ -
Options granted	5.75	2.91
Options exercised	2.87	-
Options canceled	2.61	2.44
Shares under option at September 30	4.37	2.91
Options exercisable at September 30	3.96	2.93

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Stock Option Plan (continued)

The following is a summary of the status of options outstanding at September 30, 1998:

Outstanding Options		Exercisable Options			
		-----		-----	
Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price

\$2.44-\$3.44	212,415	8.8	\$3.16	110,915	\$3.03
\$4.09-\$6.00	192,500	9.7	\$5.84	70,000	\$6.00

(12) Retirement Plan

The Company maintains a voluntary 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 investment of employee contributions to the plan is self-directed. The cost of the plan was \$83, \$179 and \$187 thousand for 1998, 1997 and 1996, respectively.

(13) Commitments and Contingencies

During October 1998, a legal action brought by a group of investors against the Company related to a stock purchase agreement and side letter agreements for the sale of the stock of the Company's wholly owned subsidiary, Ling Electronics, Inc. ("Ling"), was determined in favor of the Company.

In February 1995, Ling, 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 has fully cooperated with the Office of Export Enforcement, which has not 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

(13) Commitments and Contingencies (continued)

Future minimum rental payments required under noncancelable operating leases are (dollars in thousands): \$386 in 1999; \$424 in 2000; \$433 in 2001; \$438 in 2002; and \$342 in 2003. Rent expense under all leases was \$403, \$446 and \$433 thousand for 1998, 1997 and 1996, respectively.

Future minimum rental income under non-cancelable operating sub-leases are (dollars in thousands): \$165 in 1999; \$160 in 2000; \$141 in 2001; \$150 in 2002; and \$105 in 2003.

Rental income under all sub-leases was \$66, \$19 and \$10 thousand in 1998, 1997 and 1996, respectively.

The Company leases certain of its Latham, New York facilities to its 50 percent owned joint venture, Plug Power, L.L.C. Effective October 1, 1998, the Company has leased one building to Plug Power at below market rent as part of its April 1998 capital contribution to Plug Power. The lease is for ten years with an option to extend the lease for an additional 5 years at 70 percent of the current fair market rent. Future minimum rental income receivable under non-cancelable leases as of September 30, 1998 are as follows:

(Dollars in thousands)

Fiscal Year	Amount
- - - - -	- - - - -

1999	\$	212
2000		212
2001		212
2002		212
2003		212

	\$	1,061
		=====

(14) Related Party Transactions

At September 30, 1998 First Albany Companies, Inc. ("FAC") owned approximately 34% of the Company's Common Stock (See Note 18).

During fiscal 1998 and 1997, First Albany Corporation, a wholly owned subsidiary of FAC, provided financial advisory services in connection with the sale of the Technology Division in 1998 and the L.A.B. Division in 1997, for which First Albany Corporation was paid fees of \$10 and \$75 thousand, respectively. During fiscal 1996, First Albany Corporation, acted as placement agent in connection with a private placement of 1.3 million shares of the Company's Common Stock, pursuant to which the Company raised approximately \$1.9 million of additional capital (net of expenses), for which First Albany Corporation was paid a \$40 thousand fee.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) Related Party Transactions (continued)

On June 27, 1997, the Company entered into a management services agreement with Plug Power to provide certain services and facilities for a period of one year. Services billed by the Company are for cost reimbursement only.

Billings under these agreements amounted to \$661 and \$65 thousand for 1998 and 1997, respectively. Amounts receivable from Plug Power under these agreements are included in the balance sheet caption "Accounts receivable - - Joint Venture". During 1998, the Company entered into leases for manufacturing, laboratory and office space which expire at various dates through September 30, 2008.

On August 5, 1998, the Company made a short term loan to Plug Power of \$500 thousand, which was subsequently contributed to capital on September 23, 1998. The Company also converted \$500 thousand of its accounts receivable from Plug Power to capital on September 23, 1998. At September 30, 1998, the remaining obligation to provide additional funds to Plug Power was \$4 million.

During 1996, the Company made several rental payments for laboratory space to an officer/director of the Lawrence Insurance Group Inc. ("LIG") and purchased various insurance coverage from LIG or companies owned directly or indirectly by LIG totaling \$453 thousand. At September 30, 1996, several subsidiaries of LIG collectively owned approximately 16.8% of the Company's common stock.

(15) Discontinued Operations

The sale of the Company's Technology Division, the sole component of the Technology segment, to NYFM, Incorporated (a wholly owned subsidiary of Foster-Miller, Inc., a Waltham, Massachusetts-based technology company) on March 31, 1998 completed management's planned sale of non-core businesses. Accordingly, the Company no longer includes Technology among its reportable business segments and now operates in only one segment, Test & Measurement. The Technology Division is reported as a discontinued operation as of December 26, 1997, and the consolidated financial statements have been restated to report separately the net assets and operating results of the business. In exchange for the Technology Division's assets, NYFM, Incorporated (a) agreed to pay the Company a percentage of gross sales in excess of \$2.5 million for a period of five years; (b) assumed approximately \$40 thousand of liabilities; and (c)

established a credit for warranty work of approximately \$35 thousand.

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.

During October 1994, UTE commenced an orderly liquidation and final court

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Discontinued Operations (continued)

approval occurred during the third quarter of fiscal 1996. Accordingly, the Company no longer includes Defense/Aerospace among its reportable business segments, and since 1994 UTE has been reported as a discontinued operation, and accordingly the consolidated financial statements have been reclassified to report separately the net liabilities and operating results of the business. The Company recorded the effect of the final liquidation of UTE during fiscal year 1996. Final adjustments to the Company's financial statements as a result of the UTE bankruptcy are reflected in income from discontinued operations.

Discontinued operations consist of the following:

(Dollars in thousands)	1998	1997	1996
	-----	-----	-----
Sales	\$ 532	\$ 7,878	\$ 9,146
	=====	=====	=====
(Loss)income from discontinued operations before income tax	(516)	(574)	3,139
Income tax (benefit)	-	(29)	(11)
	-----	-----	-----
Net (loss)income from discontinued operations	\$ (516)	\$ (545)	\$ 3,150
	=====	=====	=====
Loss on disposal of Division	\$ (1,769)	-	-
Income tax (benefit)	-	-	-
	-----	-----	-----
Loss on disposal of Division	\$ (1,769)	\$ -	\$ -
	=====	=====	=====

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

(Dollars in thousands)	1998	1997
	-----	-----
Assets (primarily accounts receivable at September 30, 1998)	\$ 1,136	\$ 3,968
Liabilities (primarily accrued expenses at September 30, 1998)	1,128	782
	-----	-----
Net Assets	\$ 8	\$ 3,186
	=====	=====

Assets with a net book value of \$878 thousand consisting primarily of land, building and management information systems were transferred to continuing operations on October 1, 1997.

(16) Sale of Division/Subsidiary

L.A.B. Division

On September 30, 1997, the Company sold all of the assets of its L.A.B. Division to Noonan Machine Company of Franklin Park, IL. The Company

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Sale of Division/Subsidiary (continued)

received \$2,600 thousand in cash and two notes, totaling \$650 thousand, from Noonan Machine Company. The purchaser has requested that the principal amount of the note be reduced to reflect the resale value of certain assets of L.A.B. The Company is enforcing its rights with respect to the note. The net proceeds from the sale were used to pay down all outstanding debt and build working capital.

The sale resulted in a \$2,012 thousand gain, which was recorded in the fourth quarter of fiscal year 1997. In addition, \$250 thousand of the proceeds associated with one of the notes was recorded as deferred revenue due to contingencies associated with the realization of this note. This note is still outstanding as of September 30, 1998.

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 thousand in cash from Phase Metrics and ProQuip forgave a \$316 thousand intercompany debt due from the Company. The net proceeds from the sale were used to reduce term debt by \$8,000 thousand and to increase working capital by \$3,776 thousand.

The sale resulted in a \$6,779 thousand gain, which was recorded during the first quarter of fiscal year 1995. In addition, \$750 thousand of the net proceeds was escrowed to provide a fund for any indemnity payments that the Company may be obligated to pay Phase Metrics. As of February 22, 1996 (the escrow expiration date), no claim had been filed, nor was the Company aware of any circumstances which might give rise to future claims. Accordingly, the Company recognized the remaining \$750 thousand gain from the sale during the second quarter of fiscal 1996.

(17) Geographic and Segment Information

The Company sells its products on a worldwide basis with its principal markets listed in the table below where information on export sales is summarized by geographic area for the Company as a whole:

(Dollars in thousands)

Geographic Area	1998	1997	1996
-----	-----	-----	-----
United States	\$ 17,022	\$ 17,290	\$ 15,050
Europe	1,072	1,223	2,909
Japan	1,534	1,243	1,321
Pacific Rim	834	1,901	1,286
China	302	1,900	1,307
Canada	228	178	341
Rest of World	36	367	541
	-----	-----	-----
Total Sales	\$ 21,028	\$ 24,102	\$ 22,755
	=====	=====	=====

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Geographic and Segment Information (continued)

One customer accounted for 11.5% of sales during fiscal 1998.

The Company operates in one business segment, Test and Measurement, which develops, manufactures, markets and services sensing instruments, computer-based balancing systems for aircraft engines, vibration test systems and power conversion products.

The accounting policies of the Test and Measurement segment are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations

before income taxes.

The following table details information about the Test and Measurement segment profit or loss, segment assets and shows the reconciliation of segment data to the Company's consolidated totals. The Company does not allocate income taxes or unusual items to segments. In addition, segments noncash items include any depreciation and amortization in reported profit or loss.

(Dollars in thousands) 1998	Test and Measurement	Reconciling Item: Corporate	Consolidated Totals
- - - - -	-----	-----	-----
Revenues	\$ 21,028	\$ -	\$ 21,028
Interest revenue	-	65	65
Interest expense	-	102	102
Depreciation and amortization	205	118	323
Equity in joint venture loss	-	(3,806)	(3,806)
Income (loss) from continuing operations before tax	2,155	(4,161)	(2,006)
Income (loss) from continuing operations	2,155	(4,186)	(2,031)
Loss on discontinued operations	-	(2,285)	(2,285)
Total income (loss)	2,155	(6,471)	(4,316)
Segment assets	9,424	11,696	21,120
Net assets discontinued operations	-	8	8
Expenditures for segment assets	202	2,964	3,166

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Geographic and Segment Information (continued)

(Dollars in thousands) 1997	Test and Measurement	Reconciling Item: Corporate	Consolidated Totals
- - - - -	-----	-----	-----
Revenues	\$ 24,102	\$ -	\$ 24,102
Interest revenue	-	-	-
Interest expense	-	323	323
Depreciation and amortization	206	37	243
Equity in joint venture loss	-	(330)	(330)
Gain on sale of division	-	2,012	2,012
Income from continuing operations before extraordinary item and tax	2,414	287	2,701
Income from continuing operations before extraordinary item	2,411	147	2,558
Extraordinary item, net of tax	-	2,507	2,507
Loss on discontinued operations	-	(545)	(545)
Total income	2,411	2,109	4,520
Segment assets	8,696	2,121	10,817
Net assets discontinued			

operations	-	3,186	3,186
Expenditures for segment assets	375	2	377
1996			
- ----			
Revenues	\$ 22,755	\$ -	\$ 22,755
Interest revenue	-	-	-
Interest expense	-	790	790
Depreciation and amortization	203	30	233
Gain on sale of division	-	750	750
Income (loss) from continuing operations before tax	2,006	(1,333)	673
Income (loss) from continuing operations	2,004	(1,406)	598
Income from discontinued operations	-	3,150	3,150
Total income	2,004	1,744	3,748
Segment assets	9,577	348	9,925
Net assets discontinued operations	-	3,556	3,556
Expenditures for segment assets	169	1	170

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Geographic and Segment Information (continued)

The reconciling items are the amounts of revenues earned and expenses incurred for corporate operations, which is not included in the segment information.

(18) Extraordinary Item- Extinguishment of Debt

During fiscal 1996, FAC purchased 909,091 shares of the Company's Common Stock from the New York State Superintendent of Insurance as the court-ordered liquidator of United Community Insurance Company ("UCIC"). In connection with this purchase, FAC also acquired certain rights to an obligation ("Term Loan") due from the same finance company ("FCCC") to whom the Company was obligated under a Note Payable, due December 31, 1996 (See Note 14).

FCCC was in default of its Term Loan to UCIC. FAC, as the owner of the rights to the Term Loan, filed suit seeking payment. Collateral for the FCCC Term Loan included the Company's Note Payable to FCCC. FAC exercised its rights to the collateral securing the Term Loan, including the right to obtain payment on the Note Payable directly from the Company. The Company and FAC entered into an agreement dated as of December 27, 1996 under which the Company issued to FAC 1.0 million shares of Common Stock in full satisfaction of the Note Payable and accrued interest.

If FCCC were to seek collection of the Note Payable plus accrued interest from the Company, the Company, based on the opinion of counsel, believes that the outcome of any such action pursued by FCCC against the Company would not have a material adverse impact on the Company's financial position or results of operation.

(19) Comprehensive Income

Total comprehensive income for the years ended September 30 consists of:

(Dollars in Thousands)	1998	1997	1996
	-----	-----	-----
Net (loss) income	\$ (4,316)	\$ 4,520	\$ 3,748
Other comprehensive income (loss), before tax:			
Foreign currency translation			

adjustments	8	-	1
Income tax related to items of other comprehensive income(loss)	-	-	-
	-----	-----	-----
Total comprehensive income(loss)	\$ (4,308)	\$ 4,520	\$ 3,749
	=====	=====	=====

CREDIT AGREEMENT
dated as of September __, 1998
among
MECHANICAL TECHNOLOGY, INCORPORATED
and
KEYBANK NATIONAL ASSOCIATION

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CREDIT AGREEMENT

This CREDIT AGREEMENT, dated as of September 22, 1998 (this "Agreement"), is entered into between MECHANICAL TECHNOLOGY INCORPORATED, a New York corporation (the "Borrower") and KEYBANK NATIONAL ASSOCIATION (the "Bank").

In consideration of the premises and the mutual agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1 DEFINITIONS.

1.1 Definitions. When used herein the following terms shall have the following meanings:

Acceptable Accounts means any account receivable of Borrower aged less than ninety (90) days.

Affiliate of any Person means (i) any other Person which, directly or indirectly, controls or is controlled by or is under common control with such Person and (ii) any officer or director of such Person.

Agreement __ see the Preamble.

Bank __ see the Preamble.

Borrower - see the Preamble.

Business Day means any day on which the Bank is open for commercial banking business in Albany, New York.

Capital Expenditures means all expenditures which, in accordance with GAAP, would be required to be capitalized and shown on the consolidated balance sheet of the Borrower, but excluding expenditures made in connection with the replacement, substitution or restoration of assets to the extent financed within three months (i) from insurance proceeds (or other similar recoveries) paid on account of the loss of or damage to the assets being replaced or restored or (ii) with awards of compensation arising from the taking by eminent domain or condemnation of the assets being replaced.

Capital Lease means, with respect to any Person, any lease of (or

other agreement conveying the right to use) any real or personal property by such Person that, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of such Person.

CERCLA __ see Section 8.15.

Code means the Internal Revenue Code of 1986, as amended.

Collateral Documents means the Security Agreement and any other agreement pursuant to which the Borrower or any Guarantor grant collateral to the Bank.

Commitment means the Bank's commitment to make Loans up to the Commitment Amount.

Commitment Amount -- see Section 2.1.1.

Computation Period means each period of four consecutive Fiscal Quarters ending on the last day of a Fiscal Quarter.

Contingent Payment means any payment that has been (or is required to be) made by the Borrower or any Subsidiary in connection with the achievement any particular business goal (excluding (i) employee compensation and bonuses in the ordinary course of business and (ii) periodic, variable payments based upon performance-related criteria, such as revenues or earnings).

A Contingent Payment shall be deemed to be any payment which is contingent under GAAP and must be accrued against by Borrower.

Controlled Group means all members of a controlled group of corporations and all members of a controlled group of trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414 of the Code or Section 4001 of ERISA.

Debt of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, whether or not evidenced by bonds, debentures, notes or similar instruments, (b) all obligations of such Person as lessee under Capital Leases which have been or should be recorded as liabilities on a balance sheet of such Person, (c) all obligations of such Person to pay the deferred purchase price of property or services (including Contingent Payments but excluding trade accounts payable in the ordinary course of business), (d) all indebtedness secured by a Lien on the property of such Person, whether or not such indebtedness shall have been assumed by such Person (it being understood that if such Person has not assumed or otherwise become personally liable for any such indebtedness, the amount of the Debt of such Person in connection therewith shall be limited to the lesser of the face amount of such indebtedness or the fair market value of all property of such Person securing such indebtedness), (e) all obligations, contingent or otherwise, with respect to the face amount of all letters of credit (whether or not drawn) and banker's acceptances issued for the account of such Person, (f) all Suretyship Liabilities of such Person. Notwithstanding the foregoing, obligations will not be counted twice in calculating Debt hereunder.

Disposal __ see the definition of "Release".

Dollar and the sign "\$" mean lawful money of the United States of America.

Effective Date __ see Section 10.1.

Environmental Claims means all claims, however asserted, by any governmental, regulatory or judicial authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment.

Environmental Laws means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any governmental authority, in each case relating to environmental matters.

ERISA means the Employee Retirement Income Security Act of 1974. References to sections of ERISA also refer to any successor sections.

Event of Default means any of the events described in Section 11.1.

Financial Letter of Credit means any Letter of Credit determined by the Bank to be a "financial guaranty-type Standby Letter of Credit" as defined in footnote 13 to Appendix A to the Risk Based Capital Guidelines issued by the Comptroller of the Currency (or in any successor regulation, guideline or ruling by any applicable banking regulatory authority).

Fiscal Quarter means a fiscal quarter of a Fiscal Year.

Fiscal Year means the fiscal year of the Borrower and its Subsidiaries, which period shall be the 12-month period ending on September 30 of each year. References to a Fiscal Year with a number corresponding to any calendar year (e.g., "Fiscal Year 1998") refer to the Fiscal Year ending on September 30 of such calendar year.

Fixed Charges means scheduled current maturities of long term Debt (including payments on Capital Leases) determined in accordance with GAAP plus interest expense plus operating lease expense plus non-financed Capital Expenditures.

Fixed Charges Coverage Ratio means the ratio of Operating Cash Flow to Fixed Charges.

GAAP means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

Guarantor means, on any day, each Subsidiary that has executed a counterpart of the Guaranty on or prior to that day (or is required to execute a counterpart of the Guaranty on that day).

Guaranty means a guaranty substantially in the form of Exhibit A.

Hazardous Substances __ see Section 8.15.

Interest Expense means for any period the consolidated interest expense of the Borrower and its Subsidiaries for such period (including all imputed interest on Capital Leases and before giving effect to any capitalization of interest but excluding amortization of deferred financing costs).

Investment means, relative to any Person, (a) any loan or advance made by such Person to any other Person (excluding any commission, travel or similar advances made to directors, officers and employees of the Borrower or any of its Subsidiaries), (b) any Suretyship Liability of such Person, (c) any ownership or similar interest held by such Person in any other Person and (d) deposits and the like relating to prospective acquisitions of businesses.

L/C Application means, with respect to any request for the issuance of a Letter of Credit, a letter of credit application in the form being used by the Bank at the time of such request for the type of Letter of Credit requested.

Letter of Credit means a Financial Letter of Credit or a Non-Financial Letter of Credit.

Letter of Credit Fee -- see Section 5.1.

Leverage Ratio means the ratio of Total Liabilities to Tangible Net Worth.

LIBOR means the rate designated as the one month rate under the heading "LONDON INTERBANK OFFERED RATES" in the "Money Rate" column as published in The Wall Street Journal.

LIBOR Loan means any Loan which bears interest at a rate determined by reference to the LIBOR Rate.

LIBOR Rate means LIBOR plus the applicable LIBOR Rate Margin.

LIBOR Rate Margin __ see Schedule 1.1.

Lien means, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person which secures payment or performance of any obligation and shall include any mortgage, lien, encumbrance, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

Loan Documents means this Agreement, the Note, the Guaranty and the Collateral Documents.

Loans __ see Section 2.1.1.

Margin Stock means any "margin stock" as defined in Regulation U of the Board of Governors of the Federal Reserve System.

Material Adverse Effect means (a) a material adverse change in, or a material adverse effect upon, the financial condition, operations, assets, business, properties or prospects of either of the Borrower or their Subsidiaries taken as a whole, or (b) a material adverse effect upon any substantial portion of the collateral under the Collateral Documents or upon the legality, validity, binding effect or enforceability against the Borrower or any Guarantor of any Loan Document.

Multiemployer Pension Plan means a multiemployer plan, as such term is defined in Section 4001(a)(3) of ERISA, and to which the Borrower or any member of the Controlled Group may have any liability.

Non-Financial Letter of Credit means any Letter of Credit other than a Financial Letter of Credit.

Note __ see Section 3.1.

Operating Cash Flow means net income after taxes and exclusive of (i) extraordinary gains/losses, (ii) gains/losses on discontinued operations (iii) gains/losses on asset sales plus depreciation, plus amortization, plus interest expense plus lease expense less dividends and distributions and less advances of any kind to Plug Power except for advances funded by grants or equity offerings or funded through the Loans advanced hereunder and (iv) the impact of any profit or loss recognized or realized by Borrower from its investment/interest in Plug Power.

Operating Lease means any lease of (or other agreement conveying the right to use) any real or personal property by the Borrower or any Subsidiary, as lessee, other than any Capital Lease.

PBGC means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

Pension Plan means a "pension plan", as such term is defined in Section 3(2) of ERISA, which is subject to Title IV of ERISA (other than a Multiemployer Pension Plan), and to which the Borrower or any member of the Controlled Group may have any liability, including any liability by reason of having been a substantial employer within the meaning of Section 4063 of ERISA at any time during the preceding five years, or by reason of being deemed to be a contributing sponsor under Section 4069 of ERISA.

Person means any natural person, corporation, partnership, trust, limited liability company, association, governmental authority or unit, or any other entity, whether acting in an individual, fiduciary or other capacity.

Plug Power means Plug Power LLC.

Prime Rate means, for any day, the rate of interest in effect for such day as publicly announced from time to time by the Bank as its "prime rate." (The "prime rate" is a rate set by the Bank based upon various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.) Any change in the prime rate announced by the Bank shall take effect at the opening of business on the day specified in the public announcement of such change.

Prime Rate Loan means any Loan which bears interest at or by reference to the Prime Rate.

RCRA __ see Section 8.15.

Release has the meaning specified in CERCLA and the term "Disposal" (or "Disposed") has the meaning specified in RCRA; provided that in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply as of the effective date of such amendment; and provided, further, that to the extent that the laws of a state wherein any affected property lies establish a meaning for "Release" or "Disposal" which is broader than is specified in either CERCLA or RCRA, such broader meaning shall apply.

Rental Expense means for any period the consolidated rental expense of the Borrower and its Subsidiaries for such period.

SEC means the Securities and Exchange Commission.

Security Agreement means a Security Agreement substantially in the form of Exhibit B-1.

Senior Debt means all Debt of the Borrower and its Subsidiaries other than Subordinated Debt.

Subordinated Debt means any indebtedness of the Borrower and its Subsidiaries which has subordination terms, covenants, pricing and other terms applicable to such indebtedness which has been approved by the Bank.

Subsidiary means, with respect to any Person, a corporation of which such Person and/or its other Subsidiaries own, directly or indirectly, an interest of at least 25% (whether by share holding, partnership interests or otherwise) but as to the Borrower, Plug Power shall not be considered a Subsidiary.

Suretyship Liability means any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to or otherwise to invest in a debtor, or otherwise to assure a creditor against loss) any indebtedness, obligation or other liability of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's obligation in respect of any Suretyship Liability shall (subject to any limitation set forth therein) be deemed to be the principal amount of the debt, obligation or other liability supported thereby.

Tangible Net Worth means tangible net worth as determined in accordance with GAAP.

Termination Date means the earlier to occur of (a) January 31, 2000, or such later date to which the Termination Date may be extended at the request of the Borrower and with the consent of the Bank or (b) such other date on which the Commitment shall terminate pursuant to Section 6 or Section 11.

Total Liabilities means total liabilities as determined in accordance with GAAP.

Type of Loan __ see Section 2.2.1.

Unmatured Event of Default means any event that, if it continues uncured, will, with lapse of time or notice or both, constitute an Event of Default.

Welfare Plan means a "welfare plan", as such term is defined in Section 3(i) of ERISA.

1.2 Other Interpretive Provisions. (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "including" is not limiting and means "including without limitation."

(ii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such statute or regulation.

(e) This Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

(f) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Borrower, the Bank and the other parties thereto and are the products of all parties. Accordingly, they shall not be construed against the Bank merely because of the Bank's involvement in their preparation.

SECTION 2 COMMITMENTS OF THE BANK BORROWING AND CONVERSION PROCEDURES.

2.1 Commitment. On and subject to the terms and conditions of this Agreement, the Bank agrees to make Loans to and issue Letters of Credit for the account of the Borrower as follows:

2.1.1 Loan Commitment. The Bank will make loans ("Loans") on a revolving basis from time to time before the Termination Date provided that the sum of (i) the aggregate outstanding principal amount of all Loans plus (ii) the aggregate stated amount of all Letters of Credit shall not at any time exceed \$4,000,000.00 (the "Commitment Amount").

2.1.2 L/C Commitment. The Bank will issue Letters of Credit in each case containing such terms and conditions as are permitted by this Agreement and as are reasonably satisfactory to the Bank, at the request of and for the account of the Borrower from time to time provided that any Letter of Credit to be issued shall terminate on or before the Termination Date.

2.2 Loan Procedures.

2.2.1 Various Types of Loans. Each Loan shall be either a Prime Rate Loan or a LIBOR Loan, as the Borrower shall specify in the related notice of borrowing or conversion pursuant to Section 2.2.2 or 2.2.3, the form of which is annexed hereto as Exhibit C. Prime Rate Loans and LIBOR Loans may be outstanding at the same time, provided that the aggregate principal amount of each LIBOR Loan shall at all times be at least \$250,000 and an integral multiple of \$100,000.

2.2.2 Borrowing Procedures. The Borrower shall give written notice or telephonic notice (followed immediately by written confirmation thereof) to the Bank of each proposed Loan not later than (a) in the case of a Prime Rate Loan, 10:00 A.M., Albany time, on the proposed date of such Loan, and (b) in the case of a LIBOR Loan, 10:00 A.M., Albany time, two (2) Business Days prior to the proposed date of such Loan. Each such notice shall be effective upon receipt by the Bank, shall be irrevocable, and shall specify the date, amount and type of Loan. So long as the conditions precedent set forth in Section 10 with respect to such Loan have been satisfied and there has been no default in the payment of any principal, interest or fees to be paid under any of the Loan Documents, the Bank shall pay over the requested amount to the Borrower on the requested Loan date. Each Loan shall be funded on a Business Day.

2.2.3 Procedures for Conversion of Type of Loan. Subject to the provisions of Section 2.2.1, the Borrower may convert all or any part of any outstanding Loan into a Loan of a different type by giving written notice or telephonic notice (followed immediately by written confirmation thereof) to the Bank not later than (a) in the case of conversion into a Prime Rate Loan, 10:00 A.M., Albany time, on the proposed date of such conversion, and (b) in the case of a conversion into a LIBOR Loan, 10:00 A.M., Albany time, at least two (2) Business Days prior to the proposed date of such conversion. Each properly given notice shall be effective on the proposed date of such conversion, shall be irrevocable, and shall specify the date and amount of such conversion, the Loan to be so converted and the type of Loan into which the Loan should be converted. Subject to Section 2.4, such Loan shall be so converted on the requested date of conversion. Each conversion shall be on a Business Day.

2.3 Letter of Credit Procedures.

2.3.1 L/C Applications. The Borrower shall give notice to the Bank of the proposed issuance of each Letter of Credit on a Business Day which is at least three Business Days (or such lesser number of days as the Bank shall agree in any particular instance) prior to the proposed date of issuance of such Letter of Credit. Each such notice shall be accompanied by an L/C Application, duly executed by the Borrower and in all respects satisfactory to the Bank, together with such other documentation as the Bank may request in support thereof, it being understood that each L/C Application shall specify, among other things, the date on which the proposed Letter of Credit is to be issued, the expiration date of such Letter of Credit (which shall not be later than the Termination Date) and whether such Letter of Credit is to be transferable in whole or in part. So long as the Bank has not received written notice that the conditions precedent set forth in Section 10 with respect to the issuance of such Letter of Credit have not been satisfied, the Bank shall issue such Letter of Credit on the requested issuance date.

2.3.2 Reimbursement Obligations. The Borrower hereby unconditionally and irrevocably agrees to reimburse the Bank for each payment or disbursement made by the Bank under any Letter of Credit honoring any demand for payment made by the beneficiary thereunder, in each case on the date that such payment or disbursement is made. Any amount not reimbursed on the date of such payment or disbursement shall bear interest from the date of such payment or disbursement to the date that the Bank is reimbursed by the Borrower therefor, payable on demand, at a rate per annum equal to the Prime Rate from time to time in effect from time to time in effect plus, beginning on the third Business Day after receipt of notice from the Bank of such payment or disbursement, two (2%) percent. The Bank shall notify the Borrower whenever any demand for payment is made under any Letter of Credit by the beneficiary thereunder; provided, however, that the failure of the Bank to so notify the Borrower shall not affect the rights of the Bank in any manner whatsoever.

2.3.3 Limitation on Obligations of the Bank. In determining whether to pay under any Letter of Credit, the Bank shall have no obligation to the Borrower other than to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and appear to comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by the Bank under or in connection with any Letter of Credit, if taken or omitted in the absence of gross negligence and willful misconduct, shall not impose upon the Bank any liability to the Borrower and shall not reduce or impair the Borrower's reimbursement obligations set forth in Section 2.3.2.

2.4 Certain Conditions. Notwithstanding any other provision of this Agreement, the Bank shall have no obligation to make any Loan, or to permit the continuation of or any conversion into any other Type of Loan or to issue any Letter of Credit if an Event of Default or Unmatured Event of Default (relating to those Events of Default set forth at Sections 11.1.1, 11.1.4, 11.1.5, 11.1.6, 11.1.9 or 11.1.10 exists).

SECTION 3 NOTE EVIDENCING LOANS.

3.1 Note. The Loans shall be evidenced by a promissory note (the "Note") substantially in the form set forth in Exhibit C, with appropriate insertions, payable to the order of the Bank in an amount equal to the Commitment Amount.

3.2 Recordkeeping. The Bank shall record in its records the date and amount of each Loan made by the Bank and each repayment or conversion thereof. The aggregate unpaid principal amount so recorded shall be rebuttable presumptive evidence of the principal amount owing and unpaid on such Note. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the obligations of the Borrower hereunder or under the Note to repay the principal amount of the Loans evidenced by such Note together with all interest accruing thereon.

SECTION 4 INTEREST.

4.1 Interest Rates. The Borrower promises to pay interest on the unpaid principal amount of each Loan for the period commencing on the date of such Loan until such Loan is paid in full as follows:

(a) at all times while such Loan is a Prime Rate Loan, at a rate per annum equal to the sum of the Prime Rate from time to time in effect; and

(b) at all times while such Loan is a LIBOR Loan, at a rate per annum equal to the sum of the applicable LIBOR plus the LIBOR Rate Margin from time to time in effect;

provided, however, that at any time an Event of Default exists, the interest rate applicable to each Loan (be it a Prime Rate Loan or LIBOR Loan) may, at the option of the Bank, be increased up to a rate equal to the Prime Rate plus 2% (200 basis points) per annum.

4.2 Interest Payment Dates. Accrued interest on each Loan shall be payable in arrears on the first Business Day of each calendar month and at maturity. After maturity, accrued interest on all Loans shall be payable on demand.

4.3 Setting and Notice of LIBOR Rate. The applicable LIBOR Rate for each LIBOR Rate Loan shall be determined by the Bank, as of the date said LIBOR Loan is advanced based upon LIBOR in effect on said date and as set, shall remain in effect for one month and shall be adjusted to reflect any change in LIBOR in effect on each successive anniversary of the date that the LIBOR Loan was advanced, provided that if the anniversary date of said advance does not exist in any subsequent month, the LIBOR Rate will be adjusted on the last day of any said month and provided further that if the anniversary date is not a date on which The Wall Street Journal is published, the change in the LIBOR Rate shall be based upon LIBOR on the first date immediately prior to the anniversary date that it is published. Each determination of the applicable LIBOR Rate shall be conclusive and binding upon the parties hereto, in the absence of demonstrable error. The Bank shall, upon written request of the Borrower, deliver to the Borrower a statement showing the computations used by the Bank in determining any applicable LIBOR Rate hereunder.

4.4 Computation of Interest Rate for Prime Rate Loans. All determinations of interest for Prime Rate Loans shall be computed for the actual number of days elapsed on the basis of a year of 360 days. The applicable interest rate for each Prime Rate Loan shall change simultaneously with each change in the Prime Rate.

SECTION 5 FEES.

5.1 Letter of Credit Fees. The Borrower agrees to pay to the Bank a letter of credit fee (each a "Letter of Credit Fee") for each Letter of Credit in an amount equal to the rate per annum in effect from time to time pursuant to the Bank's then-current letter of credit fee schedule. Such Letter of Credit Fee shall be payable in advance on the first Business Day of each calendar quarter and on the date of issuance of each Letter of Credit.

SECTION 6 REDUCTION AND TERMINATION OF THE COMMITMENT; PREPAYMENTS.

6.1 Reduction or Termination of the Commitment. The Borrower may from time to time on at least five Business Days' prior written notice received by the Bank permanently reduce the Commitment Amount to an amount not less than the sum of the aggregate unpaid principal amount of the Loans. The

Borrower may at any time on like notice terminate the Commitment upon payment in full of all Loans and all other obligations of the Borrower hereunder or under any other Loan Documents.

6.2 Voluntary Prepayments. The Borrower may from time to time prepay the Loans in whole or in part, provided that (a) the Borrower shall give the Bank notice thereof not later than 10:00 A.M., Albany time, on the day of such prepayment (which shall be a Business Day) specifying the Loans to be prepaid and the date and amount of prepayment and (b) each partial prepayment shall, in the case of a LIBOR Loan, be in a principal amount of at least \$250,000 and an integral multiple thereof.

SECTION 7 MAKING AND PRORATION OF PAYMENTS; SETOFF; TAXES.

7.1 Making of Payments. All payments of principal or interest on the Note shall be made by the Borrower to the Bank in immediately available funds at the office specified by the Bank not later than noon, Albany time, on the date due; and funds received after that hour shall be deemed to have been received by the Bank on the next following Business Day.

7.2 Application of Certain Payments. Each payment of principal shall be applied to such Loans as the Borrower shall direct by notice to be received by the Bank on or before the date of such payment or, in the absence of such notice, as the Bank shall determine in its reasonable discretion.

7.3 Due Date Extension. If any payment of principal or interest with respect to any of the Notes, falls due on a day which is not a Business Day, then such due date shall be extended to the immediately following Business Day and, in the case of principal, additional interest shall accrue and be payable for the period of any such extension.

7.4 Setoff. The Borrower agrees that the Bank has all rights of set-off and bankers' lien provided by applicable law, and in addition thereto, the Borrower agrees that at any time any Event of Default exists, the Bank may apply to the payment of any obligations of the Borrower hereunder, whether or not then due, any and all balances, credits, deposits, accounts or moneys of the Borrower then or thereafter with the Bank.

7.5 Taxes. All payments of principal of, and interest on, the Loans and all other amounts payable hereunder shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority, but excluding franchise taxes and taxes imposed on or measured by the Bank's net income or receipts (all non-excluded items being called "Taxes"). If any withholding or deduction from any payment to be made by the Borrower hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Borrower will:

(a) pay directly to the relevant authority the full amount required to be so withheld or deducted;

(b) promptly forward to the Bank an official receipt or other documentation satisfactory to the Bank evidencing such payment to such authority; and

(c) pay to the Bank such additional amount or amounts as is necessary to ensure that the net amount actually received by the Bank will equal the full amount the Bank would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against the Bank with respect to any payment received by the Bank hereunder, the Bank may pay such Taxes and the Borrower will promptly pay such additional amounts (including any penalty, interest and expense) as is necessary in order that the net amount received by such Person after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount such Person would have received had such Taxes not been asserted.

If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Bank, the required receipts or other required documentary evidence, the Borrower shall indemnify the Bank for any incremental Taxes, interest or penalties that may become payable by the Bank as

a result of any such failure.

SECTION 8 WARRANTIES.

To induce the Bank to enter into this Agreement and to induce the Bank to make Loans and hereunder, the Borrower warrants to the Bank that:

8.1 Organization, etc. Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of New York; each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation; and the Borrower and each Subsidiary is duly qualified to do business in each jurisdiction where the nature of its business makes such qualification necessary (except in those instances in which the failure to be qualified or in good

standing does not have a Material Adverse Effect) and has full power and authority to own its property and conduct its business as presently conducted by it.

8.2 Authorization; No Conflict. The execution and delivery by the Borrower of this Agreement and each other Loan Document to which it is a party, the borrowings hereunder and the performance by the Borrower of its obligations under each Loan Document to which it is a party are within the corporate powers of the Borrower, have been duly authorized by all necessary corporate action on the part of the Borrower (including any necessary shareholder action), have received all necessary governmental approval (if any shall be required), and do not and will not (a) violate any provision of law or any order, decree or judgment of any court or other government agency which is binding on the Borrower, (b) contravene or conflict with, or result in a breach of, any provision of the Certificate of Incorporation, By-Laws or other organizational documents of the Borrower or of any agreement, indenture, instrument or other document which is binding on the Borrower or any Subsidiary or (c) result in, or require, the creation or imposition of any Lien on any property of the Borrower or any Subsidiary (other than Liens arising under the Loan Documents).

8.3 Validity and Binding Nature. Each of this Agreement and each other Loan Document to which the Borrower is a party is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

8.4 Financial Condition. The financial statements of the Borrower which have been furnished to the Bank:

(i) were prepared in accordance with GAAP consistently applied throughout the periods covered thereby, except as otherwise expressly noted therein (subject, in the case of the unaudited financial statements, to the absence of footnotes and to customary year-end audit adjustments); and

(ii) fairly present in all material respects the financial condition of the Borrower and its Subsidiaries as of the dates thereof and the results of operations for the periods covered thereby.

8.5 No Material Change. Since the date of the statements referenced at Section 8.4 above, there has been no material change in the financial condition, operations, assets, business or properties of the Borrower and its Subsidiaries taken as a whole, except as disclosed to the Bank in writing.

8.6 Litigation and Contingent Liabilities. No litigation (including derivative actions), arbitration proceeding, labor controversy or governmental investigation or proceeding is pending or, to the Borrower's knowledge, threatened against the Borrower or any Subsidiary which might reasonably be expected to have a Material Adverse Effect.

8.7 Ownership of Properties; Liens. The Borrower and each Subsidiary owns good and marketable title to all of its properties and assets, real and personal, tangible and intangible, of any nature whatsoever (including patents, trademarks, trade names, service marks and copyrights), free and clear of all Liens, charges and material claims (including material infringement claims with respect to patents, trademarks, copyrights and the like) except as permitted pursuant to Section 9.8.

8.8 Subsidiaries. The Borrower has no Subsidiaries except those listed in Schedule 8.8.

8.9 Pension and Welfare Plans. (a) During the twelve-consecutive-month period prior to the date of the execution and delivery of this Agreement or the making of any Loan hereunder, (i) no steps have been taken to terminate any Pension Plan and (ii) no contribution failure has occurred with respect to any Pension Plan sufficient to give rise to a lien under Section 302(f) of ERISA. No condition exists or event or transaction has occurred with respect to any Pension Plan which could result in the incurrence by the Borrower of any material liability, fine or penalty. The Borrower has no contingent liability with respect to any post-retirement benefit under a Welfare Plan, other than liability for continuation coverage described in Part 6 of Subtitle B of Title I of ERISA.

(b) All contributions (if any) have been made to any Multiemployer Pension Plan that are required to be made by the Borrower or any other member of the Controlled Group under the terms of the plan or of any collective bargaining agreement or by applicable law; neither the Borrower nor any member of the Controlled Group has withdrawn or partially withdrawn from any Multiemployer Pension Plan, incurred any withdrawal liability with respect to any such plan, received notice of any claim or demand for withdrawal liability or partial withdrawal liability from any such plan, and no condition has occurred which, if continued, might result in a withdrawal or partial withdrawal from any such plan; and neither the Borrower nor any member of the Controlled Group has received any notice that any Multiemployer Pension Plan is in reorganization, that increased contributions may be required to avoid a reduction in plan benefits or the imposition of any excise tax, that any such plan is or has been funded at a rate less than that required under Section 412 of the Code, that any such plan is or may be terminated, or that any such plan is or may become insolvent.

8.10 Investment Company Act. Neither the Borrower nor any Subsidiary are an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940.

8.11 Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary are a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935.

8.12 Regulation U. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

8.13 Taxes. The Borrower and each Subsidiary have filed all tax returns and reports required by law to have been filed by it and has paid all taxes and governmental charges thereby shown to be owing, except any such taxes or charges which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books.

8.14 Solvency, etc. On the Effective Date (or, in the case of any Person which becomes a Guarantor after the Effective Date, on the date such Person becomes a Guarantor), and immediately prior to and after each borrowing hereunder and the use of the proceeds thereof, (a) the Borrower's and the Guarantor's assets will exceed their liabilities and (b) the Borrower and the Guarantor will be solvent, will be able to pay its debts as they mature, will

own property with fair saleable value greater than the amount required to pay its debts and will have capital sufficient to carry on its business as then constituted.

8.15 Environmental Matters.

(a) No Violations. Except as set forth on Schedule 8.15, neither the Borrower nor any Subsidiary, nor any operator of the Borrower's or any Subsidiary's properties, is in violation, or alleged violation, of any judgment, decree, order, law, permit, license, rule or regulation pertaining to environmental matters, including those arising under the Resource Conservation and Recovery Act "RCRA", the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 or any other Environmental Law which (i) in any single case, requires expenditures in any three-year period of \$500,000 or more

by the Borrower and its Subsidiaries in penalties and/or for investigative, removal or remedial actions or (ii) individually or in the aggregate otherwise might reasonably be expected to have a Material Adverse Effect.

(b) Notices. Except as set forth on Schedule 8.15, neither the Borrower nor any Subsidiary have received notice from any third party, including any Federal, state or local governmental authority: (a) that any one of them has been identified by the U.S. Environmental Protection Agency as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (b) that any hazardous waste, as defined by 42 U.S.C. 6903(5), any hazardous substance as defined by 42 U.S.C. 9601(14), any pollutant or contaminant as defined by 42 U.S.C. 9601(33) or any toxic substance, oil or hazardous material or other chemical or substance regulated by any Environmental Law, excluding household hazardous waste (all of the foregoing, "Hazardous Substances"), which any one of them has generated, transported or disposed of has been found at any site at which a Federal, state or local agency or other third party has conducted a remedial investigation, removal or other response action pursuant to any Environmental Law; (c) that the Borrower or any Subsidiary must conduct a remedial investigation, removal, response action or other activity pursuant to any Environmental Law; or (d) of any Environmental Claim.

(c) Handling of Hazardous Substances. Except as set forth on Schedule 8.15, (i) no portion of any real property or other assets owned, leased or operated by the Borrower or any Subsidiary has been used for the handling, processing, storage or disposal of Hazardous Substances except in accordance in all material respects with applicable Environmental Laws; and no underground tank or other underground storage receptacle for Hazardous Substances is located on such properties; (ii) in the course of any activities conducted by the Borrower, any Subsidiary or the operators of any real property owned, leased or operated by either the Borrower or any Subsidiary, no Hazardous Substances have been generated or are being used on such properties except in accordance in all material respects with applicable Environmental Laws; (iii) there have been no Releases or threatened Releases of Hazardous Substances on, upon, into or from any real property or other assets owned, leased or operated by the Borrower or any Subsidiary, which Releases singly or in the aggregate might reasonably be expected to have a material adverse effect on the value of such real property or assets; (iv) to the Borrower's actual knowledge, there have been no Releases on, upon, from or into any real property in the vicinity of any real property or other assets owned, leased or operated by either the Borrower or any Subsidiary which, through soil or groundwater contamination, may have come to be located on, and which might reasonably be expected to have a material adverse effect on the value of, any real property or other assets owned, leased or operated by either the Borrower or any Subsidiary; and (v)

any Hazardous Substances generated by either the Borrower or its Subsidiaries have been transported offsite only by properly licensed carriers and delivered only to treatment or disposal facilities maintaining valid permits as required under applicable Environmental Laws, which transporters and facilities have been and are, to the best of the Borrower's knowledge, operating in compliance with such permits and applicable Environmental Laws.

(d) Investigations. Except as set forth on Schedule 8.15, the Borrower and their Subsidiaries have taken all reasonable steps to investigate the past and present condition and usage of any real property owned, leased or operated by either the Borrower or its Subsidiaries and the operations conducted by either the Borrower or its Subsidiaries with regard to environmental matters.

8.16 Year 2000 Problem. The Borrower and its Subsidiaries have reviewed the areas within their business and operations which could be adversely affected by, and have developed or are developing a program to address on a timely basis, the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower and its Subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999). Based on such review and program, the Borrower reasonably believes that the "Year 2000 Problem" will not have a Material Adverse Effect.

8.17 Copyrights, Patents, Trademarks and Licenses, etc. The Borrower and its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, all as set forth on Schedule 8.17, without conflict with the rights of any other Person. No slogan

or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Borrower or any Subsidiary infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the knowledge of the Borrower, threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of the Borrower, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

8.18 Transactions with Affiliates. Neither the Borrower nor any Subsidiary have entered into or participated in any agreements or transactions of any kind with any Affiliates of the Borrower except agreements or transactions entered into in the ordinary course of business or as disclosed to the Bank.

8.19 Information. All information heretofore or contemporaneously herewith furnished in writing by the Borrower or any Subsidiary to the Bank for purposes of or in connection with this Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of the Borrower or any Subsidiary to the Bank pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by the Bank that (a) any projections and forecasts provided by the Borrower are based on good faith estimates and assumptions believed by the Borrower to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ

from projected or forecasted results and (b) any information provided by the Borrower or any Subsidiary with respect to any Person or assets acquired or to be acquired by the Borrower or any Subsidiary shall, for all periods prior to the date of such acquisition, be limited to the knowledge of the Borrower or the acquiring Subsidiary after reasonable inquiry).

SECTION 9 COVENANTS.

Until the expiration or termination of the Commitment and thereafter until all obligations of the Borrower hereunder and under the other Loan Documents are paid in full, the Borrower agrees that, unless at any time the Bank shall otherwise expressly consent in writing, it will:

9.1 Reports, Certificates and Other Information. Furnish to the Bank:

9.1.1 Audit Report. Promptly when available and in any event within 120 days after the close of each Fiscal Year: (a) a copy of the annual audit report of the Borrower and its Subsidiaries for such Fiscal Year, including therein consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such Fiscal Year and consolidated statements of earnings and cash flow of the Borrower and its Subsidiaries for such Fiscal Year in the form of the 10-K submitted by the Borrower to the SEC, certified without qualification by independent auditors of recognized standing selected by the Borrower and reasonably acceptable to the Bank and (b) consolidating balance sheets of the Borrower and its Subsidiaries as of the end of such Fiscal Year and a consolidating statement of earnings for the Borrower and its Subsidiaries for such Fiscal Year, certified by the Chief Executive Officer, the Chief Financial Officer or any Vice President of the Borrower.

9.1.2 Quarterly Reports. Promptly when available and in any event within 45 days after the end of each Fiscal Quarter (except the last Fiscal Quarter) of each Fiscal Year, internally prepared consolidated and consolidating balance sheets of the Borrower and its Subsidiaries as of the end of such Fiscal Quarter together with consolidated and consolidating statements of earnings and a consolidated and consolidating statement of cash flows for such Fiscal Quarter and for the period beginning with the first day of such Fiscal Year and ending on the last day of such Fiscal Quarter, certified by the Chief Executive Officer, the Chief Financial Officer or any Vice President of the Borrower.

9.1.3 Compliance Certificates. Contemporaneously with the furnishing of a copy of each set of quarterly statements pursuant to Section 9.1.2, a duly completed compliance certificate in form acceptable to the Bank, dated the date of such quarterly statements and signed by the Chief Executive

Officer, the Chief Financial Officer or any Vice President of the Borrower, containing a computation of each of the financial ratios and restrictions set forth in Section 9.6 and a statement to the effect that such officer has not become aware of any Event of Default or Unmatured Event of Default that has occurred and is continuing or, if there is any such event, describing it and the steps, if any, being taken to cure it.

9.1.4 Reports to SEC and to Shareholders. Promptly upon the filing or sending thereof, copies of all regular, periodic or special reports of the Borrower or any Subsidiary filed with the SEC; and copies of all registration statements of the Borrower or any Subsidiary filed with the SEC; and copies of all proxy statements or other communications made to security holders generally concerning material developments in the business of the Borrower or any Subsidiary.

9.1.5 Notice of Default, Litigation and ERISA Matters. Promptly upon becoming aware of any of the following, written notice describing the same and the steps being taken by the Borrower or the Subsidiary affected thereby with respect thereto:

(a) the occurrence of an Event of Default or an Unmatured Event of Default;

(b) any litigation, arbitration or governmental investigation or proceeding not previously disclosed by the Borrower to the Bank which has been instituted or, to the knowledge of the Borrower, is threatened against either the Borrower or any Subsidiary or to which any of the properties of any thereof is subject which, if adversely determined, might reasonably be expected to have a Material Adverse Effect;

(c) the institution of any steps by any member of the Controlled Group or any other Person to terminate any Pension Plan, or the failure of any member of the Controlled Group to make a required contribution to any Pension Plan (if such failure is sufficient to give rise to a lien under Section 302(f) of ERISA) or to any Multiemployer Pension Plan, or the taking of any action with respect to a Pension Plan which could result in the requirement that the Borrower furnish a bond or other security to the PBGC or such Pension Plan, or the occurrence of any event with respect to any Pension Plan or Multiemployer Pension Plan which could result in the incurrence by any member of the Controlled Group of any material liability, fine or penalty (including any claim or demand for withdrawal liability or partial withdrawal from any Multiemployer Pension Plan), or any material increase in the contingent liability of the Borrower with respect to any post-retirement Welfare Plan benefit, or any notice that any Multiemployer Pension Plan is in reorganization, that increased contributions may be required to avoid a reduction in plan benefits or the imposition of an excise tax, that any such plan is or has been funded at a rate less than that required under Section 412 of the Code, that any such plan is or may be terminated, or that any such plan is or may become insolvent;

(d) any cancellation or material change in any insurance maintained by the Borrower or any Subsidiary;

(e) any event (including (i) any violation of any Environmental Law or the assertion of any Environmental Claim or (ii) the enactment or effectiveness of any law, rule or regulation) which might reasonably be expected to have a Material Adverse Effect; or

(f) any setoff, claims, withholdings or other defenses to which any of the Collateral, or the Bank's, rights with respect to the Collateral, are subject.

9.1.6 Subsidiaries. Promptly upon any change in the list of its Subsidiaries, a written report of such change.

9.1.7 Management Reports. Promptly upon the request of the Bank, copies of all detailed financial and management reports submitted to the Borrower by independent auditors in connection with each annual or interim audit made by such auditors of the books of the Borrower.

9.1.8 Budgets. As soon as practicable and in any event within 60 days after the commencement of each Fiscal Year, divisional and consolidated budgets for the Borrower and its Subsidiaries for such Fiscal Year prepared in a manner reasonably satisfactory to the Bank.

9.1.9 Other Information. From time to time such other information concerning the Borrower and its Subsidiaries as the Bank may reasonably request.

9.2 Books, Records and Inspections. Keep, and cause each Subsidiary to keep, its books and records in accordance with sound business practices sufficient to allow the preparation of financial statements in accordance with GAAP; permit, and cause each Subsidiary to permit, the Bank or any representative thereof to inspect the properties and operations of the Borrower and of such Subsidiary; and permit, and cause each Subsidiary to permit, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the Bank or any representative thereof to visit any or all of its offices, to discuss its financial matters with its officers and its independent auditors (and the Borrower hereby authorizes such independent auditors to discuss such financial matters with the Bank or any representative thereof) and to examine (and, at the expense of the Borrower or the applicable Subsidiary, photocopy extracts from) any of its books or other corporate records.

9.3 Insurance. Maintain, and cause each Subsidiary to maintain, with responsible insurance companies, such insurance as may be required by any law or governmental regulation or court decree or order applicable to it and such other insurance, to such extent and against such hazards and liabilities, as is customarily maintained by companies similarly situated and that is acceptable to the Bank; and, on each anniversary of the Effective Date and from time to time upon request of the Bank, furnish to the Bank a certificate setting forth in reasonable detail the nature and extent of all insurance maintained by the Borrower and its Subsidiaries.

9.4 Compliance with Laws; Payment of Taxes and Liabilities. (a) Comply, and cause each Subsidiary to comply, in all material respects with all applicable laws (including Environmental Laws), rules, regulations, decrees, orders, judgments, licenses and permits; and (b) pay, and cause each Subsidiary to pay, prior to delinquency, all taxes and other governmental charges against it or any of its property, as well as claims of any kind which, if unpaid, might become a Lien on any of its property; provided, however, that the foregoing shall not require the Borrower or any Subsidiary to pay any such tax or charge so long as it shall contest the validity thereof in good faith by appropriate proceedings and shall set aside on its books adequate reserves with respect thereto in accordance with GAAP.

9.5 Maintenance of Existence, etc. Maintain and preserve, and (subject to Section 9.10) cause each Subsidiary to maintain and preserve, (a) its existence and good standing in the jurisdiction of its incorporation and (b) its qualification and good standing as a foreign corporation in each jurisdiction where the nature of its business makes such qualification necessary (except in those instances in which the failure to be qualified or in good standing does not have a Material Adverse Effect).

9.6 Financial Covenants. On a consolidated basis with its Subsidiaries on a quarterly basis commencing September 30, 1998 and continuing quarterly thereafter:

9.6.1 Fixed Charges Coverage Ratio. Not permit the Fixed Charges Coverage Ratio to be less than 2.00 to 1.00.

9.6.2 Leverage Ratio. Not permit the Leverage Ratio as of the last day of each quarter through and including the quarter ending June 25, 1999 to exceed 1.75 to 1.00 and for each quarter thereafter, 1.50 to 1.00.

9.6.3 Losses. Not show losses for any two (2) consecutive quarters, excluding losses on Borrower's investment in Plug Power.

9.7 Limitations on Debt. Not, and not permit any Subsidiary to, create, incur, assume or suffer to exist any Debt, except:

(a) obligations in respect of the Loan or any Letters of Credit;

- (b) other Debt due the Bank;
- (c) trade debt;
- (d) Debt of Guarantor owed to the Borrower;
- (e) Debt of Subsidiaries (other than Guarantor) or Debt of Plug Power owed to Borrower in the aggregate in excess of \$750,000 during any Fiscal Year, provided that Debt in excess of \$750,000 will be permitted to the extent that the loans by Borrower are funded entirely with grant funds or equity offering proceeds;
- (f) Up to \$6,000,000 in bonds (the "Bonds") for the benefit of the Borrower by the Town of Colonie Industrial Development Agency;
- (g) Subordinated Debt.

9.8 Liens. Not, and not permit any Subsidiary to, create or permit to exist any Lien on any of its real or personal properties, assets or rights of whatsoever nature (whether now owned or hereafter acquired), except:

- (a) Liens for taxes or other governmental charges not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and, in each case, for which it maintains adequate reserves;
- (b) Liens arising in the ordinary course of business (such as (i) Liens of carriers, warehousemen, mechanics and materialmen and other similar Liens imposed by law and (ii) Liens incurred in connection with worker's compensation, unemployment compensation and other types of social security (excluding Liens arising under ERISA) or in connection with surety bonds, bids, performance bonds and similar obligations) for sums not overdue or being contested in good faith by appropriate proceedings and not involving any deposits or advances or borrowed money or the deferred purchase price of property or services, and, in each case, for which it maintains adequate reserves;
- (c) Liens identified in Schedule 9.8;
- (d) Liens that constitute purchase money security interests on any property securing debt incurred for the purpose of financing all or any part of the cost of acquiring such property, provided that any such Lien attaches to such property within 60 days of the acquisition thereof and such Lien attaches solely to the property so acquired;
- (e) attachments, appeal bonds, judgments and other similar Liens, for sums not exceeding \$250,000 arising in connection with court proceedings, provided the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings;
- (f) easements, rights of way, restrictions, minor defects or irregularities in title and other similar Liens not interfering in any material respect with the ordinary conduct of the business of the Borrower or any Subsidiary; and
- (g) Liens in favor of the Bank arising under the Loan Documents or otherwise.
- (h) Liens granted to secure repayment of the Bonds or arising in connection with construction of the Project being financed with the Bonds.

9.9 Mergers, Consolidations, Sales. Not, and not permit any Subsidiary to, be a party to any merger or consolidation, or purchase or otherwise acquire all or substantially all of the assets or any stock of any class of, or any partnership or joint venture interest in, any other Person, or

sell, transfer, convey or lease all or any substantial part of its assets, or sell or assign with or without recourse any receivables.

9.10 Modification of Organizational Documents. Not permit the Certificate of Incorporation, By-Laws or other organizational documents of the Borrower or any Subsidiary to be amended or modified in any way which might reasonably be expected to materially adversely affect the interests of the Bank.

9.11 Use of Proceeds. Use the proceeds of the Loans solely to finance the Borrower's working capital and to make advances to Plug Power, provided, however, that advances to Plug Power shall be limited to \$1,000,000 (exclusive of the \$750,000 permitted at Section 9.7 herein). As a condition to any advance of Loan proceeds to Plug Power, Borrower must demonstrate to the Bank that the total of all Loans and Letters of Credit outstanding are seventy (70%) percent or less of Borrower's Acceptable Accounts. If at any time this requirement is not met, Borrower must either (i) demand and receive payment of said advances from Plug Power or (ii) reduce the aggregate amount of Loans and Letter of Credit to a level that will allow the condition to be met. Borrower will not use or permit any proceeds of any Loans to be used, either directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of "purchasing or carrying" any Margin Stock.

9.12 Further Assurances. Take, and cause each Subsidiary to take, such actions as are necessary, or as the Bank may reasonably request, from time to time (including the execution and delivery of guaranties, security agreements, pledge agreements, financing statements and other documents, the filing or recording of any of the foregoing, and the delivery of stock certificates and other collateral with respect to which perfection is obtained by possession) to ensure that the obligations of the Borrower hereunder and

under the other Loan Documents are secured by (i) substantially all of the assets of the Borrower and guaranteed by all of the Subsidiaries (including, promptly upon the acquisition or creation thereof, any Subsidiary acquired or created after the date hereof) by execution of a counterpart of the Guaranty and (ii) the obligations of the Guarantor under the Guaranty are secured as required hereunder.

9.13 Transactions with Affiliates. Not, and not permit any Subsidiary to, enter into, or cause, suffer or permit to exist any transaction, arrangement or contract with any of its other Affiliates (other than the Borrower and its Subsidiaries) which is on terms which are less favorable than are obtainable from any Person which is not one of its Affiliates.

9.14 Employee Benefit Plans. Maintain, and cause each Subsidiary to maintain, each Pension Plan in substantial compliance with all applicable requirements of law and regulations.

9.15 Environmental Matters. (a) If any material Release or Disposal of Hazardous Substances shall occur or shall have occurred on any real property or any other assets owned, leased or operated by either the Borrower or any Subsidiary, the Borrower shall, and shall cause the applicable Subsidiary to, cause the prompt containment and removal of such Hazardous Substances and the remediation of such real property or other assets as necessary to comply in all material respects with all Environmental Laws and to preserve the value of such real property or other assets. Without limiting the generality of the foregoing, the Borrower shall, and shall cause each Subsidiary to, comply in a reasonable and cost-effective manner with any valid Federal or state judicial or administrative order requiring the performance at any real property owned, leased or operated by either the Borrower or any Subsidiary of activities in response to the Release or threatened Release of a Hazardous Substance except for the period of time that the Borrower or such Subsidiary is diligently and in good faith contesting such order.

(b) To the extent that the transportation of "hazardous waste" as defined by RCRA is permitted by this Agreement, the Borrower shall, and shall cause its Subsidiaries to, dispose of such hazardous waste only at licensed disposal facilities operating, to the best of the Borrower's or such Subsidiary's knowledge after reasonable inquiry, in compliance with Environmental Laws.

9.16 Unconditional Purchase Obligations. Not, and not permit any Subsidiary to, enter into or be a party to any contract for the purchase of materials, supplies or other property or services, if such contract requires that payment be made by it regardless of whether or not delivery is ever made of such materials, supplies or other property or services; provided that the fore

going shall not prohibit the Borrower or any Subsidiary from entering into options for the purchase of particular assets or businesses.

9.17 Inconsistent Agreements. Not, and not permit any Subsidiary to, enter into any agreement containing any provision which (a) would be violated or breached by any borrowing by the Borrower hereunder or by the performance by the Borrower or any Subsidiary of any of their obligations hereunder or under any other Loan Document or (b) would prohibit the Borrower or any Subsidiary from granting to the Bank, a Lien on any of their assets.

9.18 Advances and Other Investments. Not, and not permit any Subsidiary to, make, incur, assume or suffer to exist any Investment in any other Person, except (without duplication) the following:

(a) the advances permitted pursuant to Section 9.7 and Section 9.11 herein;

(b) equity Investments existing on the Effective Date in Subsidiaries identified in Schedule 8.8; and

(c) the Guarantor's bank deposits in the ordinary course of business; provided that the aggregate amount of all such deposits (excluding amounts in payroll accounts or for accounts payable, in each case to the extent that checks have been issued to third parties) which are maintained with any bank other than the Bank shall not at any time exceed the amount(s) necessary for payroll plus \$50,000;

provided, however, that no Investment otherwise permitted by clause (b) shall be permitted to be made if, immediately before or after giving effect thereto, any Event of Default or Unmatured Event of Default shall have occurred and be continuing.

9.19 Maintenance of Property. The Borrower shall, and shall cause each Subsidiary to, maintain and preserve all its property which is used or useful in its business in good working order and condition, ordinary wear and tear excepted.

9.20 Performance of Obligations. The Borrower shall, and shall cause each Subsidiary to, pay and discharge as the same shall become due and payable, all their respective obligations and liabilities, including:

(a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets; and

(b) all lawful claims which, if unpaid, would by law become a Lien upon its property; unless, in each case, the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Subsidiary.

SECTION 10 EFFECTIVENESS; CONDITIONS OF LENDING, ETC.

The obligation of the Bank to make its Loans is subject to the following conditions precedent:

10.1 Initial Credit Extensions. The obligation of the Bank to make its initial Loan is, in addition to the conditions precedent specified in Section 10.2, subject to the conditions precedent (and the date on which all such conditions precedent have been satisfied or waived in writing by the Bank is called the "Effective Date") that (a) the Bank shall have received all amounts which are then due and payable pursuant to Section 5 and (to the extent billed) Section 12.6, (b) the Bank shall have completed its due diligence of the Borrower and (c) the Bank shall have received all of the following, each duly executed and dated the Effective Date (or such other date as shall be satisfactory to the Bank), in form and substance satisfactory to the Bank.

10.1.1 Note. The Note.

10.1.2 Resolutions. Certified copies of resolutions of the Board of Directors of the Borrower authorizing or ratifying the execution, delivery and performance by the Borrower of this Agreement, the Note and the other Loan

Documents to which the Borrower is a party; and certified copies of resolutions of the Board of Directors of each Subsidiary which is to execute and deliver any Loan Document authorizing or ratifying the execution, delivery and performance by such Subsidiary of each Loan Document to which such Subsidiary is a party.

10.1.3 Consents, etc. Certified copies of all documents evidencing any necessary corporate action, consents and governmental approvals (if any) required for the execution, delivery and performance by the Borrower and each Subsidiary of the documents referred to in this Section 10.

10.1.4 Incumbency and Signature Certificates. A certificate of an officer of the Borrower and each Subsidiary as of the Effective Date certifying the names of the officer or officers of such entity authorized to sign the Loan Documents to which such entity is a party, together with a sample of the true signature of each such officer (it being understood that the Bank may conclusively rely on each such certificate until formally advised by a like certificate of any changes therein).

10.1.5 Guaranty. The Guaranty executed by the Guarantor as of the Effective Date and by any Subsidiary created or acquired after the Effective Date.

10.1.6 Security Agreements. The Security Agreements executed by the Borrower and the Guarantor as of the Effective Date and by any Subsidiary created or acquired after the Effective Date, together with evidence, satisfactory to the Bank, that all filings necessary to perfect the Bank's Lien on any collateral granted under the Security Agreements have been duly made and are in full force and effect.

10.1.7 Opinion of Counsel for the Borrower and the Guarantor. The opinion of counsel to the Borrower and the Guarantor in all respects acceptable to the Bank and its counsel.

10.1.8 Other. Such other documents as the Bank may reasonably request.

10.2 Conditions. The obligation of the Bank to make each Loan is subject to the following further conditions precedent that:

10.2.1 Compliance with Warranties, No Default, etc. Both before and after giving effect to any borrowing the following statements shall be true and correct:

(a) the representations and warranties of the Borrower and the Guarantor set forth in this Agreement and the other Loan Documents shall be true and correct in all material respects with the same effect as if then made (except to the extent stated to relate to an earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date);

(b) no litigation (including derivative actions), arbitration proceeding, labor controversy or governmental investigation or proceeding shall be pending or, to the knowledge of the Borrower, threatened against either the Borrower or any of its Subsidiaries which might reasonably be expected to have a Material Adverse Effect or which purports to affect the legality, validity or enforceability of this Agreement, the Note or any other Loan Document;

(c) no Event of Default or Unmatured Event of Default shall have then occurred and be continuing, and neither the Borrower nor any Subsidiary shall be in violation of any law or governmental regulation or court order or decree where such violation or violations singly or in the aggregate might reasonably be expected to have a Material Adverse Effect; and

(d) there shall have been no change in the operations or financial condition of either the Borrower or its Subsidiaries that might reasonably be expected to have a Material Adverse Effect.

10.2.2 Confirmatory Certificate. If requested by the Bank, the Bank shall have received a certificate dated the date of such requested Loan and

signed by a duly authorized representative of the Borrower as to the matters set out in Section 10.2.1 (it being understood that each request by the Borrower for the making of a Loan shall be deemed to constitute a warranty by the Borrower that the conditions precedent set forth in Section 10.2.1 will be satisfied at the time of the making of such Loan, together with such other documents as the Bank may reasonably request in support thereof.

SECTION 11 EVENTS OF DEFAULT AND THEIR EFFECT.

11.1 Events of Default. Each of the following shall constitute an Event of Default under this Agreement:

11.1.1 Non-Payment of the Loans, etc. Default in the payment when due of the principal of any Loan; or default, and continuance thereof for ten (10) Business Days, in the payment when due of any interest, fee, or other amount payable by the Borrower hereunder or under any other Loan Document, or payable by the Borrower under any other credit arrangement with any Bank.

11.1.2 Non-Payment of Other Debt. Any default shall occur under the terms applicable to any Debt of either the Borrower or any Subsidiary in an aggregate amount (for all such Debt so affected) exceeding \$250,000 and such default shall (a) consist of the failure to pay such Debt when due (subject to any applicable grace period), whether by acceleration or otherwise, or (b) accelerate the maturity of such Debt or permit the holder or holders thereof, or any trustee or agent for such holder or holders, to cause such Debt to become due and payable prior to its expressed maturity; provided, however, that this Section 11.1.2 shall not apply to trade debt.

11.1.3 Other Material Obligations. Default after any applicable notice and cure periods in the payment when due, or in the performance or observance of, any material obligation of, or condition agreed to by, either the Borrower or any Subsidiary with respect to any material purchase or lease of goods or services where such default, singly or in the aggregate with other such defaults might reasonably be expected to have a Material Adverse Effect (except only to the extent that the existence of any such default is being contested by either the Borrower or such Subsidiary in good faith and by appropriate proceedings and appropriate reserves have been made in respect of such default).

11.1.4 Bankruptcy, Insolvency, etc. Either the Borrower or any Subsidiary becomes insolvent or generally fails to pay, or admits in writing its inability or refusal to pay, debts as they become due; or either the Borrower or any Subsidiary applies for, consents to, or acquiesces in the

appointment of a trustee, receiver or other custodian for either the Borrower or such Subsidiary or any property thereof, or makes a general assignment for the benefit of creditors; or, in the absence of such application, consent or acquiescence, a trustee, receiver or other custodian is appointed for either the Borrower or any Subsidiary or for a substantial part of the property of any thereof and is not discharged within 120 days; or any bankruptcy, reorganization, debt arrangement, or other case or proceeding under any bankruptcy or insolvency law, or any dissolution or liquidation proceeding (except the voluntary dissolution, not under any bankruptcy or insolvency law, of a Subsidiary), is commenced in respect to either the Borrower or any Subsidiary, and if such case or proceeding is not commenced by such Borrower or Subsidiary, it is consented to or acquiesced in by such Borrower or Subsidiary, or remains for 120 days undismissed; or the Borrower or any Subsidiary takes any corporate action to authorize, or in furtherance of, any of the foregoing.

11.1.5 Non-Compliance with Provisions of This Agreement. (a) Failure by the Borrower to comply with or to perform any covenant set forth in Section 9.6; or (b) failure by the Borrower to comply with or to perform any covenant set forth in Section 9.12 for 15 days after notice thereof to Borrower from the Bank; or (c) failure by the Borrower to comply with or to perform any other provision of this Agreement (and not constituting an Event of Default under any of the other provisions of this Section 11) and continuance of such failure described in this clause (b) for 30 days after notice thereof to Borrower from the Bank.

11.1.6 Warranties. Any warranty made by the Borrower to the Bank is breached or is false or misleading in any material respect, or any schedule, certificate, financial statement, report, notice or other writing furnished by the Borrower to the Bank in connection herewith is false or misleading in any material respect on the date as of which the facts therein set forth are stated

or certified.

11.1.7 Pension Plans. (i) Institution of any steps by the Borrower or any other Person to terminate a Pension Plan if as a result of such termination the Borrower could be required to make a contribution to such Pension Plan, or could incur a liability or obligation to such Pension Plan, in excess of \$250,000; (ii) a contribution failure occurs with respect to any Pension Plan sufficient to give rise to a Lien under section 302(f) of ERISA; or (iii) there shall occur any withdrawal or partial withdrawal from a Multiemployer Pension Plan and the withdrawal liability (without unaccrued interest) to Multiemployer Pension Plans as a result of such withdrawal (including any outstanding withdrawal liability that the Borrower and the Controlled Group have incurred on the date of such withdrawal) exceeds \$250,000.

11.1.8 Judgments. Final non-appealable judgments which exceed an aggregate of \$250,000 shall be rendered against the Borrower or any Subsidiary and shall not have been paid, discharged or vacated or had execution thereof stayed pending appeal within 30 days after entry or filing of such judgments.

11.1.9 Invalidity of Guaranty, etc. The Guaranty shall cease to be in full force and effect with respect to any Guarantor for a period of 15 days after notice thereof to Borrower from the Bank, any Guarantor shall fail (subject to any applicable grace period) to comply with or to perform any applicable provision of the Guaranty, or any Guarantor (or any Person by, through or on behalf of such Guarantor) shall contest in any manner the validity, binding nature or enforceability of the Guaranty with respect to such Guarantor.

11.1.10 Invalidity of Collateral Documents, etc. Any Collateral Document shall cease to be in full force and effect with respect to the Borrower or any Guarantor for a period of 15 days after notice thereof to Borrower from the Bank or, the Borrower or any Guarantor shall fail (subject to any applicable grace period) to comply with or to perform any applicable provision of any Collateral Document to which such entity is a party, or the Borrower or any Guarantor (or any Person by, through or on behalf of the Borrower or Guarantor) shall contest in any manner the validity, binding nature or enforceability of any Collateral Document.

11.1.11 Change in Control. (a) Any Person or group of Persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, but excluding the executive managers of the Borrower as of the Effective Date) shall acquire beneficial ownership (within the meaning of Rule 13d-3 promulgated under such Act) of 30% or more of the outstanding shares of common stock of the Borrower; (b) during any 24-month period, individuals who at the beginning of such period constituted the Board of Directors of the Borrower (together with any new directors whose election by said Board of Directors or whose nomination for election was approved by a vote of at least two-thirds of the directors who either were directors at beginning of such period or whose election or nomination was previously so approved) cease for any reason to constitute a majority of said Board of Directors; (c) a period of 60 consecutive days shall have elapsed during which any of the individuals named in Schedule 11.1.11A shall have ceased to hold executive offices with the Borrower at least equal in seniority to such individual's present offices, as set out in such Schedule 11.1.11, excluding any such individual who has been replaced by another individual or individuals reasonably satisfactory to the Bank (it being understood that any such replacement individual shall be deemed added to Schedule 11.1.11 on the date of approval thereof by the Bank); or (d) a period of 60 consecutive days shall have elapsed during which all of the individuals named in Schedule 11.1.11B shall have ceased to be members of the Board of Directors.

11.2 Effect of Event of Default. If any Event of Default described in Section 11.1.4 shall occur, the Commitment (if not theretofore terminated) shall immediately terminate and the Note and all other obligations hereunder shall become immediately due and payable all without presentment, demand, protest or notice of any kind; and, if any other Event of Default shall occur and be continuing, the Bank shall declare the Commitment (if not theretofore terminated) to be terminated and/or declare the Note and all other obligations hereunder to be due and payable whereupon the Commitment (if not theretofore terminated) shall immediately terminate and/or the Note and all other obligations hereunder shall become immediately due and payable all without presentment, demand, protest or notice of any kind. The Bank shall promptly advise the Borrower of any such declaration, but failure to do so

shall not impair the effect of such declaration. Notwithstanding the foregoing, the effect as an Event of Default of any event described in Section 11.1.1 or Section 11.1.4 may be waived by the written concurrence of the Bank, and the effect as an Event of Default of any other event described in this Section 11 may be waived by the written concurrence of the Bank.

SECTION 12 GENERAL.

12.1 Waiver; Amendments. No delay on the part of the Bank in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by any of them of any right, power or

remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Agreement or the Note shall in any event be effective unless the same shall be in writing and signed and delivered by the Bank and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

12.2 Confirmations. The Borrower and the Bank agree from time to time, upon written request received by it from the other, to confirm to the other in writing the aggregate unpaid principal amount of the Loans then outstanding under such Note.

12.3 Notices. Except as otherwise provided in Section 2.2.2, all notices hereunder shall be in writing (including facsimile transmission) and shall be sent to the applicable party at its address shown on Schedule 12.3 or at such other address as such party may, by written notice received by the other parties, have designated as its address for such purpose. Notices sent by facsimile transmission shall be deemed to have been given when sent; notices sent by mail shall be deemed to have been given three Business Days after the date when sent by registered or certified mail, postage prepaid; and notices sent by hand delivery or overnight courier service shall be deemed to have been given when received. For purposes of Section 2.2.2, the Bank shall be entitled to rely on telephonic instructions from any person that the Bank in good faith believes is an authorized officer or employee of the Borrower, and the Borrower shall hold the Bank harmless from any loss, cost or expense resulting from any such reliance.

12.4 Computations. Where the character or amount of any asset or liability or item of income or expense is required to be determined, or any consolidation or other accounting computation is required to be made, for the purpose of this Agreement, such determination or calculation shall, to the extent applicable and except as otherwise specified in this Agreement, be made in accordance with GAAP, consistently applied.

12.5 Regulation U. The Bank represents that it in good faith is not relying, either directly or indirectly, upon any Margin Stock as collateral security for the extension or maintenance by it of any credit provided for in this Agreement.

12.6 Costs, Expenses and Taxes. The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Bank (including the reasonable accounting fees, appraisal fees and fees and charges of counsel for the Bank of local counsel, if any, who may be retained by said counsel) in connection with the preparation, execution, delivery and administration of this Agreement the other Loan Documents and all other documents provided for herein or delivered or to be delivered hereunder or in connection herewith (including any amendments, supplements or waivers to any Loan Documents), and all reasonable out-of-pocket costs and expenses (including reasonable accounting fees, appraisal fees and attorneys' fees, court costs and other legal expenses and allocated costs of staff counsel) incurred by the Bank after an Event of Default in connection with the enforcement of this Agreement, the other Loan Documents or any such other documents, except as otherwise determined by a court of competent jurisdiction. In addition, the Borrower agrees to pay, and to save the Bank harmless from all liability for, (a) any stamp or other taxes (excluding income taxes and franchise taxes based on net income) which may be payable in connection with the execution and delivery of this Agreement, the borrowings hereunder, the issuance of the Note or the execution and delivery of any other Loan Document or any other document provided for herein or delivered

or to be delivered hereunder or in connection herewith and (b) any fees of the Borrower's auditors in connection with any reasonable exercise by the Bank of their rights pursuant to Section 9.2. All obligations provided for in this Section 12.6 shall survive repayment of the Loans, cancellation of the Note and any termination of this Agreement.

12.7 Subsidiary References. The provisions of this Agreement relating to Subsidiaries shall apply only during such times as the Borrower has one or more Subsidiaries.

12.8 Captions. Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

12.9 Governing Law. This Agreement and each Note shall be a contract made under and governed by the internal laws of the State of New York. Whenever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. All obligations of the Borrower and rights of the Bank expressed herein or in any other Loan Document shall be in addition to and not in limitation of those provided by applicable law.

12.10 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement.

12.11 Successors and Assigns. This Agreement shall be binding upon the Borrower, the Bank and their respective successors and assigns, and shall inure to the benefit of the Borrower, the Bank and the successors and assigns of the Bank.

12.12 Indemnification by the Borrower.

(a) In consideration of the execution and delivery of this Agreement by the Bank and the agreement to extend the Commitment provided hereunder, the Borrower hereby agrees to indemnify, exonerate and hold the Bank and each of the officers, directors, employees, Affiliates and agents of the Bank (each a "Bank Party") free and harmless from and against any and all actions, causes of action, suits, losses, liabilities, damages and expenses, including reasonable attorneys' fees and charges and reasonable allocated costs of staff counsel (collectively, for purposes of this Section 12.12, called the "Indemnified Liabilities"), incurred by the Bank Parties or any of them as a result of, or arising out of, or relating to (i) any tender offer, merger, purchase of stock, purchase of assets or other similar transaction financed or proposed to be financed in whole or in part, directly or indirectly, with the proceeds of any of the Loans, (ii) the use, handling, release, emission, discharge, transportation, storage, treatment or disposal of any hazardous substance at any property owned or leased by the Borrower or any Subsidiary, (iii) any violation of any Environmental Laws with respect to conditions at any property owned or leased by the Borrower or any Subsidiary or the operations conducted thereon, (iv) the investigation, cleanup or remediation of offsite locations at which the Borrower or any Subsidiary or their respective predecessors are alleged to have directly or indirectly disposed of hazardous substances or (v) the execution, delivery, performance or enforcement of this Agreement or any other Loan Document by any of the Bank Parties, except for any such Indemnified Liabilities arising on account of any such Bank Party's gross negligence or willful misconduct. If and to the extent that the foregoing undertaking may be unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. Nothing set forth above shall be construed to relieve any Bank Party from any obligation it may have under this Agreement.

(b) All obligations provided for in this Section 12.12 shall survive repayment of the Loans, cancellation of the Note, any foreclosure under, or any modification, release or discharge of any or all of the Collateral Documents and any termination of this Agreement.

12.13 Forum Selection and Consent to Jurisdiction. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE

COURTS OF THE STATE OF NEW YORK OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF NEW YORK; PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT THE BANK'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. THE BORROWER HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF NEW YORK FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. THE BORROWER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK. THE BORROWER HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT THE BORROWER HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, THE BORROWER HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

12.14 Waiver of Jury Trial. THE BORROWER AND THE BANK HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR THEREWITH OR ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

In witness whereof, the parties hereto have executed this instrument as of the day and year first above written.

MECHANICAL TECHNOLOGY INCORPORATED

By: /s/ C.Scheuer

Name: Cynthia A. Scheuer
Title: Vice President and Chief
Financial Officer

KEYBANK NATIONAL ASSOCIATION

By: /s/ W.Palmer

Name: William B. Palmer
Title: Vice President

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

On this 2nd day of September, 1998, before me the subscriber personally appeared Cynthia A. Scheuer, who being by me duly sworn, did depose and say; that she resides at Castleton, New York, that she is Vice President and

Chief Financial Officer of Mechanical Technology Incorporated, the corporation described in and which executed the foregoing instrument; and that she signed her name thereto by order of the Board of Directors of said corporation.

NOTARY PUBLIC

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

On this 2nd day of September, 1998, before me the subscriber personally appeared William B. Palmer, who being by me duly sworn, did depose and say; that he resides Athens, New York, that he is a Vice President of KeyBank National Association, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

NOTARY PUBLIC

SCHEDULE 1.1

PRICING SCHEDULE

The LIBOR Rate Margin shall be determined in accordance with the table below and the other provisions of this Schedule 1.1.

Level I
Level II
Level III

LIBOR Rate Margin
2.50%
2.00%
1.60%

Level I applies at any time when Level II or Level III do not apply.

Level II applies when the Leverage Ratio is equal to or less than 1.50 to 1.

Level III applies when (a) the Leverage Ratio is less than 1.50 to 1 and (b) the Borrower has operating revenues of at least \$50,000,000.00.

The applicable Level shall be adjusted, to the extent applicable, 45 days (or, in the case of the last Fiscal Quarter of any Fiscal Year, 120 days) after the end of each Fiscal Quarter based on the Ratios as of the last day of such Fiscal Quarter; provided that if the Borrower fail to deliver the financial statements required by Section 9.1.1 or 9.1.2, as applicable, and the related certificate required by Section 9.1.3 by the 60th day (or, if applicable, the 120th day) after any Fiscal Quarter, Level I shall apply until such financial statements are delivered.

SCHEDULE 8.6(a)

LITIGATION AND CONTINGENT LIABILITIES

[TO BE PROVIDED]

SCHEDULE 8.6 (b)
CONTINGENT PAYMENTS

[TO BE PROVIDED]

SCHEDULE 8.8
SUBSIDIARIES

Borrower owns 100% of Turbonetics Energy, Inc., Ling Electronics Limited and Ling Electronics, Inc.

SCHEDULE 8.15
ENVIRONMENTAL MATTERS

[TO BE PROVIDED]

SCHEDULE 8.17
COPYRIGHTS, PATENTS, TRADEMARKS AND LICENSES

SCHEDULE 9.8
EXISTING LIENS

[TO BE PROVIDED]

SCHEDULE 11.1.11A
EXECUTIVES

Name	Current Office(s)
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[TO BE PROVIDED]

SCHEDULE 11.1.11B
DIRECTORS

[TO BE PROVIDED]

SCHEDULE 12.3
ADDRESSES FOR NOTICES

[TO BE PROVIDED]

SECURITY AGREEMENT

Date: September 22, 1998

The undersigned, MECHANICAL TECHNOLOGY INCORPORATED, a New York corporation, with an office for the transaction of business located at 968 Albany Shaker Road, Latham, New York 12110 (herein referred to as "Borrower"), hereby agrees in favor of KEYBANK NATIONAL ASSOCIATION, a national banking association with an office for the transaction of business at 66 South Pearl Street, Albany, New York 12207 (the "Bank") as follows:

1. DEFINITIONS. All capitalized terms used herein which are defined in the Credit Agreement of even date herewith (hereinafter, together with all exhibits thereto, as it may from time to time be amended, modified or supplemented, referred to as the "Credit Agreement") by and between the Borrower and the Bank, shall have the respective meanings provided therefor in the Credit Agreement, unless otherwise defined herein or unless the context otherwise requires.

2. THE INDEBTEDNESS. In consideration of one or more loans, advances, or other financial accommodations at any time before, at or after the date hereof made or extended by the Bank to or for the account of Borrower, directly or indirectly, as principal, guarantor or otherwise (the "Indebtedness") Borrower hereby grants to the Bank a continuing security interest in and a right of set-off against, and Borrower hereby assigns to the Bank, the Collateral described in Paragraph 3, to secure the payment, performance and observance of (i) all indebtedness, obligations, liabilities and agreements of any kind of Borrower to the Bank, now existing or hereafter arising, direct or indirect, absolute or contingent, secured or unsecured, due or not, arising out of or relating to the Indebtedness and (ii) all agreements, documents and instruments evidencing any of the foregoing or under which any of the foregoing may have been issued, created, assumed or guaranteed (all of the foregoing being herein referred to as the "Obligations").

3. THE COLLATERAL. The Collateral is described on Schedule "A" annexed hereto as part hereof and also includes all attachments, accessions and equipment now or hereafter affixed to the Collateral or used in connection therewith, substitutions and replacements therefor (unless the description of Collateral expressly excludes after-acquired Collateral), all items of Collateral now owned or existing and hereafter acquired, created or arising, and all proceeds thereof (including, without limitation, claims of Borrower against third parties for loss or damage to or destruction of any Collateral).

4. WARRANTIES, REPRESENTATIONS AND COVENANTS. Borrower warrants, represents and covenants that:

(a) The chief executive office and other places of business of Borrower, the Collateral and the books and records relating to the Collateral and the Collateral are, and have been during the four month period prior to the date hereof (or in the case of a new business, from the date of commencement of said business), located at the address(es) set forth below and Borrower will not change the same, or merge or consolidate with any person or change its name, without prior written notice to and consent of the Bank:

Addresses: 968 Albany Shaker Road, Latham, New York 12110; [OTHER ADDRESSES TO BE PROVIDED]

(b) Borrower will use the Collateral for lawful and business purposes only, with all reasonable care and caution and in conformity with all applicable laws, ordinances and regulations;

(c) Borrower will keep the Collateral in good order, repair, running and marketable condition as used in the ordinary course of business, at Borrower's sole cost and expense;

(d) The Bank shall at all times have free access to and right of inspection of the Collateral and any records pertaining thereto, and the right to make extracts from and to receive from Borrower originals or true copies of such records and any papers and instruments relating to any Collateral upon request therefor (which rights shall, except after the occurrence of an Event of Default, be exercised only upon reasonable notice

during regular business hours), and Borrower hereby grants to the Bank a security interest in all such records, papers and instruments to secure the payment, performance and observance of the Obligations;

(e) Borrower, at its sole cost and expense, will insure the Collateral in the name of and with loss or damage payable solely to the Bank, as its interest may appear, against such risks, with such companies and in such amounts, as may be required by the Bank from time to time (all such policies providing ten (10) days minimum written notice of cancellation to the Bank) and Borrower will deliver to the Bank the original or duplicate policies, or certificates or other evidence satisfactory to the Bank attesting thereto, and Borrower will promptly notify the Bank of any loss or damage to any Collateral or arising from its use;

(f) Borrower will, at its sole cost and expense, and at all times, pay and discharge all taxes and assessments and keep the Collateral free and clear of any and all liens, security interests or encumbrances (other than in favor of the Bank), perform all acts and execute all documents requested by the Bank from time to time to evidence, perfect, maintain or enforce the Bank's primary security interest granted herein or otherwise in furtherance of the provisions of this Security Agreement;

(g) At any time and from time to time, Borrower shall, at its sole cost and expense, execute and deliver to the Bank such financing statements pursuant to the Uniform Commercial Code ("UCC"), applications for certificate of title and other papers, documents or instruments as may be requested by the Bank in connection with this Security Agreement, and Borrower hereby authorizes the Bank to execute and file at any time and from time to time one or more financing statements or copies thereof or of this Security Agreement with respect to the Collateral signed only by the Bank;

(h) In its discretion, the Bank may, at any time and from time to time, after a Default (as hereinafter defined) or an event which but for the passage of time, the giving of notice or both would constitute a Default has occurred and is continuing, in its name or Borrower's or otherwise, notify any account debtor or obligor of any account, contract, document, instrument, chattel paper or general intangible included in the Collateral to make payment to the Bank;

(i) In their discretion, the Bank may, at any time and from time to time, after a Default has occurred and is continuing, demand sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for, or make any compromise or settlement deemed desirable by the Bank with respect to, any Collateral, and/or extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, or release, any Collateral or Obligations, all without notice to or consent by Borrower and without otherwise discharging or affecting the Obligations, the Collateral or the security interest granted herein;

(j) In their discretion, the Bank may, at any time and from time to time, for the account of Borrower, pay any amount or do any act required of Borrower hereunder and which Borrower fails to do or pay, and any such payment shall be deemed an advance by the Bank to Borrower payable on demand together with interest at the highest rate then payable on any of the Obligations;

(k) Borrower will pay the Bank for any sums, costs, and expenses which the Bank may pay or incur pursuant to the provisions of this Security Agreement or in negotiating, executing, perfecting, defending, or protecting the security interest granted herein or in enforcing payment of the Obligations or otherwise in connection with the provisions hereof, including but not limited to court costs, collection charges, travel expenses, and reasonable attorneys' fees, all of which, together with interest at the highest rate then payable on any of the Obligations, shall be part of the Obligations and be payable on demand;

(l) All proceeds of any other Collateral received by Borrower after the occurrence of a Default shall not be commingled with other property of Borrower, but shall be segregated, held by Borrower in trust for the Bank, and immediately delivered to the Bank in the form received, duly endorsed in blank where appropriate to effectuate the provisions

hereof, the same to be held by the Bank as additional Collateral hereunder or, at the Bank's option, to be applied to payment of the Obligations, whether or not due and in any order; and

(m) In their sole discretion, the Bank may, subject to the terms of the Credit Agreement, at any time and from time to time, assign, transfer or deliver to any transferee of any Obligations, any Collateral, whereupon the Bank shall be fully discharged from all responsibility and the transferee shall be vested with all powers and rights of the Bank hereunder with respect thereto, but the Bank shall retain all rights and powers with respect to any Collateral not assigned, transferred or delivered.

5. DEFAULT. It shall constitute an event of default ("Default") under this Security Agreement if an Event of Default shall have occurred under any of the Loan Documents or if any one or more of the following shall occur:

(a) Borrower shall fail to perform any covenant, agreement or obligation contained in this Security Agreement for a period of fifteen (15) days after notice from the Bank of such failure; or

(b) the Collateral shall be subjected to waste, sale, transfer or other disposition or any lien, encumbrance or other imposition is placed upon said Collateral; or

(c) any levy, seizure, attachment, condemnation, forfeiture or other proceeding shall be brought against or with respect to the Collateral; or

(d) the occurrence of a material and adverse change in the condition or affairs (financial or otherwise) of the Borrower which the Bank reasonably believes substantially impairs their security or substantially increases the risk of failure of payment or performance under any of the Loan Documents.

6. REMEDIES. Upon the occurrence and continuation of any Default and at any time thereafter, the Bank shall have the following rights and remedies (to the extent permitted by applicable law) in addition to all rights and remedies of a secured party under the UCC or of the Bank under the Obligations, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively or concurrently:

(a) the Bank may at any time and from time to time, with or without judicial process or the aid and assistance of others, enter upon any premises in which any Collateral may be located and, without resistance or interference by Borrower, take possession of the Collateral; and/or dispose of any Collateral on any such premises; and/or require Borrower to assemble and make available to the Bank at the expense of Borrower any Collateral at any place and time designated by the Bank which is reasonably convenient to both parties; and/or remove any Collateral from any such premises for the purpose of effecting sale or other disposition thereof (and if any of the Collateral consists of motor vehicles, the Bank may use Borrower's license plates); and/or sell, resell, lease, assign and deliver, grant options for or otherwise dispose of any Collateral in its then condition or following any commercially reasonable preparation or processing, at public or private sale or proceedings or otherwise, by one or more contracts, in one or more parcels, at the same or different times, with or without having the Collateral at the place of sale or other disposition, for cash and/or credit, and upon any terms, at such place(s) and time(s) and to such person(s) as the Bank deem best, all without demand, notice or advertisement whatsoever except that where an applicable statute requires reasonable notice of sale or other disposition Borrower hereby agrees that the sending of five days' notice by registered or certified mail, return receipt requested, to any address of Borrower set forth in this Security Agreement shall be deemed reasonable notice thereof. If any Collateral is sold by the Bank upon credit or for future delivery, the Bank shall not be liable for the failure of the purchaser to pay for same and in such event the Bank may resell such Collateral. The Bank may buy any Collateral at any public sale and, if any Collateral is of a type customarily sold in a recognized market or is of the type which is the subject of widely distributed standard price quotations, the Bank may buy such Collateral at private sale and in each case may make payment therefor by any means. The Bank may apply the sale proceeds actually received from

any sale or other disposition to the reasonable expenses of retaking, holding, preparing for sale, selling, leasing and the like, to reasonable attorneys' fees and all legal, travel and other expenses which may be incurred by the Bank in attempting to collect the Obligations or enforce this Security Agreement or in the prosecution or defense of any action or proceeding related to the subject matter of this Security Agreement; and then to the Obligations in such order and as to principal or interest as the Bank may desire; and Borrower shall remain liable and will pay the Bank on demand any deficiency remaining, together with interest thereon at the highest rate then payable on the Obligations and the balance of any expenses unpaid, with any surplus to be paid to Borrower, subject to any duty of the Bank imposed by law to the holder of any subordinate security interest in the Collateral known to the Bank;

(b) The Bank may appropriate, set off and apply to the payment of the Obligations, any Collateral in or coming into the possession of the Bank or their agents, without notice to Borrower and in such manner as the Bank may in their discretion determine.

7. DESIGNATION AND AUTHORIZATION. To effectuate the terms and provisions hereof, Borrower hereby designates and appoints the Bank and each of its designees or agents as attorney-in-fact of Borrower, irrevocably and with power of substitution, with authority, after the occurrence of a Default, to: receive, open and dispose of all mail addressed to Borrower and notify the Post Office authorities to change the address for delivery of mail addressed to Borrower to such address as the Bank may designate; endorse the name of Borrower on any notes, acceptances, checks, drafts, money orders, instruments or other evidences of Collateral that may come into the Bank's possession; sign the name of Borrower on any invoices, documents, drafts against and notices to account debtors or obligors of Borrower, assignments and requests for verification of accounts; execute proofs of claim and loss; execute endorsements, assignments of other instruments of conveyance or transfer; adjust and compromise any claims under insurance policies or otherwise; execute releases; and do all other acts and things necessary or advisable in the sole discretion of the Bank to carry out and enforce this Security Agreement or the Obligations. All acts done under the foregoing authorization are hereby ratified and approved and neither the Bank nor any designee or agent thereof shall be liable for any acts of commission or omission, for any error of judgment or for any mistake of fact or law. This power of attorney being coupled with an interest is irrevocable while any Obligations shall remain unpaid.

8. PRESERVATION AND DISPOSITION OF COLLATERAL; MISCELLANEOUS. The Bank shall have the duty to exercise reasonable care in the custody and preservation of any Collateral in its possession, which duty shall be fully satisfied if the Bank maintains safe custody of such Collateral. Except as hereinabove specifically set forth, the Bank shall not be deemed to assume any other responsibility for, or obligation or duty with respect to, any Collateral, or its use, of any nature or kind, or any matter or proceedings arising out of or relating thereto, including, without limitation, any obligation or duty to take any action to collect, preserve or protect its or Borrower's rights in the Collateral or against any prior parties thereto, but the same shall be at Borrower's sole risk and responsibility at all times. Borrower hereby releases the Bank from any claims, causes of action and demands at any time arising out of or with respect to this Security Agreement, the Obligations, the Collateral and its use and/or any actions taken or omitted to be taken by the Bank with respect thereto, and Borrower hereby agrees to hold the Bank harmless from and with respect to any and all such claims, causes of action and demands. The Bank's prior recourse to any Collateral shall not constitute a condition of any demand, suit or proceeding for payment or collection of the Obligations. No act, omission or delay by the Bank shall constitute a waiver of its rights and remedies hereunder or otherwise. No single or partial waiver by the Bank of any Default or right or remedy which it may have shall operate as a waiver of any other Default, right or remedy or of the same Default, right or remedy on a future occasion. Borrower hereby waives presentment, notice of dishonor and protest of all instruments included in or evidencing any Obligations or Collateral, and all other notices and demands whatsoever (except as expressly provided herein). In the event of any litigation with respect to any matter connected with this Security Agreement, the Obligations or the Collateral, Borrower hereby waives the right to a trial by jury. Borrower hereby irrevocably consents to the jurisdiction of the Courts of the State of New York and of any Federal Court located in such State in connection with any action or proceeding arising out of or relating to the Obligations, this Security Agreement or the Collateral, or any document or instrument delivered with respect to any of the Obligations. Borrower hereby waives personal service of

any process in connection with any such action or proceeding and agrees that the service thereof may be made by certified or registered mail directed to Borrower at any address of Borrower set forth in this Security Agreement. Borrower so served shall appear or answer to such process within thirty (30) days after the mailing thereof. Should Borrower so served fail to appear or answer within said thirty (30) day period, Borrower shall be deemed in default and judgment may be entered by the Bank against Borrower for the amount or such other relief as may be demanded in any process so served. In the alternative, in its discretion, the Bank may effect service upon Borrower in any other form or manner permitted by law. All capitalized terms used and not otherwise defined shall have the meanings set forth in the Credit Agreement and other terms herein shall have the meanings as defined in the UCC, unless the context otherwise requires. No provision hereof shall be modified, altered or limited except by a written instrument expressly referring to this Security Agreement and to such provision, and executed by the party to be charged. This Security Agreement and all Obligations shall be binding upon the successors, or assigns of Borrower and shall, together with the rights and remedies of the Bank hereunder, inure to the benefit of the Bank and their successors, endorsees and assigns. This Security Agreement and the Obligations shall be governed in all respects by the laws of the State of New York applicable to contracts executed and to be performed in such State. If any term of this Security Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby. The Bank is authorized to annex hereto any schedules referred to herein. Borrower acknowledges receipt of a copy of this Security Agreement.

IN WITNESS WHEREOF, the undersigned has executed or caused this Security Agreement to be executed in the State of New York as of the date first above set forth.

MECHANICAL TECHNOLOGY INCORPORATED

By: /s/ C.Scheuer

Name: Cynthia A. Scheuer
Title: Vice President and Chief Financial Officer

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

On this 22nd day of September, 1998, before me the subscriber personally appeared Cynthia A. Scheuer, who being by me duly sworn, did depose and say; that she resides at Castleton, New York, that she is Vice President and Chief Financial Officer of Mechanical Technology Incorporated, the corporation described in and which executed the foregoing instrument; and that she signed her name thereto by order of the Board of Directors of said corporation.

\s\ M.S. Lamb

M. Sheila Lamb
NOTARY PUBLIC

Schedule "A"

All personal property and fixtures of the Borrower, whether now or hereafter existing or now owned or hereafter acquired and wherever located, of every kind and description, tangible or intangible, and all goods, equipment, inventory, accounts, chattel paper, general intangibles, credits, claims, demands and any other property, rights and interests of the Borrower, and any and all additions and accessions thereto, all substitutions and replacements therefor and all products and proceeds thereof and proceeds of insurance thereon provided that Borrower's interest in Plug Power LLC shall not be included as Collateral.

SECURITY AGREEMENT

Date: September 22, 1998

The undersigned, LING ELECTRONICS, INC., a California corporation with an office for the transaction of business located at 4890 E. LaPalma Avenue, Anaheim, California 92807 (herein referred to as "Guarantor") as guarantor of payment of the obligations of MECHANICAL TECHNOLOGY INCORPORATED, a New York corporation, with an office for the transaction of business located at 968 Albany Shaker Road, Latham, New York 12110 (herein referred to as "Borrower"), hereby agrees in favor of KEYBANK NATIONAL ASSOCIATION, a national banking association with an office for the transaction of business at 66 South Pearl Street, Albany, New York 12207 (the "Bank") as follows:

1. DEFINITIONS. All capitalized terms used herein which are defined in the Credit Agreement of even date herewith (hereinafter, together with all exhibits thereto, as it may from time to time be amended, modified or supplemented, referred to as the "Credit Agreement") by and between the Borrower and the Bank, shall have the respective meanings provided therefor in the Credit Agreement, unless otherwise defined herein or unless the context otherwise requires.

2. THE INDEBTEDNESS. In consideration of one or more loans, advances, or other financial accommodations at any time before, at or after the date hereof made or extended by the Bank to or for the account of Borrower, directly or indirectly, as principal, guarantor or otherwise (the "Indebtedness") Guarantor hereby grants to the Bank a continuing security interest in and a right of set-off against, and Guarantor hereby assigns to the Bank, the Collateral described in Paragraph 3, to secure the payment, performance and observance of (i) all indebtedness, obligations, liabilities and agreements of any kind of Borrower to the Bank, now existing or hereafter arising, direct or indirect, absolute or contingent, secured or unsecured, due or not, arising out of or relating to the Indebtedness and (ii) all agreements, documents and instruments evidencing any of the foregoing or under which any of the foregoing may have been issued, created, assumed or guaranteed (all of the foregoing being herein referred to as the "Obligations").

3. THE COLLATERAL. The Collateral is described on Schedule "A" annexed hereto as part hereof and also includes all attachments, accessions and equipment now or hereafter affixed to the Collateral or used in connection therewith, substitutions and replacements therefor (unless the description of Collateral expressly excludes after-acquired Collateral), all items of Collateral now owned or existing and hereafter acquired, created or arising, and all proceeds thereof (including, without limitation, claims of Guarantor against third parties for loss or damage to or destruction of any Collateral).

4. WARRANTIES, REPRESENTATIONS AND COVENANTS. Guarantor warrants, represents and covenants that:

(a) The chief executive office and other places of business of Guarantor, the Collateral and the books and records relating to the Collateral and the Collateral are, and have been during the four month period prior to the date hereof (or in the case of a new business, from the date of commencement of said business), located at the address(es) set forth below and Guarantor will not change the same, or merge or consolidate with any person or change its name, without prior written notice to and consent of the Bank:

Addresses: 4890 E. LaPalma Avenue, Anaheim, California 92807

(b) Guarantor will use the Collateral for lawful and business purposes only, with all reasonable care and caution and in conformity with all applicable laws, ordinances and regulations;

(c) Guarantor will keep the Collateral in good order, repair, running and marketable condition as used in the ordinary course of business, at Guarantor's sole cost and expense;

(d) The Bank shall at all times have free access to and right of inspection of the Collateral and any records pertaining thereto, and the right to make extracts from and to receive from Guarantor originals or true copies of such records and any papers and instruments relating to any

Collateral upon request therefor (which rights shall, except after the occurrence of an Event of Default, be exercised only upon reasonable notice during regular business hours), and Guarantor hereby grants to the Bank a security interest in all such records, papers and instruments to secure the payment, performance and observance of the Obligations;

(e) Guarantor, at its sole cost and expense, will insure the Collateral in the name of and with loss or damage payable solely to the Bank, as its interest may appear, against such risks, with such companies and in such amounts, as may be required by the Bank from time to time (all such policies providing ten (10) days minimum written notice of cancellation to the Bank) and Guarantor will deliver to the Bank the original or duplicate policies, or certificates or other evidence satisfactory to the Bank attesting thereto, and Guarantor will promptly notify the Bank of any loss or damage to any Collateral or arising from its use;

(f) Guarantor will, at its sole cost and expense, and at all times, pay and discharge all taxes and assessments and keep the Collateral free and clear of any and all liens, security interests or encumbrances (other than in favor of the Bank), perform all acts and execute all documents requested by the Bank from time to time to evidence, perfect, maintain or enforce the Bank's primary security interest granted herein or otherwise in furtherance of the provisions of this Security Agreement;

(g) At any time and from time to time, Guarantor shall, at its sole cost and expense, execute and deliver to the Bank such financing statements pursuant to the Uniform Commercial Code ("UCC"), applications for certificate of title and other papers, documents or instruments as may be requested by the Bank in connection with this Security Agreement, and Guarantor hereby authorizes the Bank to execute and file at any time and from time to time one or more financing statements or copies thereof or of this Security Agreement with respect to the Collateral signed only by the Bank;

(h) In its discretion, the Bank may, at any time and from time to time, after a Default (as hereinafter defined) or an event which but for the passage of time, the giving of notice or both would constitute a Default has occurred and is continuing, in its name or Guarantor's or otherwise, notify any account debtor or obligor of any account, contract, document, instrument, chattel paper or general intangible included in the Collateral to make payment to the Bank;

(i) In their discretion, the Bank may, at any time and from time to time, after a Default has occurred and is continuing, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for, or make any compromise or settlement deemed desirable by the Bank with respect to, any Collateral, and/or extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, or release, any Collateral or Obligations, all without notice to or consent by Guarantor and without otherwise discharging or affecting the Obligations, the Collateral or the security interest granted herein;

(j) In their discretion, the Bank may, at any time and from time to time, for the account of Guarantor, pay any amount or do any act required of Guarantor hereunder and which Guarantor fails to do or pay, and any such payment shall be deemed an advance by the Bank to Guarantor payable on demand together with interest at the highest rate then payable on any of the Obligations;

(k) Guarantor will pay the Bank for any sums, costs, and expenses which the Bank may pay or incur pursuant to the provisions of this Security Agreement or in negotiating, executing, perfecting, defending, or protecting the security interest granted herein or in enforcing payment of the Obligations or otherwise in connection with the provisions hereof, including but not limited to court costs, collection charges, travel expenses, and reasonable attorneys' fees, all of which, together with interest at the highest rate then payable on any of the Obligations, shall be part of the Obligations and be payable on demand;

(l) All proceeds of any other Collateral received by Guarantor after the occurrence of a Default shall not be commingled with other property of Guarantor, but shall be segregated, held by Guarantor in trust

for the Bank, and immediately delivered to the Bank in the form received, duly endorsed in blank where appropriate to effectuate the provisions hereof, the same to be held by the Bank as additional Collateral hereunder or, at the Bank's option, to be applied to payment of the Obligations, whether or not due and in any order; and

(m) In their sole discretion, the Bank may, subject to the terms of the Credit Agreement, at any time and from time to time, assign, transfer or deliver to any transferee of any Obligations, any Collateral, whereupon the Bank shall be fully discharged from all responsibility and the transferee shall be vested with all powers and rights of the Bank hereunder with respect thereto, but the Bank shall retain all rights and powers with respect to any Collateral not assigned, transferred or delivered.

5. DEFAULT. It shall constitute an event of default ("Default") under this Security Agreement if an Event of Default shall have occurred under any of the Loan Documents or if any one or more of the following shall occur:

(a) Guarantor shall fail to perform any covenant, agreement or obligation contained in this Security Agreement for a period of fifteen (15) days after notice from the Bank of such failure; or

(b) the Collateral shall be subjected to waste, sale, transfer or other disposition or any lien, encumbrance or other imposition is placed upon said Collateral; or

(c) any levy, seizure, attachment, condemnation, forfeiture or other proceeding shall be brought against or with respect to the Collateral; or

(d) the occurrence of a material and adverse change in the condition or affairs (financial or otherwise) of the Borrower which the Bank reasonably believes substantially impairs their security or substantially increases the risk of failure of payment or performance under any of the Loan Documents.

6. REMEDIES. Upon the occurrence and continuation of any Default and at any time thereafter, the Bank shall have the following rights and remedies (to the extent permitted by applicable law) in addition to all rights and remedies of a secured party under the UCC or of the Bank under the Obligations, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively or concurrently:

(a) the Bank may at any time and from time to time, with or without judicial process or the aid and assistance of others, enter upon any premises in which any Collateral may be located and, without resistance or interference by Guarantor, take possession of the Collateral; and/or dispose of any Collateral on any such premises; and/or require Guarantor to assemble and make available to the Bank at the expense of Guarantor any Collateral at any place and time designated by the Bank which is reasonably convenient to both parties; and/or remove any Collateral from any such premises for the purpose of effecting sale or other disposition thereof (and if any of the Collateral consists of motor vehicles, the Bank may use Guarantor's license plates); and/or sell, resell, lease, assign and deliver, grant options for or otherwise dispose of any Collateral in its then condition or following any commercially reasonable preparation or processing, at public or private sale or proceedings or otherwise, by one or more contracts, in one or more parcels, at the same or different times, with or without having the Collateral at the place of sale or other disposition, for cash and/or credit, and upon any terms, at such place(s) and time(s) and to such person(s) as the Bank deem best, all without demand, notice or advertisement whatsoever except that where an applicable statute requires reasonable notice of sale or other disposition Guarantor hereby agrees that the sending of five days' notice by registered or certified mail, return receipt requested, to any address of Guarantor set forth in this Security Agreement shall be deemed reasonable notice thereof. If any Collateral is sold by the Bank upon credit or for future delivery, the Bank shall not be liable for the failure of the purchaser to pay for same and in such event the Bank may resell such Collateral. The Bank may buy any Collateral at any public sale and, if any Collateral is of a type customarily sold in a recognized market or is of the type which is the subject of widely distributed standard price quotations, the Bank may buy such Collateral at private sale and in each case may make payment therefor by any means. The Bank may apply the sale proceeds actually received from

any sale or other disposition to the reasonable expenses of retaking, holding, preparing for sale, selling, leasing and the like, to reasonable attorneys' fees and all legal, travel and other expenses which may be incurred by the Bank in attempting to collect the Obligations or enforce this Security Agreement or in the prosecution or defense of any action or proceeding related to the subject matter of this Security Agreement; and then to the Obligations in such order and as to principal or interest as the Bank may desire; and Guarantor shall remain liable and will pay the Bank on demand any deficiency remaining, together with interest thereon at the highest rate then payable on the Obligations and the balance of any expenses unpaid, with any surplus to be paid to Guarantor, subject to any duty of the Bank imposed by law to the holder of any subordinate security interest in the Collateral known to the Bank;

(b) The Bank may appropriate, set off and apply to the payment of the Obligations, any Collateral in or coming into the possession of the Bank or their agents, without notice to Guarantor and in such manner as the Bank may in their discretion determine.

7. DESIGNATION AND AUTHORIZATION. To effectuate the terms and provisions hereof, Guarantor hereby designates and appoints the Bank and each of its designees or agents as attorney-in-fact of Guarantor, irrevocably and with power of substitution, with authority, after the occurrence of a Default, to: receive, open and dispose of all mail addressed to Guarantor and notify the Post Office authorities to change the address for delivery of mail addressed to Guarantor to such address as the Bank may designate; endorse the name of Guarantor on any notes, acceptances, checks, drafts, money orders, instruments or other evidences of Collateral that may come into the Bank's possession; sign the name of Guarantor on any invoices, documents, drafts against and notices to account debtors or obligors of Guarantor, assignments and requests for verification of accounts; execute proofs of claim and loss; execute endorsements, assignments of other instruments of conveyance or transfer; adjust and compromise any claims under insurance policies or otherwise; execute releases; and do all other acts and things necessary or advisable in the sole discretion of the Bank to carry out and enforce this Security Agreement or the Obligations. All acts done under the foregoing authorization are hereby ratified and approved and neither the Bank nor any designee or agent thereof shall be liable for any acts of commission or omission, for any error of judgment or for any mistake of fact or law. This power of attorney being coupled with an interest is irrevocable while any Obligations shall remain unpaid.

8. PRESERVATION AND DISPOSITION OF COLLATERAL; MISCELLANEOUS. The Bank shall have the duty to exercise reasonable care in the custody and preservation of any Collateral in its possession, which duty shall be fully satisfied if the Bank maintains safe custody of such Collateral. Except as hereinabove specifically set forth, the Bank shall not be deemed to assume any other responsibility for, or obligation or duty with respect to, any Collateral, or its use, of any nature or kind, or any matter or proceedings arising out of or relating thereto, including, without limitation, any obligation or duty to take any action to collect, preserve or protect its or Guarantor's rights in the Collateral or against any prior parties thereto, but the same shall be at Guarantor's sole risk and responsibility at all times. Guarantor hereby releases the Bank from any claims, causes of action and demands at any time arising out of or with respect to this Security Agreement, the Obligations, the Collateral and its use and/or any actions taken or omitted to be taken by the Bank with respect thereto, and Guarantor hereby agrees to hold the Bank harmless from and with respect to any and all such claims, causes of action and demands. The Bank's prior recourse to any Collateral shall not constitute a condition of any demand, suit or proceeding for payment or collection of the Obligations. No act, omission or delay by the Bank shall constitute a waiver of its rights and remedies hereunder or otherwise. No single or partial waiver by the Bank of any Default or right or remedy which it may have shall operate as a waiver of any other Default, right or remedy or of the same Default, right or remedy on a future occasion. Guarantor hereby waives presentment, notice of dishonor and protest of all instruments included in or evidencing any Obligations or Collateral, and all other notices and demands whatsoever (except as expressly provided herein). In the event of any litigation with respect to any matter connected with this Security Agreement, the Obligations or the Collateral, Guarantor hereby waives the right to a trial by jury. Guarantor hereby irrevocably consents to the jurisdiction of the Courts of the State of California and of any Federal Court located in such State in connection with any action or proceeding arising out of or relating to the

Obligations, this Security Agreement or the Collateral, or any document or instrument delivered with respect to any of the Obligations. Guarantor hereby waives personal service of any process in connection with any such action or proceeding and agrees that the service thereof may be made by certified or registered mail directed to Guarantor at any address of Guarantor set forth in this Security Agreement. Guarantor so served shall appear or answer to such process within thirty (30) days after the mailing thereof. Should Guarantor so served fail to appear or answer within said thirty (30) day period, Guarantor shall be deemed in default and judgment may be entered by the Bank against Guarantor for the amount or such other relief as may be demanded in any process so served. In the alternative, in its discretion, the Bank may effect service upon Guarantor in any other form or manner permitted by law. All capitalized terms used and not otherwise defined shall have the meanings set forth in the Credit Agreement and other terms herein shall have the meanings as defined in the UCC, unless the context otherwise requires. No provision hereof shall be modified, altered or limited except by a written instrument expressly referring to this Security Agreement and to such provision, and executed by the party to be charged. This Security Agreement and all Obligations shall be binding upon the successors, or assigns of Guarantor and shall, together with the rights and remedies of the Bank hereunder, inure to the benefit of the Bank and their successors, endorsees and assigns. This Security Agreement and the Obligations shall be governed in all respects by the laws of the State of California applicable to contracts executed and to be performed in such State. If any term of this Security Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby. The Bank is authorized to annex hereto any schedules referred to herein. Guarantor acknowledges receipt of a copy of this Security Agreement.

IN WITNESS WHEREOF, the undersigned has executed or caused this Security Agreement to be executed in the State of New York as of the date first above set forth.

LING ELECTRONICS, INC.

By: /s/ C.Scheuer

Name: Cynthia A. Scheuer
Title: Secretary

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

On this 22nd day of September, 1998, before me the subscriber personally appeared Cynthia A. Scheuer, who being by me duly sworn, did depose and say; that she resides at 2757 Doelner Circle, Castleton, New York, that she is Secretary of Ling Electronics, Inc., the corporation described in and which executed the foregoing instrument; and that she signed her name thereto by order of the Board of Directors of said corporation.

/s/ M.S.Lamb

M. Sheila Lamb
NOTARY PUBLIC

Schedule "A"

All personal property and fixtures of the Guarantor, whether now or hereafter existing or now owned or hereafter acquired and wherever located, of every kind and description, tangible or intangible, and all goods, equipment, inventory, accounts, chattel paper, general intangibles, credits, claims, demands and any other property, rights and interests of the Guarantor, and any and all additions and accessions thereto, all substitutions and replacements therefor and all products and proceeds thereof and proceeds of insurance thereon.

GUARANTY OF PAYMENT AND PERFORMANCE

THIS Guaranty dated September 22, 1998 (the "Guaranty") from LING ELECTRONICS, INC., a California corporation with an office for the transaction of business located at 4890 E. LaPalma Avenue, Anaheim, California 92807 (whether individually or if more than one, collectively, the "Guarantor") to KEYBANK NATIONAL ASSOCIATION, a national banking association with an office for the transaction of business located at 66 South Pearl Street, Albany, New York 12207 (the "Bank").

W I T N E S S E T H :

WHEREAS, MECHANICAL TECHNOLOGY INCORPORATED, a New York corporation (the "Borrower"), is about to borrow from the Bank the sum of up to Four Million and no/100 (\$4,000,000.00) Dollars, (the "Loan") in accordance with a certain Credit Agreement of even date herewith (hereinafter, together with all exhibits thereto, as it may from time to time be amended, modified or supplemented, referred to as the "Credit Agreement") by and between the Borrower and the Bank; and

WHEREAS, the Bank is unwilling to make the Loan to the Borrower unless it receives this Guaranty; and

WHEREAS, the Guarantor is willing to enter into this Guaranty in order to induce the Bank to make the Loan and the Guarantor has approved the form and substance of any documents executed or delivered by Borrower in connection with the Loan (the "Loan Documents"); and

WHEREAS, all capitalized terms used herein which are defined in the Credit Agreement shall have the respective meanings provided therefor in the Credit Agreement, unless otherwise defined herein or unless the context otherwise requires;

NOW, THEREFORE, in order to induce the Bank to make the Loan to the Borrower and in consideration of the premises and of other good and valuable consideration, the Guarantor intends to guarantee absolutely and unconditionally (and jointly and severally if there be more than one Guarantor) to the Bank, the punctual payment of the Loan and all notes or other evidences of indebtedness given by the Borrower to the Bank in connection therewith and all extensions, modifications or renewals thereof (collectively, the "Note") and all interest and other sums due under the Note or any Loan Document and such further payment and performance as may be set forth in Article 2 hereof.

ARTICLE 1

REPRESENTATIONS AND WARRANTIES OF THE GUARANTORS

The Guarantor hereby represents and warrants to the Bank (if the Guarantor is more than one party, said representations and warranties are made only with respect to the particular party) that:

Section 1.1 Capacity of the Guarantor. Guarantor:

(A) Has the capacity to enter into this Guaranty.

(B) Has an office for the transaction of business at the address set forth at the head of this Guaranty.

Section 1.2 No Violation of Restrictions. Neither the execution and delivery of this Guaranty, the consummation of the transactions contemplated hereby nor the fulfillment of or compliance with the provisions of this Guaranty will conflict with or result in a breach of any of the terms, covenants, conditions or provisions of any agreement, judgment or order to which any party named as a Guarantor is a party or by which the Guarantor is bound, or will constitute a default under any of the foregoing, or result in the creation or imposition of any lien of any nature whatsoever.

Section 1.3 Compliance with Law. Each party named as a Guarantor (A) is not in violation of any law, ordinance, governmental rule,

regulation, order or judgment to which the Guarantor may be subject or which would materially and adversely affect the business of the Guarantor and (B) has not failed to obtain any license, permit, franchise or other governmental authorization necessary to the conduct of their present business if such failure would have a material and adverse effect on the business of the Guarantor.

Section 1.4 Financial Statements. The financial statements submitted by each party named as Guarantor, including balance sheets, statement of income, retained earnings and other related schedules, to the Bank fairly represent the financial condition as of the date of each statement and there has been no material change in the financial condition of any Guarantor since the date of the respective statements submitted to the Bank, except as disclosed to the Bank in writing.

Section 1.5 Solvency of Guarantor and Borrower. Each party named as a Guarantor is solvent and each Guarantor has made an appropriate financial investigation of the Borrower and has determined that the Borrower is solvent at the time of execution of this Guaranty.

ARTICLE 2

COVENANTS AND AGREEMENTS

Section 2.1 Guaranty of Payment. The Guarantor (jointly and severally, if there be more than one Guarantor) irrevocably, absolutely and unconditionally guarantees to the Bank:

(A) The punctual payment of the Loan, the Note, all principal and interest due thereunder and any other sums due under the Note or any Loan Document.

(B) The full and prompt payment and performance of any and all obligations of Borrower to the Bank under the Loan Documents including, without limitation, the obligations of Borrower concerning hazardous materials and other environmental matters contained in any of the Loan Documents.

Section 2.2 Obligations Unconditional. This Guaranty shall remain in full force and effect until the Loan, the Note and all sums due thereunder or under any Loan Document are paid in full, irrespective of any interruptions in the business relationships of the Borrower and the Guarantor with the Bank, and shall not be affected, modified or impaired by any state of facts or the happening from time to time of any event, including, without limitation, any of the following, whether or not with notice to or the consent of the Guarantor:

(A) The invalidity, irregularity, illegality or unenforceability of, or any defect in, the Note or any Loan Document or any collateral security for the Loan (the "Collateral").

(B) Any present or future law or order of any government (de jure or de facto) or of any agency thereof purporting to reduce, amend or otherwise affect the Note or any other obligation of the Borrower or any other obligor or to any other terms of payment.

(C) The waiver, compromise, settlement, release or termination of any or all of the obligations, covenants or agreements of the Borrower under the Note or any Loan Documents or of any party named as a Guarantor under this Guaranty.

(D) The loss, release, sale, exchange, surrender or other change in any Collateral.

(E) The extension of the time for payment of any principal or interest on the Note or of the time for performance of any other obligations, covenants or agreements under or arising out of the Note or any Loan Document or the extension or the renewal of any thereof.

(F) The modification or amendment (whether material or otherwise) of any obligation, covenant or agreement set forth in the Note or any Loan Document.

(G) The taking of, or the omission to take, any of the actions referred to in the Note or any Loan Document.

(H) Any failure, omission or delay on the part of the Bank to enforce, assert or exercise any right, power or remedy conferred on the Bank in the Note or any Loan Document.

(I) The voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment of, or other similar proceedings affecting the Guarantor or the Borrower or any of their assets, or any allegation or contest of the validity of the Note or any Loan Document.

(J) The default or failure of the Guarantor to fully perform any obligations set forth in this Guaranty.

(K) Any event or action that would, in the absence of this paragraph, result in the release or discharge of the Guarantor from the performance or observance of any obligation, covenant or agreement contained in this Guaranty.

(L) Any other circumstances which might otherwise constitute a legal or equitable discharge or defense of a surety or a guarantor.

Section 2.3 Waiver by Guarantor. The Guarantor hereby waives:

(A) Notice of acceptance of this Guaranty.

(B) Diligence, presentment and demand for payment of the Loan and/or the Note.

(C) Protest and notice of protest, dishonor or default to the Guarantor or to any other party with respect to the Loan.

(D) Any and all notices to which the Guarantor might otherwise be entitled.

(E) Any and all defenses to payment including, without limitation, any defenses and counterclaims of the Guarantor or the Borrower based upon fraud, negligence or the failure of any condition precedent or claims of offset or defenses involving the invalidity, irregularity or unenforceability of all or any part of the liabilities herein guaranteed or any defense otherwise available to the Guarantor or the Borrower.

(F) Any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution or any other claim which the Guarantor may now or hereafter have against the Borrower or any other person directly or contingently liable for the Loan guaranteed hereunder, or against or with respect to the Borrower's property (including, without limitation, property collateralizing the Loan), arising from the existence or performance of this Guaranty and whether or not such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise.

Section 2.4 Nature of Guaranty. This Guaranty is a guaranty of payment and not of collection and the Guarantor hereby waives the right to require that any action be brought first against the Borrower or any other Guarantor, or any security, or to require that resort be made to any security or to any balance of any deposit account on credit on the books of the Bank in favor of the Borrower or of any Guarantor.

Section 2.5 Continuation of Guaranty. The Guarantor further agrees that the obligations hereunder shall continue to be effective or reinstated, as the case may be, if at any time payment or any part thereof of the Loan or the Note is rescinded or must otherwise be restored by the Bank upon the bankruptcy or reorganization of the Borrower, the Guarantor or otherwise.

Section 2.6 Subordination of Debt. The Guarantor hereby subordinates any and all indebtedness of Borrower now or hereafter owed to Guarantor to all indebtedness of Borrower to the Bank and agrees with the Bank

that Guarantor shall not demand or accept any payment from Borrower, shall not claim any offset or other reduction of Guarantor's obligations hereunder because of any such indebtedness and shall not take any action to obtain any interest in any of the security described in and encumbered by the Loan Documents; provided, however, that, if the Bank so requests, such indebtedness shall be collected, enforced and received by Guarantor as trustee for the Bank and paid over to the Bank on account of the indebtedness of Borrower to the Bank, but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty except to the extent the principal amount of such outstanding indebtedness shall have been reduced by such payment.

Section 2.7 Financial Statements. Guarantor will advise the Bank in writing if Guarantor operates on other than a calendar year basis. Guarantor will at all times keep proper books of record and account in which full, true and correct entries shall be made in accordance with generally accepted

accounting principles and will deliver to the Bank the reports, certificates and other information described in Section 9.1 of the Credit Agreement. So long as the financial results of Guarantor are included in consolidated statements submitted to the Bank by Borrower in compliance with Section 9.1 of the Credit Agreement, Guarantor will have no obligation to provide independent financial statements to the Bank.

Section 2.8 Transfer of Interest. Guarantor agrees not to make or permit to be made, by a voluntary or involuntary means, any transfer of the interest of Guarantor in the Borrower, without first obtaining the prior written consent of the Bank.

ARTICLE 3

EVENTS OF DEFAULT

Section 3.1 Events of Default Defined. An "Event of Default" shall exist if any of the following occurs:

(A) Any party named as a Guarantor fails to perform or observe any covenant contained herein for a period of ten (10) days after notice from the Bank.

(B) Any warranty, representation or other statement by or on behalf of any party named as a Guarantor contained in this Guaranty is false or misleading in any material respect when made.

(C) A receiver, liquidator or trustee of any party named as a Guarantor or any of his or its property is appointed by court order, or any party named as a Guarantor is adjudicated bankrupt or insolvent or any of his or its property is sequestered by court order and such order remains in effect for more than one hundred twenty (120) days, or a petition is filed against any party named as a Guarantor under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within one hundred twenty (120) days of such filing.

(D) Any party named as a Guarantor files a petition in voluntary bankruptcy or seeks relief under any provision of any reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under any such law.

(E) Any party named as a Guarantor makes an assignment for the benefit of creditors or admits in writing inability to pay debts generally as they become due, or consents to the appointment of a receiver, trustee or liquidator of all or any part of his or its property.

(F) The occurrence of an event of default under any other Loan Document.

Section 3.2 Remedies on Default. If an event of default exists, the Bank may proceed to enforce the provisions hereof and to exercise any other rights, powers and remedies available to the Bank.

Section 3.3 Waiver and Notice.

(A) No remedy herein conferred upon or reserved to the Bank is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Guaranty now or hereafter existing at law or in equity or by statute.

(B) No delay or omission to exercise any right or power accruing upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient.

(C) In order to entitle the Bank to exercise any remedy reserved to it in this Guaranty, it shall not be necessary to give any notice, other than such notice as may be expressly required in this Guaranty.

(D) No waiver, amendment, release or modification of this Guaranty shall be established by conduct, custom or course of dealing.

ARTICLE 4

MISCELLANEOUS

Section 4.1 Construction. If this Guaranty is executed by two or more parties, they shall be jointly and severally liable hereunder and the phrase Guarantor whenever used herein shall be construed to refer to each of the parties in the same manner and with the same effect as if each party had signed a separate guaranty.

Section 4.2 Governing Law. This Guaranty shall be governed by and construed in accordance with the laws of the State of New York.

Section 4.3 Submission to Jurisdiction. The Guarantor hereby irrevocably and unconditionally agrees that any suit, action or proceeding arising out of or relating to this Guaranty shall be brought in the state courts of the State of New York or federal district court for the Northern District of New York and waives any right to object to jurisdiction within either of the foregoing forums by the Bank. Nothing contained herein shall prevent the Bank from bringing any suit, action or proceeding or exercising any rights against any security and against any Guarantor personally, and against any property of any Guarantor, within any other jurisdiction and the initiation of such suit, action or proceeding or taking of such action in any such other jurisdiction shall in no event constitute a waiver of the agreements contained herein with respect to the laws of the State of California governing the rights and obligations of the parties hereto or the agreement of the Guarantor to submit to personal jurisdiction within the State of New York.

Section 4.4 Waiver of Jury Trial. The Guarantor and the Bank agree that any suit, action or proceeding arising under or in connection with this Guaranty shall be before a court without a jury.

Section 4.5 Successors and Assigns. This Guaranty shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

Section 4.6 Notices. Any notices required or permitted to be given hereunder shall be: (i) personally delivered or (ii) given by registered or certified mail, postage prepaid, return receipt requested, or (iii) forwarded by overnight courier service, in each instance addressed to the addresses set forth at the head of this Guaranty, or such other addresses as the parties may for themselves designate in writing as provided herein for the purpose of receiving notices hereunder. All notices shall be in writing and shall be deemed given, in the case of notice by personal delivery, upon actual delivery, and in the case of appropriate mail or courier service, upon deposit with the U.S. Postal Service or delivery to the courier service.

Section 4.7 Entire Agreement. This Guaranty and the Note and other Loan Documents constitute the entire understanding between Borrower, the Guarantor and the Bank and to the extent that any writings not signed by the Bank or oral statements or conversations at any time made or had are

inconsistent with the provisions of this Guaranty, the Note or the other Loan Documents, the same shall be null and void.

Section 4.8 Amendments. No amendment, change, modification, alteration or termination of this Guaranty shall be made except upon the written consent of the parties hereto.

Section 4.9 Assignment. This Guaranty is assignable by the Bank in whole or in part in conjunction with an assignment of the Note and any assignment hereof or any transfer or assignment of the Note or portions thereof shall operate to vest in any such assignee the rights and powers, in whole or in part, as appropriate, herein conferred upon and granted to the Bank.

Section 4.10 Partial Invalidity. The invalidity or unenforceability of any one or more phrases, sentences, clauses or sections in this Guaranty shall not affect the validity or enforceability of the remaining portions of the Guaranty or any part thereof.

IN WITNESS WHEREOF, the Guarantor has executed this Guaranty as of the day and year first above written.

LING ELECTRONICS, INC.

By: /s/ C.Scheuer

Name: Cynthia A. Scheuer

Title: Secretary

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

On this 22nd day of Septemer, 1998, before me the subscriber personally appeared Cynthia A. Scheuer, who being by me duly sworn, did depose and say; that she resides at 2757 Doelner Circle, Castleton, New York, that she is Secretary of Ling Electronics, Inc., the corporation described in and which executed the foregoing instrument; and that she signed her name thereto by order of the Board of Directors of said corporation.

/s/ M.S.Lamb

M. Sheila Lamb

NOTARY PUBLIC

SUBSIDIARIES OF MECHANICAL TECHNOLOGY INCORPORATED

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

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