

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, 1997

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 12, 1997 (based on the last
sale price of \$5.125 per share for such stock reported by OTC Bulletin
Board for that date) was approximately \$16,154,195.

As of December 12, 1997, the registrant had 5,905,661 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 11, 1998 Part III

PART I

ITEM 1: BUSINESS

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

- * Test and Measurement
- * Technology

The major markets for these products and services are the electronics,
aerospace, capital goods, and defense industries. 76% of the Company's
revenues from operations were derived from product sales in the Company's
fiscal year ended September 30, 1997; the remaining 24% of revenues were

derived from technology support and research and development contracts.

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

Significant Developments in the Business

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 \$2,600,000 in cash and two notes, totaling \$650,000, from Noonan Machine Company. 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 \$2,012,000 gain, which was recorded in the fourth quarter of fiscal year 1997.

On June 27, 1997, the Company and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Co. entered into final agreements to form a joint venture 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 \$349 thousand), the Company received a 50% interest in the joint venture; the Company is not obligated to make any future contributions to the joint venture, but its interest in the joint venture could be reduced in certain circumstances in the future. EDC made an initial cash contribution of \$4.75 million in exchange for the remaining 50% interest in the joint venture. EDC is required to contribute an additional \$4.25 million in certain circumstances. The Company's investment in the joint venture is included in "Other Assets" at September 30, 1997; the assets contributed by the Company to the joint venture 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 (included in the financial statements set forth above in this Form 10-K Report and incorporated herein by reference) for additional information regarding the assets contributed by the Company to the joint venture.

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 a voluntary bankruptcy under Chapter 11 of the Federal Bankruptcy Code in April 1994. During October 1994, UTE commenced an orderly liquidation and final court approval occurred during the third quarter of fiscal 1996. Accordingly, the Company no longer includes Defense/Aerospace amongst its reportable business segments and UTE has been classified as a "discontinued operation" in the Company's Financial Statements. (See Note 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). ProQuip's financial results are included as part of the Company's Test and Measurement segment for prior fiscal year periods covered by this Form 10-K until November 22, 1994 (the date of its sale).

Business Segments

The Company currently conducts business in two business segments: Test and Measurement and Technology. (Certain financial information regarding the Company's business segments is included in Note 18 to the accompanying Consolidated Financial Statements and is incorporated herein by reference.) In the Test and Measurement segment, the Company primarily produces products for sale, while in the Technology segment the Company primarily performs technology support and research and development under contract. The Company believes its technology support and research and development activities provide a competitive advantage to the product segments through the performance of related research which, for the most part, is funded by outside parties.

Test and Measurement

The Company derived 75% of its revenues from the Test and Measurement segment in 1997. 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 Advanced Products Division, Ling Electronics, Inc. and L.A.B. Division (sold on September 30, 1997). ProQuip Inc. was also included in this segment prior to its sale on November 22, 1994.

The Advanced Products Division designs, manufactures, and markets high-performance test and measurement instruments and systems. These products are categorized in two general product families: 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, designs, manufactures, and markets 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.

Technology

The Company derived 25% of its revenues from the Technology segment in

1997. The Technology segment engages in technology commercialization / product development, provides technical support to the Company's other Divisions, has initiated several strategic/teaming relationships with other companies, and performs contract research, development, engineering, and technical services for government and commercial customers.

The Technology segment develops advanced components, such as magnetic and foil bearings, builds custom process automation equipment, and provides high-efficiency turbines, spare parts, and service for the business previously included in the Company's currently inactive subsidiary, Turbonetics Energy, Inc. Major markets include the U.S. military and process industrial concerns that plan to generate power

from surplus steam.

The Technology segment also provides hardware and software for machinery monitoring and develops advanced sensor technology for precision imaging, control, and measurement. One product, TempSense 10i, employs fiber-optics to measure the temperature of electric power transmission lines, a limiting factor in the ability of utilities to increase output over existing lines. Major markets include electric utilities and the Department of Energy.

The Technology segment, either directly or as a subcontractor, received approximately 67% of its 1997 revenues (versus 73% in 1996) from various agencies of the U.S. Government; approximately 65% of the segment's revenues were derived from two agencies, the Departments of Defense and Energy. Contracts with the U.S. Government are subject to termination by the Government, at any time, either for convenience or for other causes as determined by the contracts. The Technology segment has had no government contracts terminated which, when terminated, resulted in a material adverse effect on the Company.

Backlog

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The backlog of orders believed to be firm as of September 30, 1997 and 1996 is as follows:

| | 1997 | 1996 |
|----------------------|----------------|----------|
| | ----- | ----- |
| | (In thousands) | |
| Technology | \$ 1,359 | \$ 1,572 |
| Test and Measurement | 3,861 | 6,970 |
| | ----- | ----- |
| Total | \$ 5,220 | \$ 8,542 |
| | ===== | ===== |

All amounts shown above have been awarded by government agencies or released to manufacture by commercial customers; however, approximately \$157 thousand of the orders included in the September 30, 1997 backlog may not be filled during the Company's current fiscal year (as compared to approximately \$40 thousand not expected to be so filled at the end of the prior year).

Marketing and Sales

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

representatives to sophisticated customers. The manufacturer's representatives are compensated on a commission basis.

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

Research and Development -----

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

| | 1997 | 1996 | 1995 |
|--------------------|----------------|----------|----------|
| | ----- | ----- | ----- |
| | (In thousands) | | |
| Company-Sponsored | \$ 1,734 | \$ 1,263 | \$ 1,425 |
| Customer-Sponsored | 5,813 | 5,946 | 8,492 |
| | ----- | ----- | ----- |
| Total | \$ 7,547 | \$ 7,209 | \$ 9,917 |
| | ===== | ===== | ===== |

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

Product Protection -----

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

Competition -----

The Company and each of its business segments are subject to intense competition. In each of its business segments, the Company faces competition from at least several companies, many of which are larger than MTI and have greater financial resources. While the business units in the Company's Test and Measurement segment each have a major share of their respective markets, the Company does not consider any of them to be dominant within its industry. The Company's Technology segment has a

negligible share of its respective market and competes with dozens (and perhaps hundreds) of competing providers of similar products and services, many of whom have greater financial and technical resources.

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

Employees -----

The total number of employees of the Company and its subsidiaries was 178 as of September 30, 1997, compared to 233 as of the beginning of the fiscal year.

Executive Officers

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

| Position or Office ----- | Name ---- | Age --- |
|--|-----------------------|------------|
| President, Chief Operating Officer, And a Director | Martin J. Mastroianni | 53 |
| Vice President, Chief Financial Officer And Treasurer | Cynthia A. Scheuer | 36 |
| Vice President and General Manager, Advanced Products | Denis P. Chaves | 57 |
| Vice President and General Manager Ling Electronics, Inc. | James Clemens | 48 |
| Vice President and General Manager Technology Division | Douglas McCauley | 49 |

Dr. Mastroianni was appointed President and Chief Operating Officer of the Company in December 1996. Prior to joining the Company, he served most recently as Director, Transmission Power Delivery for the Electric Power Research Institute (EPRI) where he was employed since 1992. Previously, between 1973 to 1992, he held senior management positions in the technology driven test and measurement industries with Vacuum Components, Inc., Tenney Engineering, Inland Vacuum Industries, Halocarbon Products, Inc., and Allied Signal Corporation.

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

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

ITEM 2: PROPERTIES

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

Owned Properties

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

Leased Properties

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

| Location | Approximate Square feet | Segment Used By | Lease Expires |
|-------------|-------------------------|----------------------|----------------|
| Anaheim, CA | 85,000 | Test and Measurement | June, 1998 |
| Malta, NY | 18,000 | Technology | December, 1999 |

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

ITEM 3: LEGAL PROCEEDINGS

At any point in time, the Company and its subsidiaries may be involved in various lawsuits or other legal proceedings; these could arise from the sale of products or services or from other matters relating to its regular business activities, could relate to compliance with various governmental regulations and requirements, or could be based on other transactions or circumstances. The Company does not believe there are any such proceedings presently pending which 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), and the matters discussed below (as to which matters the Company considers the likelihood of a material adverse outcome remote).

In February, 1997, an unaffiliated entity, Ling Holdings Group, Inc. ("Plaintiff"), brought suit against the Company. The Plaintiff's claims arise out of the Company's decision not to sell Plaintiff the stock of the Company's wholly owned subsidiary, Ling Electronics, Inc. ("LING"), after expiration of the closing date specified in the stock purchase agreement and side letters executed in connection with the transaction (collectively, the "Agreements"). Plaintiff claims that the Agreements provided an "open-ended" closing that permitted Plaintiff to purchase LING when Plaintiff raised sufficient funds to do so. Plaintiff further claims breach of express and implied contractual obligations, fraud, misrepresentation, and other torts in connection with the Company's refusal to consummate the sale after the agreed upon closing date. Plaintiff further alleged that the Company wrongfully confiscated \$50,000 of Plaintiff's escrowed funds in breach of the escrow agreement between Plaintiff, the Company, and the Adirondack Trust Company ("Escrow Agent"). Escrow Agent commenced an interpleader action regarding the escrowed funds in September, 1997.

The Company believes that its determination not to sell LING to Plaintiff was in compliance with the terms of the Agreements. The Company further believes that it became the rightful owner of funds escrowed with the Escrow Agent, when Plaintiff failed to have sufficient funds available to close the purchase of LING on the closing date specified in the Agreements. The Company has filed claims against Plaintiff for negligent misrepresentation, asserting that Plaintiff misled the Company concerning its ability to raise the funds required to purchase LING.

In September, 1997, the Environmental Protection Agency ("EPA") executed a consent decree with the Company, and other named potentially responsible parties ("PRPs"), approving a settlement between the Company and the PRPs

("Settlement"), in connection with an alleged release of hazardous materials into the environment, at a site in Malta, New York (the "Site"). The Settlement provided that the Company will pay \$138,580.30 as its share of the Settlement, in satisfaction of all of the Company's obligations for past or future EPA response costs and any costs incurred by the PRPs with respect to the Site. In addition, in the unlikely event that unexpected future Site costs arise for which the Company has any responsibility, the Company's liability for such costs will be limited to 2.25% of such costs. The Settlement remains subject to final governmental and court approval.

There is no assurance the Company will be successful in connection with the above-referenced matters or that the Settlement will receive final approval, however, the Company considers the likelihood of a material adverse outcome to be remote and does not currently anticipate that any expense or liability it may incur as a result of these matters in the future will be material to the Company's financial condition.

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 1997.

PART II

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

Price Range of Common Stock

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

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

Number of Equity Security Holders

| Title of Class | Approximate Number of Record Holders* (as of December 12, 1997) |
|--------------------------------|---|
| Common Stock, \$1.00 Par Value | 557 |

*In addition, there are approximately 908 beneficial owners holding stock in "street" name.

Dividends

The Company has never paid cash dividends on its Common Stock. The payment of dividends is within the discretion of the Company's Board of Directors and will depend, among other factors, on earnings, capital requirements, and the operating and financial condition of the Company. The Company does not anticipate paying dividends in the foreseeable future.

ITEM 6: SELECTED FINANCIAL DATA

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

(In thousands, except per share amounts)

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net Sales | \$ 31,980 | \$ 31,901 | \$ 29,748 | \$ 40,234 | \$ 41,500 |
| Income from Continuing Operations | 4,520(1) | 509(2) | 2,922(3) | 141 | 1,162 |
| Net Income (Loss) | 4,520 | 3,748 | 2,922 | (24,378) | 1,056 |
| Earnings (Loss) Per Share: | | | | | |
| From Continuing Operations | .80 | .13 | .82 | .04 | .33 |
| Net Income (Loss) | .80 | .96 | .82 | (6.91) | .30 |
| As of September 30: | | | | | |
| Total Assets | 14,756 | 14,452 | 14,483 | 25,317 | 42,428 |
| Long-term Obligations | 0 | 3,806 | 6,222 | 2,144(4) | 11,699 |

(1) Includes a \$2.012 million gain on the sale of the L.A.B. Division and a \$2.5 million extraordinary gain, net of tax, on the extinguishment of debt. (See Notes 16 and 19 to the accompanying Consolidated Financial Statements)

(2) Includes \$750 thousand gain from the sale of ProQuip resulting from the release of escrow funds. (See Note 16 to the accompanying Consolidated Financial Statements).

(3) Includes ProQuip (sold in November 1994) results through the sale date and the \$6.8 million gain on its sale. All prior periods include the results of ProQuip. (See Note 16 to the accompanying Consolidated Financial Statements).

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

Consistent with 1996 data, prior years have been restated to reflect the Defense/Aerospace segment as a discontinued operation. (See Note 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: 1997 in Comparison with 1996

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 \$2,600,000 in cash and two notes, totaling \$650,000, from Noonan Machine Company. 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 \$2,012,000 gain, which was recorded in the fourth quarter of fiscal year 1997. In addition, \$250,000 of the proceeds associated with one of the notes was recorded as deferred revenue due to the possible reduction of the \$250,000 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. entered into final agreements to form a joint venture to further develop the Company's Proton Exchange Membrane Fuel Cell technology ("Fuel Cell Business"). 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 \$349 thousand), the Company received a 50% interest in the joint venture; the Company is not obligated to make any future contributions to the joint venture, but its interest in the joint venture could be reduced in certain circumstances in the future. EDC made an initial cash contribution of \$4.75 million in exchange for the remaining 50% interest in the joint venture. EDC is required to contribute an additional \$4.25 million in certain circumstances. The Company's investment in the joint venture is included in "Other Assets" at September 30, 1997; the assets contributed by the Company to the joint venture 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 (included in the financial statements set forth above in this Form 10-K Report and incorporated herein by reference) for additional information regarding the assets contributed by the Company to the joint venture.

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 operation, which included the Fuel Cell Business prior to its contribution to the joint venture in July 1997.

Sales for fiscal 1997 totaled \$32.0 million compared to \$31.9 million for the prior year, an increase of less than 1% in fiscal 1997 compared to fiscal 1996.

Selling, general and administrative expenses for fiscal 1997 were 29.2% of sales, as compared to 30.7% in 1996. Product development and research costs during fiscal 1997 were 5.4% of sales, compared to 4.0% 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 \$580 thousand compared to \$956 thousand for fiscal 1996, or a decrease of \$376 thousand. The decrease in operating income is primarily due to continuing declining Technology segment revenues.

The Test and Measurement segment reported fiscal 1997 sales of \$24.1 million compared to \$22.8 million in the prior period or a 5.9% increase. L.A.B and Advanced Products reported sales increases of 7.8% and 19.4%, respectively and the Ling Division reported a sales decrease of 0.2%. Operating income for fiscal 1997 amounted to \$1.5 million, an increase of \$.1 million over the \$1.4 million operating income in 1996. Stable operating income was achieved in spite of higher product development

costs. All divisions reported improvements, however, Ling continues to experience an operating loss.

The Technology segment recorded a \$1.3 million or 13.9% decline in sales to \$7.9 million for fiscal 1997 as compared to \$9.1 million in fiscal 1996. The operating loss for 1997 was \$959 thousand, a significant increase in losses from the \$434 thousand operating loss in 1996. The lower level of sales resulted from the continuing reduction of government spending. Current year results were negatively impacted by contract overruns of approximately \$900 thousand.

The Technology segment continues to be dependent on government-funded R&D contracts for the bulk of its business. However, fiscal constraints at all levels of government have reduced the level of funding available for these programs, and securing additional such contracts has become more difficult and competitive; no improvement in this situation is anticipated in the foreseeable future. For the third year in a row, the Technology segment has a historically low level of backlog, and any improvement in the segment's results in fiscal 1998 will depend on success in procuring and fulfilling orders within the fiscal year. The future growth and profitability of the segment will depend on its success in identifying and exploiting new markets for its products and services. In light of these circumstances, and with the transfer of the fuel cell research and development business activity of the Technology segment to the joint venture with EDC (discussed above), the Company continues to evaluate its strategic options with respect to the remaining business activities that

comprise this segment.

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, and income from discontinued operations of \$3.2 million.

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.

Results of Operations: 1996 in Comparison with 1995

As described in Note 15 to the accompanying Consolidated Financial Statements, the Company's United Telecontrol Electronics, Inc. ("UTE") subsidiary filed for voluntary bankruptcy under Chapter 11 of the Federal Bankruptcy Code in April 1994 and commenced an orderly liquidation in October 1994. In June 1996 the Bankruptcy Court confirmed UTE's plan of liquidation under which the Company was released from all remaining liabilities related to UTE's bankruptcy. Accordingly, UTE's results and the impact of the liquidation on the Company's results have been classified as "discontinued operations" in the Consolidated Financial Statements.

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

In November 1994, the Company sold its ProQuip Inc. ("ProQuip") subsidiary for approximately \$13.3 million, of which \$750 thousand was placed in escrow for fifteen months to provide a fund for indemnity payments. As of February 22, 1996 (the escrow expiration date), no claim had been filed, nor was the Company aware of any circumstances which might give rise to future claims. Accordingly, the Company recognized the remaining \$750 thousand gain from the sale during the second quarter of fiscal 1996. Prior year information contains ProQuip results through its sale date (November 22, 1994) and the \$6.8 million gain on its sale. (See Note 16 to the accompanying Consolidated Financial Statements).

The following is management's discussion and analysis of certain significant factors, which have affected the Company's results of operations for 1996 compared to 1995. This discussion relates only to the Company's continuing operations, which included ProQuip in fiscal year 1995 prior to its sale in November 1994.

Sales for fiscal year 1996 totaled \$31.9 million compared to \$29.7 million for the prior year. Prior year sales include \$2.6 million from the Company's former subsidiary, ProQuip; excluding ProQuip, sales increased \$4.7 million or 17.4% in fiscal 1996 compared to fiscal 1995.

Selling, general and administrative expenses for fiscal 1996 were 30.7% of sales, as compared to 27.2% in 1995 (28.6% excluding ProQuip). Product development and research costs during fiscal 1996 were 4.0% of sales, compared to 4.8% for 1995 (4.5% excluding ProQuip). Higher levels of general/administrative expenses for fiscal 1996 resulted primarily from increased divisional profit sharing accruals, expenses incurred in connection with the now-discontinued efforts to sell Ling, and expenses attributable to several legal matters.

Company 1996 operating income totaled \$956 thousand compared to a \$2.5 million operating loss for fiscal 1995, or an improvement of \$3.4 million. The significant improvement in operating income is primarily due to results in the Test and Measurement segment.

The Test and Measurement segment reported fiscal 1996 sales of \$22.8 million compared to \$18.1 million in the prior period or a 25.4% increase. Prior year sales include \$2.6 million from ProQuip; excluding ProQuip, sales increased 46.3%. All divisions within this segment reported higher levels of orders and shipments in fiscal 1996 as compared to 1995. Operating income for fiscal 1996 amounted to \$1.4 million, an increase of \$3.4 million over the \$2.0 million operating loss in 1995. The prior year's results included a \$1.6 million impairment loss on the Company's investment in Ling, which was partially offset by operating income from ProQuip of \$607 thousand before the date of its sale. All divisions reported significant improvements, primarily from the higher level of sales, however Ling continued to experience an operating loss.

The Technology segment recorded a \$2.5 million or 21.2% decline in sales to \$9.1 million for fiscal 1996 as compared to \$11.6 million in fiscal 1995. The operating loss for 1996 was \$434 thousand, a slight improvement over the \$463 thousand operating loss in 1995. The lower level of sales resulted from completion of a major program in the Power and Energy business area. Margins improved which resulted from a higher yielding sales mix, however this benefit was substantially offset by higher levels of product development and other expenses.

The Technology segment continues to be dependent on government-funded R&D contracts for the bulk of its business. However, fiscal constraints at all levels of government have reduced the level of funding available for these programs, and securing additional such contracts has become more difficult and competitive; no improvement in this situation is anticipated in the foreseeable future. For the second year in a row, the Technology segment has an historically low level of backlog, and any improvement in the segment's results in fiscal 1997 will depend on success in procuring and fulfilling orders within the fiscal year. The future growth and profitability of the segment will depend on its success in identifying and

exploiting new markets for its products and services.

In addition to the matters noted above, the Company's results for fiscal 1996 were further enhanced by decreased interest expense, due to reduced indebtedness and a lower prime rate, and by recognition of a \$750 thousand contingency gain on the sale of ProQuip. Moreover, the Company continues to benefit from net operating loss carryforwards and therefore has no federal income tax provision (exclusive of minimum taxes).

Liquidity and Capital Resources

At September 30, 1997 the Company's order backlog was \$5.2 million, a decrease of \$3.3 million from the prior year-end. This reduction reflects a decline at the Ling Division due to orders expected in the fourth quarter being shifted to the next fiscal year as well as the elimination of backlog for the L.A.B. Division (approximately \$.6 million at 1996) which was sold as of September 30, 1997.

Inventories, excluding the effect of the sale of the L.A.B. Division, decreased by \$209 thousand in 1997, an improvement over the prior year's increase in inventories of \$627 thousand.

Cash flow from operating activities was \$998 thousand in 1997 compared with \$1,400 thousand in 1996 and (\$558) thousand in 1995. Cash flow from operating activities was impacted in 1997 and 1996 by positive operating income and fluctuations in working capital components. Capital expenditures were \$829 thousand for 1997, \$549 thousand for 1996 and \$667 thousand for 1995. The increased capital expenditures in 1997 were in accordance with the higher level of planned expenditures. Capital expenditures in 1998 are expected to be about \$850 thousand, which includes expanding engineering and testing capabilities, information technology upgrades and manufacturing equipment. The Company expects to finance these expenditures with cash from operations and existing credit facilities.

Cash and cash equivalents were \$1,425 thousand at September 30, 1997 compared to \$66 thousand at September 30, 1996, this increase is a result of the cash proceeds from the sale of the L.A.B. Division. Working capital was \$6.2 million at September 30, 1997, a \$1.1 million increase over \$5.1 million at fiscal year-end 1996.

At September 30, 1997, there were no borrowings outstanding on the line of credit, while at September 30, 1996, there were line of credit borrowings of \$100 thousand. The Company has a line of credit available in the amount of \$4.0 million. This line of credit continues to be collateralized by a guarantee from a former shareholder, and expires on October 31, 1998.

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 \$3.0 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 line of credit.

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 27 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 February 23, 1998 (the "1998 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 1998 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 1998 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 1998 Proxy Statement is incorporated herein by reference.

PART IV

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

(a) The financial statements filed herewith are set forth on the Index to Consolidated Financial Statements on page F-1 of the separate financial section which accompanies this Report, which is incorporated 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, |

1988, between the registrant and Chase Lincoln relating to an \$8,000,000 term loan to finance the registrant's acquisition of ProQuip, Inc. (the "ProQuip Loan Agreement").(1)

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

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

4.33 First Amendment to Loan Agreement, dated as of February 21, 1990, amending certain provisions of the ProQuip Loan Agreement.(1)

4.34 Form of Note, in the amount of \$3,375,817.80, executed by the registrant on February 21, 1990 to evidence its indebtedness under the ProQuip Loan Agreement.(1)

4.35 Amendment Number One to Security Agreement, executed by the registrant on February 21, 1990, amending the Chase Lincoln Security Agreement.(1)

4.36 Mortgage, dated February 21, 1990, executed by the registrant in favor of Chase Lincoln and securing the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(1)

4.37 Second Amendment to Loan Agreement, dated as of January 1, 1991, amending certain provisions of the ProQuip Loan Agreement.(2)

4.38 Mortgage Modification and Allocation Agreement, dated January 1, 1991, executed by the registrant and Chase Lincoln.(2)

4.40 Form of Payment Guaranty, dated as of September 1, 1988 [as of September 30, 1988, in the case of ProQuip, Inc.], executed by the subsidiaries of the registrant in favor of Chase Lincoln and guaranteeing payment of the registrant's obligations to Chase Lincoln, including those under the UTE and ProQuip Loan Agreements.(1)

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

4.42 Form of Security Agreement, dated as of September 30, 1988, executed by the subsidiaries of the registrant in favor of Chase Lincoln and securing the registrant's

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

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

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

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

4.56 Second Debt Restructure Agreement, as of July 22, 1992, between the registrant, Chase Lincoln First Bank, N. A. ("CLFB"), and Chemical Bank ("Chemical"), as successor in interest to Manufacturers Hanover Trust Company, providing for a restructuring of the registrant's indebtedness to CLFB under the UTE and ProQuip Loan Agreements and of the registrant's outstanding indebtedness to Chemical, among other things.(3)

4.63 Promissory Note, in the amount of \$4,000,000 and dated July 22, 1992, executed by the registrant to evidence its indebtedness to Chemical from time to time with respect to a line of credit in such amount (The Chemical Line of Credit).(3)

4.64 Form of Payment Guaranty, dated as of July 24, 1992, executed by Masco Corporation in favor of Chemical and guaranteeing payment of the registrant's obligations to Chemical under the Chemical Line of Credit.(3)

4.65 Promissory Note, in the amount of \$4,000,000 and dated October 31, 1994,

extending the maturity date of the Promissory note dated July 22, 1992, executed by the registrant to evidence its indebtedness to Chemical under The Chemical Line of Credit.(8)

4.66 Promissory Note, in the amount of \$4,000,000 and dated October 31, 1995, extending the maturity date of the Promissory note dated October 31, 1994, executed by the registrant to evidence its indebtedness to Chemical under The Chemical Line of Credit.(9)

4.67 Form of Payment Guaranty, dated October 31, 1995 executed by Masco Corporation in favor of

Chemical and guaranteeing payment of the registrant's obligations to Chemical under the Chemical Line of Credit.(9)

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

Agreement with waiver, dated as of November 30, 1995, between the registrant and Chase Manhattan Bank, N. A. which amends the Amended and Restated Loan Agreement and waives any existing defaults.(9)

- 10.1 Mechanical Technology Incorporated Restricted Stock Incentive Plan-filed as Exhibit 28.1 to the registrant's Form S-8 Registration Statement No. 33-26326 and incorporated herein by reference.
- 10.3 MTI Employee 1982 Stock Option Plan.(1)
- 10.4 Agreement, dated December 21, 1993, between UTE, First Commercial Credit Corporation ("FCCC") and the registrant, relating to an advance against certain receivables.(5)
- 10.6 Agreement, dated June 2, 1993, between the registrant and Mr. Harry Apkarian, Director, regarding his employment.(5)
- 10.7 Agreement, dated February 22, 1994, between the registrant and Mr. R. Wayne Diesel, President and Chief Executive Officer, regarding his employment.(8)
- 10.8 Agreement, dated December 14, 1994, between FCCC and the registrant, modifying the Agreement dated December 21, 1993 relating to an advance against certain receivables.(8)
- 10.9 Agreement, dated May 30, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.10 Agreement, dated June 28, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.11 Agreement, dated September 21,1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14,1994 relating to an advance against certain receivables.(9)
- 10.12 Agreement, dated October 25, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.13 Agreement, dated December 27, 1995, between FCCC and the registrant, extending the maturity of the Agreement dated December 14, 1994 relating to an advance against certain receivables.(9)
- 10.14 Mechanical Technology Incorporated Stock Incentive Plan - included as Appendix A to the registrant's Proxy Statement, filed pursuant to Regulation 14A, for its December 20, 1996 Special Meeting of Shareholders and incorporated herein by reference. (10)
- 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)

10.19 Contribution Agreement, dated June 27, 1997, between Mechanical Technology, Incorporated and Plug Power, L.L.C. (12)

10.20 Asset Purchase Agreement, dated as of September 22, 1997, between Mechanical Technology, Incorporated and Noonan Machine Company.

21 Subsidiaries of the registrant.

27 Financial Data Schedule

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) Confidential treatment requested with respect to certain schedules and exhibits.

(b) One report on Form 8-K was filed during the quarter ending September 30, 1997.

The Company filed a Form 8-K Report, dated September 23, 1997, reporting under item 5 thereof the Company's execution of a definitive agreement for the sale of the assets and certain liabilities of its L.A.B. Division to Noonan Machine Company.

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 19, 1997 By: /s/ M. Mastroianni

Martin J. Mastroianni
President and Chief Operating 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 | Chairman of the Board of Directors | 12/19/97 |
| /s/ Martin J. Mastroianni ----- Dr. Martin J. Mastroianni | Chief Operating Officer (Principal Executive Officer) and a Director | " |
| /s/ Cynthia A. Scheuer ----- Cynthia A. Scheuer | Chief Financial Officer (Principal Financial and Accounting Officer) | " |
| /s/ Dale W. Church ----- Dale W. Church | Director | " |
| /s/ R.Wayne Diesel ----- R. Wayne Diesel | 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 | " |

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

F-1

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Mechanical Technology Incorporated

We have audited the consolidated financial statements of Mechanical Technology Incorporated and Subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of income, shareholder's equity and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mechanical Technology Incorporated and Subsidiaries as of September 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

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

Albany, New York
November 14, 1997

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 September 30, 1997 and 1996

| | (Dollars in thousands) | |
|---|------------------------|-----------|
| | 1997 | 1996 |
| ASSETS | ----- | ----- |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,425 | \$ 66 |
| Accounts receivable, less allowance of \$153 (1997) and \$102 (1996) | 6,783 | 7,389 |
| Inventories | 3,392 | 4,111 |
| Note receivable - current | 315 | - |
| Prepaid expenses and other current assets | 201 | 190 |
| | ----- | ----- |
| Total Current Assets | 12,116 | 11,756 |
| Property, Plant and Equipment, net | 2,272 | 2,618 |
| Note receivable - noncurrent | 335 | - |
| Other | 33 | 78 |
| | ----- | ----- |
| Total Assets | \$ 14,756 | \$ 14,452 |
| | ===== | ===== |

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

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
September 30, 1997 and 1996

| | (Dollars in thousands) | |
|--|------------------------|-----------|
| | 1997 | 1996 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | ----- | ----- |
| CURRENT LIABILITIES | | |
| Current installments on long-term debt | \$ - | \$ 604 |
| Income taxes payable | 44 | 16 |
| Accounts payable | 1,981 | 1,979 |
| Accrued liabilities | 3,924 | 4,021 |
| | ----- | ----- |
| Total Current Liabilities | 5,949 | 6,620 |
| LONG-TERM LIABILITIES | | |
| Line-of-Credit | - | 100 |
| Note Payable | - | 3,000 |
| Long-term debt, net of current maturities | - | 706 |
| Accrued Interest - Note Payable | - | 1,098 |
| Deferred income taxes and other credits | 594 | 764 |
| | ----- | ----- |
| Total Liabilities | 6,543 | 12,288 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, par value \$1 per share, authorized 15,000,000; issued 5,908,661 (1997) and 4,902,201 (1996) | 5,909 | 4,902 |
| Paid-in capital | 13,923 | 13,423 |
| Deficit | (11,569) | (16,089) |
| | ----- | ----- |
| Foreign currency translation adjustment | 8,263 | 2,236 |
| | (19) | (19) |
| Common stock in treasury, at cost, 3,000 shares (1997 and 1996) | (29) | (29) |
| Restricted stock grants | (2) | (24) |
| | ----- | ----- |
| Total Shareholders' Equity | 8,213 | 2,164 |
| | ----- | ----- |
| Total Liabilities and Shareholder's Equity | \$ 14,756 | \$ 14,452 |
| | ===== | ===== |

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

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended September 30, 1997, 1996 and 1995
(Dollars in thousands, except per share)

| | 1997 | 1996 | 1995 |
|---------------------------------------|-----------|-----------|-----------|
| Product revenue | \$ 24,222 | \$ 22,966 | \$ 18,516 |
| Research & development revenue | 7,758 | 8,935 | 11,232 |
| | ----- | ----- | ----- |
| Total revenue | 31,980 | 31,901 | 29,748 |
| Product cost of sales | 14,487 | 13,955 | 12,616 |
| Research & development contract costs | 5,813 | 5,946 | 8,492 |
| Selling, general and administrative | | | |

| | | | |
|--|----------|----------|----------|
| expenses | 9,366 | 9,781 | 8,097 |
| Product development and research costs | 1,734 | 1,263 | 1,425 |
| Impairment loss on long-lived assets | - | - | 1,590 |
| | ----- | ----- | ----- |
| Operating income (loss) | 580 | 956 | (2,472) |
| Interest expense | (323) | (790) | (1,081) |
| Gain on sale of division/subsidiary | 2,012 | 750 | 6,779 |
| Equity in joint venture loss | (330) | - | - |
| Other income (expense), net | 188 | (343) | (218) |
| | ----- | ----- | ----- |
| Income from continuing operations before extraordinary item and income taxes | 2,127 | 573 | 3,008 |
| Income tax expense | 114 | 64 | 86 |
| | ----- | ----- | ----- |
| Income from continuing operations before extraordinary item | 2,013 | 509 | 2,922 |
| Extraordinary Item - gain on extinguishment of debt, net of taxes (\$106) | 2,507 | - | - |
| | ----- | ----- | ----- |
| Income from continuing operations | 4,520 | 509 | 2,922 |
| Income from discontinued operations | - | 3,239 | - |
| | ----- | ----- | ----- |
| Net income | \$ 4,520 | \$ 3,748 | \$ 2,922 |
| | ===== | ===== | ===== |
| Earnings per share: | | | |
| Continuing operations before extraordinary item | \$.36 | \$.13 | \$.82 |
| Extraordinary item, gain on extinguishment of debt | .44 | - | - |
| | ----- | ----- | ----- |
| Continuing operations | \$.80 | \$.13 | \$.82 |
| Discontinued operations | - | .83 | - |
| | ----- | ----- | ----- |
| Net income | \$.80 | \$.96 | \$.82 |
| | ===== | ===== | ===== |

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

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended September 30, 1997, 1996 and 1995
(Dollars in thousands)

| | 1997 | 1996 | 1995 |
|---|-------------|-------------|-------------|
| | ----- | ----- | ----- |
| COMMON STOCK | | | |
| Balance, October 1 | \$ 4,902 | \$ 3,569 | \$ 3,546 |
| Issuance of shares | 1,007 | 1,333 | 23 |
| | ----- | ----- | ----- |
| Balance, September 30 | \$ 5,909 | \$ 4,902 | \$ 3,569 |
| | ===== | ===== | ===== |
| PAID-IN-CAPITAL | | | |
| Balance, October 1 | \$ 13,423 | \$ 12,856 | \$ 12,944 |
| Issuance of shares | 500 | 567 | - |
| Restricted stock grants | - | - | (88) |
| | ----- | ----- | ----- |
| Balance, September 30 | \$ 13,923 | \$ 13,423 | \$ 12,856 |
| | ===== | ===== | ===== |
| DEFICIT | | | |
| Balance, October 1 | \$ (16,089) | \$ (19,837) | \$ (22,759) |
| Net income | 4,520 | 3,748 | 2,922 |
| | ----- | ----- | ----- |
| Balance, September 30 | \$ (11,569) | \$ (16,089) | \$ (19,837) |
| | ===== | ===== | ===== |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENT | | | |

| | | | |
|---------------------------|----------|----------|------------|
| Balance, October 1 | \$ (19) | \$ (20) | \$ (31) |
| Adjustments | - | 1 | 11 |
| | ----- | ----- | ----- |
| Balance, September 30 | \$ (19) | \$ (19) | \$ (20) |
| | ===== | ===== | ===== |
| TREASURY STOCK | | | |
| Balance, October 1 | \$ (29) | \$ (29) | \$ (100) |
| Restricted stock grants | - | - | 71 |
| | ----- | ----- | ----- |
| Balance, September 30 | \$ (29) | \$ (29) | \$ (29) |
| | ===== | ===== | ===== |
| RESTRICTED STOCK GRANTS | | | |
| Balance, October 1 | \$ (24) | \$ (29) | \$ (18) |
| Grants issued/vested, net | 22 | 5 | (11) |
| | ----- | ----- | ----- |
| Balance, September 30 | \$ (2) | \$ (24) | \$ (29) |
| | ===== | ===== | ===== |
| SHAREHOLDERS' EQUITY | | | |
| September 30 | \$ 8,213 | \$ 2,164 | \$ (3,490) |
| | ===== | ===== | ===== |

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

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended September 30, 1997, 1996 and 1995
(Dollars in thousands)

| | 1997 | 1996 | 1995 |
|---|----------|---------|----------|
| | ----- | ----- | ----- |
| OPERATING ACTIVITIES | | | |
| Income from continuing operations | \$ 4,520 | \$ 509 | \$ 2,922 |
| Adjustments to reconcile net income to net cash provided (used) by continuing operations: | | | |
| Depreciation and amortization | 587 | 686 | 837 |
| Impairment loss on long-lived assets | - | - | 1,590 |
| Gain on extinguishment of debt, net of taxes | (2,507) | - | - |
| Gain on sale of subsidiaries | (2,012) | (750) | (6,779) |
| Equity in joint venture loss | 330 | - | - |
| Accounts receivable reserve | 51 | (18) | 19 |
| Asset valuation reserve | 76 | - | - |
| Deferred income taxes and other credits | (170) | (15) | (1) |
| Foreign currency translation | - | 1 | 11 |
| Other | 31 | 89 | (24) |
| Changes in operating assets and liabilities net of effects from discontinued operations: | | | |
| Accounts receivable | 112 | (578) | 1,611 |
| Inventories | 209 | (627) | (230) |
| Escrow deposit | - 750 | (750) | - |
| Prepaid expenses and other current assets | (19) | 271 | (19) |
| Accounts payable | 228 | (311) | 355 |
| Income taxes | (78) | 3 | 394 |
| Accrued liabilities (including interest) | (360) | 1,390 | (494) |
| | ----- | ----- | ----- |
| Net cash provided (used) by continuing operations | 998 | 1,400 | (558) |
| Discontinued Operations: | | | |
| Income from discontinued operations | - | 3,239 | - |
| Adjustments to reconcile income to net cash provided by discontinued operations: | | | |
| Changes in net assets/liabilities of discontinued operations | - | (2,756) | - |
| | ----- | ----- | ----- |
| Net cash provided by discontinued operations | - | 483 | - |
| | ----- | ----- | ----- |
| Net cash provided (used) by operations | 998 | 1,883 | (558) |
| INVESTING ACTIVITIES | | | |
| Purchases of property, plant & equipment | (829) | (549) | (667) |
| Proceeds from sale of subsidiaries | 2,600 | 750 | 9,125 |
| | ----- | ----- | ----- |
| Net cash provided by investing activities | 1,771 | 201 | 8,458 |

| FINANCING ACTIVITIES | ----- | ----- | ----- |
|--|----------|---------|---------|
| Private placement of common stock, net expenses | - | 1,900 | - |
| Net payments under line-of-credit | (100) | (3,308) | (592) |
| Principal payments of long-term debt | (1,310) | (688) | (9,050) |
| | ----- | ----- | ----- |
| Net cash used in financing activities | (1,410) | (2,096) | (9,642) |
| | ----- | ----- | ----- |
| Increase (decrease) in cash and cash equivalents | 1,359 | (12) | (1,742) |
| Cash and cash equivalents - beginning of year | 66 | 78 | 1,820 |
| | ----- | ----- | ----- |
| Cash and cash equivalents - end of year | \$ 1,425 | \$ 66 | \$ 78 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of the consolidated financial statements.
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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For The Years Ended September 30, 1997, 1996 and 1995
(Dollars in thousands)

| Supplemental Disclosures | 1997 | 1996 | 1995 |
|--|------------|-------|-------|
| ----- | ----- | ----- | ----- |
| NONCASH INVESTING ACTIVITIES | | | |
| Contribution of net assets to joint venture | | | |
| Inventories | \$ 1 | \$ - | \$ - |
| Property, plant and equipment, net | 452 | - | - |
| Accounts payable | (46) | - | - |
| Accrued liabilities | (50) | - | - |
| | ----- | ----- | ----- |
| | \$ 357 | - | - |
| Proceeds from sale of subsidiary | ----- | ----- | ----- |
| Notes receivable | \$ 650 | \$ - | \$ - |
| | ----- | ----- | ----- |
| Net noncash used in investing activities | \$ 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 used in investing/financing activities | \$ (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 original investment in the joint venture, plus its share of undistributed earnings/losses. The investment is included in the financial line "Other Assets".

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

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (continued)

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.

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

Foreign Currency Translation
 - -----

Assets and liabilities of the foreign subsidiary are translated at year-end rates of exchange, and revenues and expenses are translated at the average rates of exchange for the year. Gains 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.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Policies (continued)

Earnings (Loss) Per Share
 - -----

Earnings (loss) per share is computed on the basis of the weighted average number of shares outstanding plus the common stock equivalents which would arise from the exercise of stock options, unless such common stock equivalents would be anti-dilutive. Weighted average outstanding shares are: 1997, 5,672,063; 1996, 3,911,952; and 1995, 3,559,789.

Reclassification
 - -----

Certain 1996 and 1995 amounts have been reclassified to conform with the 1997 presentation.

(2) Long-Term Contracts Receivable

Included in accounts receivable are the following:

| (Dollars in thousands) | 1997 ----- | 1996 ----- |
|-----------------------------|---------------|---------------|
| U.S. Government: | | |
| Amounts billed and billable | \$ 920 | \$ 1,485 |
| Retainage | 253 | 357 |
| | ----- | ----- |

| | | |
|-----------------------------|----------|----------|
| | 1,173 | 1,842 |
| | ----- | ----- |
| Commercial Customers: | | |
| Amounts billed and billable | 1,032 | 294 |
| Retainage | 165 | 269 |
| | ----- | ----- |
| | 1,197 | 563 |
| | ----- | ----- |
| | \$ 2,370 | \$ 2,405 |
| | ===== | ===== |

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

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

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Inventories

Inventories consist of the following:

| | | |
|---|----------|----------|
| (Dollars in thousands) | 1997 | 1996 |
| | ----- | ----- |
| Finished goods | \$ 205 | \$ 153 |
| Work in process | 973 | 1,727 |
| Raw materials, components and assemblies | 2,214 | 2,231 |
| | ----- | ----- |
| | \$ 3,392 | \$ 4,111 |
| | ===== | ===== |

(4) Property, Plant and Equipment

Property, plant and equipment consist of the following:

| | | |
|-------------------------------|----------|----------|
| (Dollars in thousands) | 1997 | 1996 |
| | ----- | ----- |
| Land and improvements | \$ 125 | \$ 125 |
| Buildings and improvements | 3,520 | 3,513 |
| Leasehold improvements | 642 | 752 |
| Machinery and equipment | 12,316 | 13,625 |
| Office furniture and fixtures | 1,462 | 1,483 |
| | ----- | ----- |
| | 18,065 | 19,498 |
| Less accumulated depreciation | 15,793 | 16,880 |
| | ----- | ----- |
| | \$ 2,272 | \$ 2,618 |
| | ===== | ===== |

Depreciation expense was \$558,000, \$640,000 and \$646,000 for 1997, 1996 and 1995, respectively. Repairs and maintenance expense was \$452,000, \$502,000 and \$362,000 for 1997, 1996 and 1995, respectively.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Notes Receivable

Notes receivable at September 30, 1997 consists of:

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

(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.

(6) Investment in Joint Venture

On June 27, 1997, the Company and Edison Development Corp. ("EDC"), a subsidiary of DTE Energy Co. entered into final agreements to form a joint venture 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 the joint venture; the Company is not obligated to make any future contributions to the joint venture, but its interest in the joint venture could be reduced in certain circumstances in the future. EDC made an initial cash contribution of \$4.75 million in exchange for the remaining 50% interest in the joint venture. The Company's investment in the joint venture is included in "Other Assets" at September 30, 1997; the assets contributed by the Company to the joint venture 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 the joint venture. The Company recorded the carrying value of the net assets contributed as its investment in the joint venture in recognition of the nature of the venture's undertaking. The Company's share of the joint venture's results of operations of (\$439,000), net of amortization of the excess of the Company's proportionate share of the venture's equity of \$109,000, is recorded under the caption "equity in loss of joint venture."

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) 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) consists of the following:

| (Dollars in thousands) | 1997 | 1996 | 1995 |
|-------------------------|--------|-------|-------|
| Continuing operations | ----- | ----- | ----- |
| Federal | \$ 45 | \$ 36 | \$ - |
| State | 69 | 28 | 86 |
| Deferred | - | - | - |
| | ----- | ----- | ----- |
| | 114 | 64 | 86 |
| | ----- | ----- | ----- |
| Discontinued operations | | | |
| Federal | - | - | - |
| State | - | - | - |
| Deferred | - | - | - |
| | ----- | ----- | ----- |
| | - | - | - |
| Extraordinary Item | ----- | ----- | ----- |
| Federal | 28 | - | - |
| State | 78 | - | - |
| Deferred | - | - | - |
| | ----- | ----- | ----- |
| | 106 | - | - |
| | ----- | ----- | ----- |
| | \$ 220 | \$ 64 | \$ 86 |
| | ===== | ===== | ===== |

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Income Taxes (continued)

The significant components of deferred income tax expense (benefit) for the years ended September 30, 1997, 1996 and 1995 are as follows:

| (Dollars in thousands) | 1997 | 1996 | 1995 |
|---------------------------------|----------|----------|----------|
| Continuing operations | ----- | ----- | ----- |
| Deferred tax (benefit) expense | \$ (296) | \$ (259) | \$ 1,586 |
| Net operating loss carryforward | 972 | 573 | - |
| Valuation allowance | (676) | (314) | (1,586) |
| | ----- | ----- | ----- |

| | | | |
|---------------------------------|-------|-------|---------|
| Discontinued operations | - | - | - |
| Deferred tax (benefit) expense | - | (103) | 2,831 |
| Net operating loss carryforward | - | 1,090 | (4,154) |
| Valuation allowance | - | (987) | 1,323 |
| | ----- | ----- | ----- |
| | - | - | - |
| | ----- | ----- | ----- |
| \$ | - | - | - |
| | ===== | ===== | ===== |
| Extraordinary item | | | |
| Deferred tax (benefit) expense | (28) | (103) | 2,831 |
| Net operating loss carryforward | 862 | 1,090 | (4,154) |
| Valuation allowance | (834) | (987) | 1,323 |
| | ----- | ----- | ----- |
| | - | - | - |
| | ----- | ----- | ----- |
| \$ | - | - | - |
| | ===== | ===== | ===== |

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

| | 1997 | 1996 | 1995 |
|---|-------|-------|-------|
| | ----- | ----- | ----- |
| Federal statutory tax rate | 34% | 34% | 34% |
| State taxes, net of federal tax effect | 2% | 3% | 2% |
| Amortization of goodwill | - | - | 1% |
| Meals and entertainment | - | 5% | - |
| Impairment loss on long-lived assets | - | - | 18% |
| Additional tax gain on sale of subsidiary | - | 13% | - |
| Change in valuation allowances | (32%) | (55%) | (53%) |
| Alternative minimum tax | 2% | 6% | - |
| Other, net | (1%) | 5% | 1% |
| | ----- | ----- | ----- |
| | 5% | 11% | 3% |
| | ===== | ===== | ===== |

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Income Taxes (continued)

The deferred tax assets and liabilities as of September 30, 1997 and 1996 consist of the following tax effects relating to temporary differences and carryforwards:

| (Dollars in thousands) | 1997 | 1996 |
|---|----------|----------|
| | ----- | ----- |
| Current deferred tax assets: | | |
| Bad debt reserve | \$ 52 | \$ 31 |
| Inventory valuation | 165 | 230 |
| Inventory capitalization | 40 | 161 |
| Vacation pay | 111 | 111 |
| Warranty and other sale obligations | 51 | 64 |
| Other reserves and accruals | 358 | 37 |
| | ----- | ----- |
| | 777 | 634 |
| Valuation allowance | (777) | (634) |
| | ----- | ----- |
| Net current deferred tax assets | \$ - | \$ - |
| | ===== | ===== |
| Noncurrent deferred tax assets (liabilities): | | |
| Net operating loss | \$ 1,791 | \$ 3,625 |
| Property, plant and equipment | (251) | (324) |
| Other | 288 | 329 |
| Alternative minimum tax credit | 149 | - |
| | ----- | ----- |

| | | |
|---|----------|----------|
| | 1,977 | 3,630 |
| Valuation allowance | (1,977) | (3,630) |
| Other credits | (594) | (764) |
| | ----- | ----- |
| Noncurrent net deferred tax liabilities and other credits | \$ (594) | \$ (764) |
| | ===== | ===== |

The valuation allowance at year ended September 30, 1997 is \$2,754,000, and at September 30, 1996 was \$4,264,000. During the year ended September 30, 1997, the valuation allowance decreased by \$1,510,000.

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Income Taxes (continued)

At September 30, 1997, the Company has unused Federal net operating loss carryforwards of approximately \$5,266,000. The Federal net operating loss carryforwards if unused will begin to expire during the year ended September 30, 2009. The use 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, 1997, the Company has available alternative minimum tax credit carryforward of approximately \$149,000.

During 1997, the Company made cash payments for income taxes of \$361,000, for 1996 made cash payments, net of cash refunds, for income taxes of \$61,000, and for 1995 received net cash refunds for income taxes of \$266,000.

(8) Accrued Liabilities

Accrued liabilities consist of the following:

| (Dollars in thousands) | 1997 | 1996 |
|--------------------------------------|----------|----------|
| | ----- | ----- |
| Salaries, wages and related expenses | \$ 1,073 | \$ 1,230 |
| Acquisition and disposition costs | 665 | 371 |
| Legal and professional fees | 445 | 197 |
| Warranty and other sale obligations | 370 | 460 |
| Contingent liabilities | 350 | 367 |
| Accrued severance | 300 | - |
| Deferred income - L.A.B. sale | 250 | - |
| Commissions | 230 | 331 |
| Interest expense | 103 | 96 |
| Customer advances against contracts | - | 696 |
| Other | 138 | 273 |
| | ----- | ----- |
| | \$ 3,924 | \$ 4,021 |
| | ===== | ===== |

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Indebtedness

Indebtedness consists of the following:
(Dollars in thousands)

| | 1997 | 1996 |
|----------------------|-------|----------|
| | ----- | ----- |
| Line-of Credit | \$ - | \$ 100 |
| Note Payable | - | 3,000 |
| Term Loan | - | 1,310 |
| | ----- | ----- |
| | - | 4,410 |
| Less current portion | - | 604 |
| | ----- | ----- |
| | \$ - | \$ 3,806 |
| | ===== | ===== |

The Company has a Line of Credit available in the amount of \$4,000,000 with interest payable monthly at a rate of prime plus .625% (9.125% at September 30, 1997). The Line of Credit expires on October 31, 1998 and is collateralized by a guarantee from a former shareholder.

The weighted average interest rate for the Note Payable and Line of Credit was 10.75% during 1997 and 13.2% during 1996 and 1995.

Cash payments for interest were \$201,000, \$477,000 and \$695,000 for 1997, 1996 and 1995, respectively.

(10) Shareholders' Equity

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, amounting to \$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 \$2,000 at September 30, 1997 and \$24,000 at September 30, 1996.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 1997, the number of shares available under the plan increased to 600,000 shares. 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.

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 1997. The expected volatility was 78% in 1997. The expected life of the options is 5 years. The risk free interest rate ranges from 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 1997. Had compensation cost and fair value been determined pursuant to Financial Accounting Standard No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation," net income would decrease from \$4,520,000 to \$4,351,000 in 1997. Earnings per share would decrease from \$0.80 to \$0.76 in 1997. The weighted average fair value of options granted during 1997, for purposes of FAS 123, is \$1.96 per share.

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Stock Option Plan (continued)

Activity with respect to the plan is as follows:

1997

| Number | Weighted Average Exercise Price |
|--------|--|
| ----- | ----- |

Shares under option, October 1, 1996

- -

| | | |
|---|---------|---------|
| Options granted | 423,100 | \$ 2.91 |
| Options exercised | - | - |
| Options canceled | (7,500) | 2.44 |
| | ----- | ----- |
| Shares under option, September 30 1997 | 415,600 | 2.91 |
| | | |
| Options exercisable, September 30, 1997 | 76,800 | 2.93 |
| | ----- | ----- |
| Shares available for granting of options, September 30, 1997 | 184,400 | ===== |

The following is a summary of the status of options outstanding at September 30, 1997:

| Exercise Price Range | Outstanding Options | | Exercisable Options | | |
|----------------------|---------------------|---|---------------------------------|--------|---------------------------------|
| | Number | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| \$2.44 | 180,600 | 9.2 | \$2.44 | 1,800 | \$2.44 |
| \$2.50 | 40,000 | 9.5 | \$2.50 | 40,000 | \$2.50 |
| \$3.44 | 195,000 | 9.9 | \$3.44 | 35,000 | \$3.44 |

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Pension Plans

The Company maintains a savings and retirement plan (Internal Revenue Code Section 401(k) Plan) covering substantially all employees. The Company plan allows eligible employees to contribute a percentage of their compensation; the Company makes additional contributions in amounts as determined by management and the Board of Directors. The expense for the plan was \$312,000, \$345,000 and \$346,000 for 1997, 1996 and 1995, respectively.

(13) Commitments and Contingencies

During 1997, a legal action 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 commenced by a group of investors. Management is vigorously defending the action and believes the likelihood of a loss in the action is not probable. The final outcome of this action is not presently determinable and, therefore, no provision for any liability that may result has been recorded in the Company's financial statements.

In February 1995, Ling, 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.

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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 \$479,000, 1998; \$467,000, 1999; \$488,000, 2000; \$475,000, 2001; and \$559,000, 2002. Rent expense under all leases was \$548,000, \$542,000 and \$564,000 for 1997, 1996 and 1995, respectively.

(14) Related Party Transactions

At September 30, 1997 First Albany Companies, Inc. ("FAC") owned approximately 32.3% of the Company's Common Stock. (See Note 19)

During fiscal 1997, First Albany Corporation, a wholly owned subsidiary of FAC, provided financial advisory services in connection with the sale of the L.A.B. Division, for which First Albany Corporation was paid a \$75,000 fee. 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 \$40,000 fee.

On June 27, 1997, the Company entered into a management services agreement with the Plug Power joint venture to provide certain services and facilities for a period of one year. The agreement may be renewed annually. Billings under the agreement amounted to \$65,000 for the 1997 fiscal year and all amounts billed were included in accounts receivable at September 30, 1997.

During 1996 and 1995, 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 \$453,000 and \$493,000, respectively.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Discontinued Operations

The Company's United Telecontrol Electronics, Inc. ("UTE") subsidiary, the sole component of the Defense/Aerospace segment, filed for voluntary bankruptcy under Chapter 11 of the Federal Bankruptcy Code in April 1994. 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 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) | 1996 ----- | 1995 ----- |
|---|-------------------|---------------|
| Sales | \$ 0 ===== | \$ 0 ===== |
| Income from discontinued operations before income tax | \$ 3,239 | \$ 0 |
| Income tax benefit | 0 ----- | 0 ----- |
| Net income from discontinued operations | \$ 3,239 ===== | \$ 0 ===== |

There were no assets and liabilities of the Company's discontinued operations at September 30, 1997 and 1996.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 received \$2,600,000 in cash and two notes, totaling \$650,000, from Noonan Machine Company. The net proceeds from the sale were used to pay down all outstanding debt and build working capital.

The sale resulted in a \$2,012,000 gain, which was recorded in the fourth quarter of fiscal year 1997. In addition, \$250,000 of the proceeds associated with one of the notes was recorded as deferred revenue due to contingencies associated with the realization of this note.

ProQuip, Inc.

On November 22, 1994, the Company sold all of the outstanding capital stock of its ProQuip Inc. subsidiary to Phase Metrics of San Diego, CA.

The Company received \$13,250,000 in cash from Phase Metrics and ProQuip forgave a \$316,000 intercompany debt due from the Company. The net proceeds from the sale were used to reduce term debt by \$8,000,000 and to increase working capital by \$3,776,000.

The sale resulted in a \$6,779,000 gain, which was recorded during the first quarter of fiscal year 1995. In addition, \$750,000 of the net proceeds 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.

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Sale of Subsidiaries (continued)

ProQuip, a component of the Test & Measurements segment, is included in the Company's financial statements through November 22, 1994, the date of its sale, as follows:

| (Dollars in thousands) | 1995 |
|--|----------|
| Sales | \$ 2,584 |
| | ===== |
| Income from continuing operations before income tax | \$ 730 |

| | |
|--------------------|--------|
| Income tax expense | 293 |
| | ----- |
| Net Income | \$ 437 |
| | ===== |

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

| | |
|--|------------|
| (Dollars in thousands) | 1995 |
| | Pro Forma |
| | ----- |
| Sales | \$ 27,164 |
| | ===== |
| Operating loss | \$ (3,194) |
| | ----- |
| Interest expense | 914 |
| Other (expense) income, net | (226) |
| | ----- |
| Loss from continuing operations before income tax | (4,334) |
| Income tax benefit | (142) |
| | ----- |
| Loss from continuing operations | \$ (4,192) |
| | ===== |

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Impairment Loss on Long-Lived Assets

During 1995, the Company elected to adopt the provisions of Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". Accordingly, the realizability of goodwill associated with the Company's investment in Ling Electronics, Inc. (Ling), a wholly owned subsidiary, was analyzed for impairment due to its history of operating and cash flow losses. The Company determined that the goodwill would not likely be recoverable based on the estimated future cash flows at Ling. As a result, a \$1,590,000 impairment loss was recognized to reduce the carrying value of the Company's investment in Ling.

(18) Information on Business Segments

The Company's operations comprise two business segments.

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

Test and Measurement - develops and manufactures high-accuracy inspection systems, shock and vibration testing systems, and electronic instruments using noncontact measurement techniques.

MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(18) Information on Business Segments (continued)

The information below includes the results of ProQuip, Inc. which was sold in November 1994 (See Note 16).

A summary of financial data for these business segments at September 30, 1997, 1996, 1995, and for the fiscal years then ended follows:

| | (Dollars in thousands) | | |
|----------------------|-------------------------|-----------|------------|
| | SALES | | |
| | 1997 | 1996 | 1995 |
| Technology | \$ 7,878 | \$ 9,146 | \$ 11,608 |
| Test and Measurement | 24,102 | 22,755 | 18,140 |
| | \$ 31,980 | \$ 31,901 | \$ 29,748 |
| | ===== | ===== | ===== |
| | OPERATING INCOME (LOSS) | | |
| | 1997 | 1996 | 1995 |
| Technology | \$ (959) | \$ (434) | \$ (463) |
| Test and Measurement | 1,539 | 1,390 | (2,009) |
| | \$ 580 | \$ 956 | \$ (2,472) |
| | ===== | ===== | ===== |
| | DEPRECIATION | | |
| | 1997 | 1996 | 1995 |
| Technology | \$ 344 | \$ 446 | \$ 440 |
| Test and Measurement | 210 | 190 | 203 |
| Corporate | 4 | 4 | 3 |
| | \$ 558 | \$ 640 | \$ 646 |
| | ===== | ===== | ===== |
| | ASSETS EMPLOYED | | |
| | 1997 | 1996 | 1995 |
| Technology | \$ 3,939 | \$ 4,527 | \$ 5,753 |
| Test and Measurement | 8,696 | 9,577 | 7,492 |
| Corporate | 2,121 | 348 | 1,238 |

| | ----- \$ 14,756 ===== | ----- \$ 14,452 ===== | ----- \$ 14,483 ===== |
|----------------------|-----------------------------|-----------------------------|-----------------------------|
| | CAPITAL EXPENDITURES | | |
| | 1997 | 1996 | 1995 |
| | ----- | ----- | ----- |
| Technology | \$ 452 | \$ 285 | \$ 227 |
| Test and Measurement | 375 | 258 | 437 |
| Corporate | 2 | 6 | 3 |
| | ----- | ----- | ----- |
| | \$ 829 | \$ 549 | \$ 667 |
| | ===== | ===== | ===== |

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(18) Information on Business Segments (continued)

The U.S. Government is the largest customer of the Technology segment and accounted for 16%, 21% and 30% of consolidated revenues in 1997, 1996 and 1995, respectively. The largest single government agency customer of the Technology segment accounted for 8%, 14% and 23% of the Company's consolidated revenues in 1997, 1996 and 1995, respectively. The largest customer of the Test & Measurement segment accounted for 5%, 2%, and 7% of consolidated revenues in 1997, 1996, and 1995, respectively.

The Technology segment continues to be dependent on government-funded R&D contracts for the bulk of its business. However, fiscal constraints at all levels of government have reduced the level of funding available for these programs, and securing additional such contracts has become more difficult and competitive; no improvement in this situation is anticipated in the foreseeable future. For the second year in a row, the Technology segment has a historically low level of backlog, and any improvement in the segment's results in fiscal 1998 will depend on success in procuring and fulfilling orders within the fiscal year. The future growth and profitability of the segment will depend on its success in identifying and exploiting new markets for its products and services.

(19) 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 Notes 9 and 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 includes the Company's Note Payable to FCCC. FAC has 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.

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MECHANICAL TECHNOLOGY INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Extraordinary Item- Extinguishment of Debt (continued)

Accordingly, the Note payable of \$3.0 million and accrued interest of \$1.1 million were reclassified as long term in the accompanying September 30, 1996 balance sheet.

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.

LIMITED LIABILITY COMPANY AGREEMENT

OF

PLUG POWER, LLC

A DELAWARE LIMITED LIABILITY COMPANY

THIS LIMITED LIABILITY COMPANY AGREEMENT is made as of this 27th day of June, 1997, by those parties signing this Agreement on the signature page and all other persons who become members of Plug Power, LLC ("Company") pursuant to the terms of this Limited Liability Company Agreement.

RECITALS

WHEREAS, Edison Development Corporation, a Michigan corporation ("EDC"), as the sole Member, formed Plug Power, LLC, a limited liability company, by filing a certificate of formation ("Certificate") pursuant to the Delaware Limited Liability Company Act (the "Act") with the Office of the Secretary of State of the State of Delaware in accordance with the Act on June 11, 1997.

WHEREAS, the purpose of the Company is to develop, manufacture, market and distribute fuel cell systems capable of delivering electricity or waste heat and engage in related activities.

WHEREAS, EDC wishes to admit Mechanical Technology Inc., a New York corporation ("MTI") as a Member of the Company.

WHEREAS, EDC and MTI have agreed to enter into this Limited Liability Company Agreement to govern the operations and procedures of the Company.

NOW, THEREFORE, in consideration of the mutual covenants, conditions and agreements set forth in this Limited Liability Company Agreement each Member agrees as follows:

ARTICLE I

DEFINITIONS

1. Definitions. For purposes of this Agreement, unless the language or context clearly indicates that a different meaning is intended, the words, terms and phrases defined in this section have the following meanings:

1.1 "Act" means the Delaware Limited Liability Company Act, 6 Del. C. 18-101, et seq., as amended from time to time.

1.2 "Adjusted Basis" means the basis of the Company's Property as determined for federal income tax purposes pursuant to Code Section 1011.

1.3 "Adjusted Capital Account Deficit" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Taxable Year after giving effect to the following adjustments:

(a) Credit the Capital Account with any amounts such Member is obligated to restore pursuant to any provisions of this Agreement or is deemed obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5); and

(b) Debit the Capital Account with the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4)-(6).

This definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

1.4 "Affiliate" means, with respect to any Member, (i) any Person directly or indirectly controlling, controlled by, or under common control with the Member, (ii) any Person owning or controlling ten percent (10%) or more of the outstanding voting interests of the Member, (iii) any officer, director, member or general partner of the Member, or (iv) any Person who is an officer, director, member, general partner, trustee, or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence. For purposes of this definition, the term "controls," "is controlled by," or "is under common control with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership or voting securities by contract or otherwise.

1.5 "Agreement" means this Limited Liability Company Agreement, as it may be amended from time to time under Article XVI.

1.6 "Applicable Federal Rate" means the applicable federal rate as defined in Code Section 1274.

1.7 "Awarded Contracts" means the Contract Proposals for which the Company has received written confirmation from the other party to the Contract Proposal by not later than April 1, 1999 that the Contract Proposal has been awarded to the Company.

1.8 "Awarded Funds" means the funds received by the Company under the Awarded Contracts as of April 1, 2001.

1.9 "Capital Account" means the account maintained for each Member in accordance with Section 4.6.

1.10 "Capital Contributions" means, with respect to any Member, the amount of money and the initial Gross Asset Value of any Property (other than money) contributed to the Company under Section 4.1, 4.2, or 4.3, with respect to the Membership Interest in the Company held by such Member.

1.11 "Certificate" means the Certificate of Formation of the Company to be filed with the Office of the Secretary of State of the State of Delaware in accordance with the Act.

1.12 "Class A Member" means any Person listed in Exhibit A, as it may be amended from time to time.

1.13 "Class A Membership Interest" means all of the interest of a Class A Member in the Company, including a Class A Member's: (a) right to a share of the Profits and Losses of, and to receive distributions from, the Company; (b) right

to inspect the Company's books and records; and (c) Voting Rights and right to participate in the management and affairs of the Company.

1.14 "Class B Member" means any Key Employee to whom the Management Committee has issued a Class B Membership Interest and is listed in Exhibit B, as it may be amended from time to time.

1.15 "Class B Membership Interest" means all of the interest of a Class B Member in the Company, including a Class B Member's right to a share of the Profits and Losses, and to receive distributions from, the Company, subject to any vesting schedule which the Management Committee may establish in connection with the issuance of a Class B Membership Interest to a Key Employee. No Class B Member shall have any Voting Rights or right to participate in the management or affairs of the Company. Class B Members shall have only such rights as prescribed by the Act or this Agreement to inspect the Required Records. All

Class B Membership Interests will be converted to Class A Membership Interests on the earlier of the date on which the Company (or its successor) files a registration statement for the public sale of interests in the Company (or shares of a successor), under the Securities Act of 1933, upon approval by a majority of the Class A Shares Issued of (a) a sale, lease, assignment, transfer, or other conveyance of all or substantially all of the assets of the Company, or (b) a merger, combination, or dissolution of the Company. The conversion shall be reflected by amending Exhibit A to reflect the admission of the Class B Members as Class A Members of the Company and holding the same number of Class A Shares as the number of Class B Shares previously held by such Class B. Members.

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

1.17 "Contract Proposals" means the contract proposals set forth on Exhibit D and which Contract Proposals are subject to the approval of the Management Committee pursuant to Section 7.3(g). Contract Proposals shall not include the contracts or contract proposals set forth in Exhibit E.

1.18 "Contribution Agreements" means the EDC Contribution Agreement and the MTI Contribution Agreement.

1.19 "Company" means Plug Power, LLC, a Delaware limited liability company.

1.20 "Company Liability" means any enforceable debt or obligation for which the Company is liable or which is secured by any Company Property.

1.21 "Company Minimum Gain" has the meaning set forth in Regulations Sections 1.704-2(b)(2) and 1.704-2(d) for "partnership minimum gain".

1.22 "Company Property" means any Property owned by the Company.

1.23 "Default Rule" means a rule stated in the Act:

(a) which structures, defines, or regulates the finances, governance, operations, or other aspects of a limited liability company organized under the Act; and

(b) which applies except to the extent it is modified or overridden through the provisions of a limited liability company's certificate of formation or limited liability company.

1.24 "Depreciation" means (a) an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an item of Company Property for each Taxable Year, or (b), if the Gross Asset Value of an item of Company Property differs from its Adjusted Basis at the beginning of a Taxable Year, Depreciation shall equal the amount of the depreciation, amortization, or other cost recovery deduction for such Taxable Year determined as if such Property's Adjusted Basis equalled its Gross Asset Value.

1.25 "Disassociation" means the occurrence of any event which causes a Key Employee Member to become a Disqualified Person.

1.26 "Disqualified Person" means a Key Employee Member who:

(a) terminates his/her employment with the Company for any reason prior to age sixty (60);

(b) whose employment is terminated by the Company for any or no reason at any time; or

(c) who makes an assignment for the benefit of creditors, files a voluntary petition of bankruptcy, is adjudicated bankrupt or insolvent, or an order for relief in any bankruptcy or insolvency proceeding is entered against the Key Employee Member; files a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, or similar relief under any statute, law or regulation; seeks, consents to, or acquiesces in the appointment of a trustee for the Key Employee Member or all or any substantial part of the Key Employee Member's properties; files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Key Employee Member in any proceeding described above; any proceeding filed against the Key Employee Member seeking reorganization, arrangement, composition, a readjustment, liquidation, dissolution, or similar relief under any statute, law, or regulation, continues for one hundred twenty (120) days after the commencement thereof; or the appointment of a trustee for the Key Employee Member or all or any substantial part of the Member's properties without the Member's agreement or acquiescence, which appointment is not vacated or stayed within one hundred twenty (120) days or, if the appointment is stayed, continues for one hundred twenty (120) days after the expiration of the stay during which period the appointment is not vacated.

1.27 "EDC" means Edison Development Corporation, a Michigan corporation.

1.28 "EDC Contribution Agreement" means the Contribution Agreement dated as of the date of this Agreement between the Company and EDC.

1.29 "Gross Asset Value" means, with respect to any Property, the Property's Adjusted Basis, except as follows:

(a) The initial Gross Asset Value of any Property contributed by a Member shall be the gross fair market value of such Property, as determined by the contributing Member and the Management Committee;

(b) The Gross Asset Value of all Company Property shall be adjusted to equal its gross fair market value, as determined by the Management Committee, at the following times: (i) the acquisition of an additional Membership Interest by any new or existing Member in exchange for more than a de minimis Capital Contribution; (ii) the distribution by the Company to a Member of more than a de minimis amount of the Company Property as consideration for a Membership Interest in the Company; and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, that adjustments under clauses (i) and (ii) above shall be made at the sole election of the Management Committee;

(c) The Gross Asset Value of Company Property distributed to a Member shall be adjusted to equal its gross fair market value on the date of distribution; and

(d) The Gross Asset Value of Company Property shall be adjusted to reflect any adjustments pursuant to Code Section 734(b) or Code Section 743(b), but only as required under Regulation Section 1.704-1(b)(2)(iv)(m) and Section 5.2(g) of this Agreement.

If the Gross Asset Value of any Company Property has been determined or adjusted pursuant to subsections (a), (b) or (d) of this definition, such Gross Asset Value shall thereafter be adjusted by the Depreciation computed as provided in Section 1.24(b).

1.30 "Involuntary Withdrawal" means, with respect to any Class A Member, the occurrence of any of the following events:

(a) The Member: makes an assignment for the benefit of creditors, files a voluntary petition of bankruptcy, is adjudicated bankrupt or insolvent, or an order for relief in any bankruptcy or insolvency proceeding is entered against the Member; files a petition seeking for the Member any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any statute, law or regulation; seeks, consents to, or acquiesces in the appointment of a trustee for, receiver for, or liquidation of the Member, or of all or any substantial part of the

Member's properties; or the Member files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Member in any proceeding described above;

(b) Any proceeding against the Member seeking reorganization, arrangement, composition, a readjustment, liquidation, dissolution, or similar relief under any statute, law, or regulation, continues for one hundred twenty (120) days after the commencement thereof, or the appointment of a trustee, receiver, or liquidator for the Member or all or any substantial part of the Member's properties without the Member's agreement or acquiescence, which appointment is not vacated or stayed within one hundred twenty (120) days or, if the appointment is stayed, continues for one hundred twenty (120) days after the expiration of the stay during which period the appointment is not vacated;

(c) If the Member is acting as a Member by virtue of being a trustee of a trust, the termination of the trust;

(d) If the Member is a partnership or limited liability company, the dissolution and commencement of winding up of the partnership or limited liability company;

(e) If the Member is a corporation, the dissolution of the corporation or the revocation of its charter; or

(f) If the Member is an estate, the distribution by the fiduciary of the estate's entire interest in the Company.

1.31 "Key Employee" means any person designated by the Management Committee as a Key Employee and as eligible to become a Class B Member.

1.32 "Management Committee" means the committee appointed under Section 7.1.

1.33 "Manager" means any Person appointed to the Management Committee by a Class A Member. A Manager may sit on the board of directors or management committee of another Person, even if the business of such Person, or that of any Affiliate of such Person, is in direct or indirect competition with the fuel cell business of the Company, provided such Manager refrains from taking any action that would be in violation of the Manager's duties and obligations to the Company and Members set forth in the Act or this Agreement, including, without limitation, the duties and obligations set forth in Section 7.5.

1.34 "Member" means any Person that is a Class A Member or a Class B Member.

1.35 "Member Nonrecourse Deductions" has the meaning set forth in Regulations Sections 1.704-2(i)(1) and (2).

1.36 "Member Nonrecourse Liability" has the meaning set forth in Regulations Section 1.704-2(b)(4).

1.37 "Member Nonrecourse Liability Minimum Gain" means an amount, with respect to each Member Nonrecourse Liability, equal to the Company Minimum Gain that would result if such Member Nonrecourse Liability were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i)(3).

1.38 "Membership Interest" means a Class A Membership Interest or a Class B Membership Interest.

1.39 "MTI" means Mechanical Technology Incorporated, a New York corporation.

1.40 "MTI Contribution Agreement" means the Contribution Agreement dated as of the date of this Agreement between the Company and MTI.

1.41 "Net Awarded Funds" means the Awarded Funds less any amounts the Company is required under the terms of the Awarded Contracts to expend under subcontracts with third parties for the performance of the Company's obligations under the Awarded Contracts.

1.42 "Net Income" means the net income (or loss) of the Company, for any applicable period of determination, determined in accordance with generally

accepted accounting principals, but excluding therefrom any gains or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital asset.

1.43 "Net Operating Income" means the Net Income of the Company, for any applicable period of determination, less the amount used to pay or establish reserves for all Company expenses, debts, payments, capital improvements, reinvestments, replacements and contingencies, all as determined by the Management Committee.

1.45 "Nonrecourse Deductions" has the meaning set forth in Regulations Section 1.704-2(b)(1).

1.46 "Nonrecourse Liabilities" has the meaning set forth in Regulations Section 1.704-2(b)(3).

1.47 "Person" includes a natural person, limited liability company, corporation, partnership, limited partnership, joint venture, association, business trust, estate, trust, enterprise, and any other legal entity.

1.48 "Profits and Losses" means an amount equal to the Company's taxable income or loss for each Taxable Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss) adjusted as follows:

(a) Income exempt from federal income tax shall be added to such taxable income or loss;

(b) Expenditures described in or treated as Code Section 705(a)(2)(B) expenditures (pursuant to Regulations Section 1.704-1(b)(2)(iv)(i)) shall be subtracted from such taxable income or loss;

(c) Adjustments to the Gross Asset Value of any Company Property pursuant to subsection (b) or (c) of the "Gross Asset Value" definition shall be taken into account as gain or loss from the disposition of such Property for purposes of computing Profits and Losses;

(d) Gain or loss which is recognized for federal income tax purposes as a result of any disposition of Property shall be computed by reference to the Gross Asset Value of such Property, notwithstanding that its Adjusted Basis differs from its Gross Asset Value;

(e) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation computed in accordance with the provisions of Section 1.24; and

(f) Notwithstanding any other provision of this definition, any items which are specially allocated pursuant to Section 5.2 or Section 5.3 shall not be taken into account in computing Profits or Losses.

1.49 "Projected Net Awarded Funds" has the meaning set forth in Section 4.7.

1.50 "Property" means all property whether real or personal, tangible or intangible (including goodwill), but excluding services and promises to perform services in the future.

1.51 "Regulations" means the permanent, temporary, proposed, or proposed and temporary regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.52 "Required Records" means those records that the Company is required to maintain under Section 10.1 and under the Act.

1.53 "Share" means a single unit of either a Class A Membership Interest or Class B Membership Interest.

1.54 "Shares Authorized" means the total number of Shares which may be issued by the Management Committee or as otherwise provided in this Agreement with the total number of authorized Shares for a Class A Membership Interest to equal 18,000,000 and the total number of Shares for a Class B Membership Interest to equal 3,000,000.

1.55 "Shares Issued" means the number of Shares of Class A Membership Interest issued to a Member as reflected on Exhibit A under the column "Shares" or the number of Shares of Class B Membership Interest issued to a Member as reflected on Exhibit B under the column "Shares".

1.56 "Taxable Year" means the taxable year of the Company as determined pursuant to Code Section 706.

1.57 "Transfer" means, when used as a noun, any voluntary sale, hypothecation, pledge, assignment, or other transfer, and, when used as a verb, means voluntarily to sell, hypothecate, pledge, assign or otherwise transfer.

1.58 "Voluntary Withdrawal" means a Class A Member's disassociation with the Company by means other than by ceasing to be a Member as a result of an Involuntary Withdrawal.

1.59 "Voting Rights" means each Class A Member's right under the Act, the Certificate, or this Agreement to cast the number of votes on any matter subject to a vote or to the consent of Class A Members equal to the number of Shares owned by the Class A Member.

1.60 "Withdrawn Member" means any Class A Member that is the subject of a Voluntary or Involuntary Withdrawal.

ARTICLE II

ORGANIZATION OF LIMITED LIABILITY COMPANY

2.1 Formation. The parties hereby organize a limited liability company pursuant to the Act and the terms of this Agreement and, for that purpose, will cause a Certificate of Formation to be filed with the Office of the Secretary of State of Delaware.

2.2 Name. The name of the Company is Plug Power, LLC. The Company may also conduct its business under one or more assumed names duly approved by a resolution of the Management Committee.

2.3 Term. The term of the Company will begin upon the acceptance of the Certificate by the Office of the Secretary of State of Delaware and shall continue in existence in perpetuity or until the Company shall be sooner dissolved and its affairs wound up in accordance with the Act or this Agreement.

2.4 Purpose. The purpose of the Company is to plan, develop, finance, patent, manufacture, market and distribute fuel cell systems capable of delivering electricity or waste heat and related and ancillary services. The Company shall have all the powers necessary or convenient to effect any such purpose, including all powers given to a limited liability company under the Act.

2.5 Initial Date. This Agreement is made on this 27th day of June, 1997.

2.6 Registered Office and Resident Agent. The registered office and resident agent of the Company shall be as designated in the Certificate, as it may be amended from time to time.

2.7 Principal Office. The principal office of the Company shall be located at 968 Albany - Shaker Road, Latham, New York 12110 or such other location as determined by the Management Committee.

2.8 Representations, Warranties, and Covenants of Members.

(a) Each non-individual Member represents, warrants and covenants that:

(i) It is validly organized and existing and in good standing according to the laws of the state of its incorporation or organization, and it is qualified to do business in every jurisdiction where the failure to be so qualified would have a material adverse effect on its ability to perform its obligations under this Agreement;

(ii) This Agreement is duly authorized, executed and delivered on behalf of such Member and constitutes the valid and binding obligations of such Member enforceable in accordance with the terms of such Agreement;

(iii) Neither the formation of the Company, the execution and delivery of this Agreement (including all contracts or other agreements necessary to carry out the purposes of this Agreement), nor the performance of the obligations undertaken pursuant to this Agreement will contravene any provision of, or constitute a default under, any indenture, mortgage, debenture, or other agreement of such Member, any order of any court, commission, or governmental agency having jurisdiction, or violate any law or regulation affecting or governing the Member or the business conducted by the Member; and

(iv) It will not willfully or knowingly violate any law or regulation regarding the Company or its business.

(b) Each individual member represents , warrants and covenants that:

(i) This Agreement is the valid and binding obligation of such Member;

(ii) Neither the entering into nor the performance of this Agreement will violate the terms or conditions of any agreement or order binding on the Member; and

(iii) He or she will not violate any law or regulation regarding the Company or its business.

ARTICLE III

BACKGROUND OF THIS AGREEMENT

3.1 Intent of this Agreement. The parties to this Agreement have reached an understanding concerning: (i) their business relationship with each other in connection with the purpose of the Company; and (ii) the organization and operation of the Company and its business. The parties intend this Agreement to control the business and affairs of the Company, including the Company's governance structure, the Company's dissolution, winding up, liquidation and termination, and the relations between the Company's Members.

3.2 Relationship of Agreement to Default Rules. Whether or not this Agreement specifically refers to a Default Rule, if any provision of this Agreement conflicts with a Default Rule, the provision of this Agreement shall control and the Default Rule shall be modified or overridden accordingly.

3.3 Advice of Counsel. Each person signing this Agreement understands that this Agreement contains legally binding provisions, has had the opportunity to and has either consulted a lawyer or purposefully chosen not to consult a lawyer.

ARTICLE IV

CONTRIBUTIONS AND CAPITAL ACCOUNTS

4.1 Initial Contributions.

(a) The initial Members, EDC and MTI, have entered into their respective Contribution Agreements and made such Capital Contributions to the Company as required thereunder each in exchange for the number of Shares of Class A Membership Interest as set forth on Exhibit A; provided, however, MTI's Membership Interest is subject to reduction as set forth in Section 4.7. The fair market value of EDC's and MTI's Capital Contributions and the Adjusted Basis of each Capital Contribution are as set forth on Exhibit A.

(b) Admission of Class A Members. In the event that the Management Committee decides to admit additional Class A Members, each new Class A Member shall make as its Capital Contribution the contribution required by the Management Committee in its written offer to such Person (as required under Section 11.1) in exchange for the issuance of the number of Shares of Class A Membership Interest set forth in such offer.

(c) Admission of Class B Members. In the event that the Management Committee decides to admit Class B Members, each new Class B Member shall make as its Capital Contribution the contribution required by the Management Committee in its written offer to such Person (as required under Section 11.2) in exchange for the issuance of the number of Shares of Class B Membership set forth in such offer.

4.2 Additional Capital Contributions.

(a) Except as provided in this Section 4.2, the Company has no right to require any Member to make additional capital contributions. This section

does not release any Member from any obligation or promise of future performance that the Company has accepted as a Capital Contribution.

(b) EDC agrees that, subject to subsection 4.2(f), the Company may call upon EDC, from time to time and as required, for additional cash contributions from EDC in an amount not to exceed, in the aggregate, \$4,250,000.00 (each additional EDC capital contribution is an "EDC Contribution"); provided, however, EDC shall not be required to make additional capital contributions under this subsection during the twelve (12) month period after the date of this Agreement. For each \$1.00 of additional capital contributions made by EDC, EDC shall receive one (1) Share of Class A Membership Interest.

(c) Upon receipt of each EDC Contribution, the Company shall notify MTI in writing of such contribution. Such notice shall include the amount of the EDC Contribution, the date of the EDC Contribution, and the number of Shares of Class A Membership interest issued to EDC in exchange for the EDC Contribution. MTI shall have five (5) days after receipt of such notice to request in writing an option to purchase ("Option") additional Shares of Class A Membership Interest in an amount not to exceed the number of Shares of Class A Membership Interest issued to EDC as set forth in the notice for the option price set forth in the notice. Within five (5) days after receipt of such request, the Company shall execute and deliver to MTI an option to purchase Shares of Class A Membership Interest in the form attached as Exhibit F ("Option Agreement - Contribution Match"). MTI's written request for the Option shall constitute MTI's agreement to terms and conditions of the Option Agreement - Contribution Match.

(d) If the Net Awarded Funds exceed \$8,000,000.00, MTI shall receive a credit equal to 18.75% of the amount of Net Awarded Funds in excess of \$8,000,000.00. Such credit shall be applied toward the purchase price payable for any additional Shares purchased by MTI under any of the Option Agreements - Contribution Match delivered to MTI under subsection 4.2(c). If such credit is earned prior to expiration of the term of any such Option Agreement, MTI may request the return of any cash payments made by MTI under any such Option Agreement and prior to such expiration date up to the amount of the credit in accordance with and subject to the terms and conditions of any such Option Agreement.

(e) In the event MTI's Membership Interest is reduced pursuant to subsection 4.7(b), MTI shall have until October 6, 1999 to request an option to repurchase the Returned MTI Shares. Within five (5) days after receipt of such written request, the Company shall issue to MTI an Option Agreement in the form attached as Exhibit G ("Option Agreement - Returned Shares"). MTI's

request for such option shall constitute MTI's agreement to the terms and conditions of the Option Agreement - Returned Shares.

(f) The obligations of EDC to make additional capital contributions under this Section 4.2 shall at all times be conditioned upon the Company achieving the Milestones by the Milestone Dates, as such terms are defined in and in accordance with the schedule set forth in Exhibit C.

4.3 Additional Capital Financing.

(a) In the event the Management Committee determines that the Company needs additional financing to meet its working capital or capital investment requirements, the Management Committee shall determine the structure and the pricing of the debt and/or equity offering necessary to raise such additional financing. If the Management Committee cannot agree on the structure and pricing of such financing, such determination shall be made by a reputable, nationally recognized investment banking firm, experienced in structuring and pricing debt and/or equity offerings in similar industries, selected by the Management Committee.

(b) If equity and/or debt financing is determined to be necessary pursuant to (a) above and the nature of such transaction is predominantly to raise capital in the form of cash, such equity and/or debt financing shall be offered first to the Class A Members as voluntary additional Capital Contributions. All such calls on the Class A Members for additional Capital Contributions made pursuant to this Section 4.3 shall be in writing and shall contain the following information:

(1) The total amount of the additional financing to be raised by the Company and a description of the debt and/or equity structure and pricing of such financing, including, but not limited to, the number of Shares of Class A Membership Interest offered and the price for each Share so offered;

(2) The amount of such additional financing that the Company requests each Class A Member provide to the Company, including the amount requested from the Class A Member to whom the request is addressed, which amounts shall be in proportion to each Class A Members' ownership of Shares of Class A Membership Interest;

(3) The purpose for which the funds are to be applied set forth in reasonable detail; and

(4) The date, not less than thirty (30) days after the written call, on which funding of the additional financing shall be made by the Class A Member, if such Class A Member elects to participate in the additional financing.

All calls for additional financing made pursuant to this Section 4.3 shall be voluntary and none of the Class A Members shall be obligated to participate in any additional financing under this Section 4.3. In the event a Class A Member elects not to participate in additional financing pursuant to this Section 4.3, the Management Committee shall notify the remaining Class A Members within fifteen (15) days after the expiration of the 30-day period provided in Section 4.3(b)(4), and the remaining Class A Members shall have the option to provide such non-participating Class A Member's additional financing, pro rata in proportion to their ownership of Shares of Class A Membership Interest, within thirty (30) days after receipt of notice from the Management Committee.

(c) Any such equity and/or debt financing not raised through additional financing from the Class A Members pursuant to Section 4.3(b) may be offered to Class B Members or non-Members in accordance with the structure and pricing determined pursuant to Section 4.3(a).

(d) The preemptive rights of the Class A Members pursuant to Section 4.3(b) shall not prohibit the Management Committee from issuing Shares of Class A Membership Interest to non-Class A Members (i) in exchange for services rendered in connection with any debt and/or equity financing pursuant to this Section 4.3, or (ii) in connection with any transaction the predominate purpose of which is to acquire all or any part of a Person or any of its business or assets, whether structured as an asset purchase or a purchase of stock or other equity.

4.4 No Right to Return of Capital Contributions. Except as otherwise provided in this Agreement, no Member shall demand or receive a return of its Capital Contributions or withdraw from the Company without the consent of all Members. No Member shall be entitled to receive interest on its Capital Contributions. Under any circumstance that requires a return of all or part of any Capital Contribution, no Member shall have the right to receive any Property other than money, except as otherwise provided in this Agreement.

4.5 Loans and Advances by Members.

(a) Interest Bearing Loans. If at any time or times the Company needs additional funds which, for any reason, the Company does not raise through an increase in the Company capital or through advances, the funds may be borrowed from any one or more of the Members, at a rate of interest equal

to the Applicable Federal Rate and on such payment terms as may be agreed upon by the lending Member(s) and the Management Committee. These loans shall be evidenced by promissory notes signed on behalf of the Company.

(b) Non-Interest Bearing Advances. Any Member may advance money to the Company in excess of the Member's Capital Contribution. The amount of the advance shall not increase the Member's Membership Interest, Capital Account, or Shares, but rather the amount of the advance will be a demand obligation of the Company to that Member and will be fully repaid, without interest, before distributions, or any withdrawals of capital, are made with respect to any Member.

4.6 Capital Accounts. The Company shall establish and maintain for each Member, a Capital Account in accordance with the following provisions:

(a) To each Member's Capital Account there shall be credited such Member's Capital Contributions, such Member's distributive share of Profits and any items in the nature of gain which are specially allocated pursuant to Section 5.2 or Section 5.3, and the amount of any Company Liabilities assumed by such Member or which are secured by any Property distributed to such Member;

(b) To each Member's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any Property distributed to such Member pursuant to any provision of this Agreement, such Member's distributive share of Losses and any items in the nature of expenses or losses which are specifically allocated pursuant to Section 5.2 of Section 5.3, and the amount of any liabilities of such Member assumed by the Company or which are secured by any Property contributed by such Member to the Company; and

(c) In the event all or a portion of a Member's Shares are transferred in accordance with the terms of this Agreement, the assignee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred Shares.

The Capital Accounts shall be maintained in accordance with Section 1.704-1b of the Regulations, and shall be interpreted and applied in a manner consistent with such Regulations, notwithstanding any provision of this Agreement to the contrary. In the event the Management Committee shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto are computed in order to comply with such Regulations, the Management Committee may make such modification, provided that it is not likely to have a material effect on the amounts distributed to any Member pursuant to Article XIII hereof upon the dissolution of the Company.

4.7 Reduction in MTI's Capital Contribution. It is anticipated that the Net Awarded Funds from the Contract Proposals will be Eight Million Dollars (\$8,000,000.00) ("Projected Net Awarded Funds"). If the Net Awarded Funds from the Contract Proposals are less than the Projected Net Awarded Funds, MTI's Capital Account shall be reduced by an amount equal to \$1,750,000 multiplied by the percentage determined by dividing the difference between the Projected Net Awarded Funds and the Net Awarded Funds by the Projected Net Awarded Funds ("Research Debit"). The number of Shares of Class A Membership Interest held by MTI shall be reduced by one Share for each \$1.00 of the Research Debit ("Returned MTI Shares"). Adjustments will be made to MTI's Capital Account and Shares at the close of business on October 1, 1999 to reflect the Net Awarded Funds. If greater than one hundred percent (100%) of the Projected Net Awarded Funds are received by the Company, no adjustments will be made to MTI's Capital Account or Shares except as provided in subsection 4.2(d).

4.8 Requested Registration. At any time following five (5) years after the date of this Agreement, upon the request of Class A Members holding not less than twenty-five (25%) of the Shares of Class A Membership Interest entitled to vote ("Initiating Members"), the Company shall retain an independent reputable and nationally recognized investment banking firm ("Advisor") experienced in advising on the registration of Shares of businesses similar to the Company and acceptable to the Company and the Initiating Member, to propose to the Company the optimal time to effect registration of the Shares held by the Company and the offering price for such Company Shares. The Advisor shall make such proposal in a writing ("Proposal") delivered to the Company within sixty (60) days after the Advisor is retained by the Company. The Company shall provide the Class A Members with copies of the Advisor's Proposal within thirty (30) days after receipt of the Proposal. If the Advisor's Proposal recommends pursuing registration at that time, the Initiating Members may require the Company to effect registration of the Company Shares in accordance with the Advisor's

Proposal. If necessary in order to effect registration of the Company Shares in accordance with the Advisor's Proposal, the Members authorize the Company to increase the number of Shares Authorized to an amount sufficient to effect the registration, and authorize the Company to merge the Company into a Delaware corporation and exchange their Shares in the Company for an equal number of Shares in the surviving Delaware corporation.

In the event the advisor's proposal recommends against effecting registration at that time, the Company shall not be obligated to pursue such registration, and the Member shall not be entitled request the Company to retain an advisor again for the purpose set forth above for a period of twelve (12) months after the date of the advisor's proposal recommending against effecting a registration at that time.

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

5.1 Allocations of Profits and Losses from Operations.

(a) Profits. After giving effect to the special allocations in Sections 5.2 and 5.3, Profits shall be allocated among the Members in proportion to the number of Shares owned by each Member and the number of Shares Issued.

(b) Losses. After giving effect to the special allocations in Sections 5.2 and 5.3, Losses shall be allocated among the Members in proportion to the number of Shares owned by each Member and the number of Shares Issued.

5.2 Special Allocations. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. To the extent and in the manner provided in Section 1.704-2(f) of the Regulations, if there is a net decrease in Company Minimum Gain during any Taxable Year, each Member shall be specially allocated items of Company income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Section 1.704-2(g) of the Regulations. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. This Section 5.2(a) is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(f) of the Regulations and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. To the extent and in the manner provided in Section 1.704-2(i) (4) of the Regulations, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Liability during any fiscal year, each Member who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Liability shall be specially allocated items of Company income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i) (4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(i) (4) an 1.704-2(j) (2) of the Regulations. This Section 5.2(b) is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i) (4) of the Regulations and shall

be interpreted consistently therewith.

(c) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulation Sections 1.704(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Company income and gain shall be specifically allocated to each such Member in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, the Adjusted Capital Account Deficit of such Member as quickly as possible, provided that an allocation pursuant to this Section 5.2(c) shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Section 5 have been tentatively made as if this Section 5.2(c) were not in this Agreement.

(d) Gross Income Allocation. In the event any Member has an Adjusted Capital Account Deficit at the end of any fiscal year, each such Member shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 5.2(d) shall be made only if and to the extent that such Member would have Adjusted Capital Account Deficit after all other allocations provided for in this Section 5 have been made as if Section 5.2(c) and this Section 5.2(d) were not in the Agreement.

(e) Nonrecourse Deductions. Nonrecourse Deductions shall be allocated among the Members in proportion to the number of Shares owned by each Member to the number of Shares Issued.

(f) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any fiscal year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Liability to which such Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(1).

(g) Section 754 Adjustments. If an adjustment to the Adjusted Basis of any Company Property pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(2) or Regulations Section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of his or her Membership Interest in the Company, the amount of such adjustment shall be treated as an item of gain or loss and shall be specially allocated to the Members in proportion to the number of Shares owned by each Member and the number of Shares Interest in the event that Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Member to whom such distribution was made in the event that Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

5.3 Curative Allocations. The allocations set forth in Sections 5.2(a)-5.2(g) hereof (the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the

extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Profits or Losses pursuant to this Section 5.3. Therefore, notwithstanding any other provision of this Section 5 (other than the Regulatory Allocations), the Management Committee shall make such offsetting special allocations of items of Profit or Loss in whatever manner it determine(s) appropriate so that, after such offsetting allocations are made, each Member's Capital Account balances, to the extent possible, are equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of the Agreement and all items of Profit and Loss were allocated pursuant to Section 5.1.

5.4 Tax Allocations: Code Section 704(c). In accordance with Code Section 704(c) and the Regulations thereunder, Profits and Losses which relate to any Property contributed by a Member to the Company shall, solely for tax purposes, be allocated among Members so as to take account of any variation between the Property's Adjusted Basis and its initial Gross Asset Value.

ARTICLE VI

DISTRIBUTIONS

6.1 Distributions of Net Operating Income. Subject to the limitations of Section 6.3 and the Act, the Management Committee shall distribute (within seventy-five (75) days after the end of each fiscal year of the Company) to the Members in proportion to the number of Shares owned by each Member and the number of Shares Issued, the lesser of (a) Net Operating Income for the preceding fiscal year of the Company, or (b) an amount equal to the total expected federal and Michigan income tax liability (determined at the highest individual federal and Michigan marginal income tax rates) of all Members on account of their Membership Interest in the Company during the preceding fiscal year. If the Net Operating Income for the preceding fiscal year of the Company exceeds the required distribution amount under this Section 6.1, then, in the sole discretion of the Management Committee and subject to the limitations of Section 6.3 and the Act, the Management Committee may make additional distributions of Net Operating Income to the Members in proportion to the number of Shares owned by each Member to the number of Shares Issued.

6.2 Amounts Withheld. All amounts required to be withheld pursuant to the Code or any provision of any state or local tax law with respect to any payment, distribution, or allocation to the Members, shall be treated as amounts distributed to the Members pursuant to this Article VI. The Management Committee is authorized to withhold from distributions, or with respect to allocations, to the Members and to pay over to any federal, state or local government any amounts required to be so withheld pursuant to the Code or any provision of any other federal, state, or local law.

6.3 Limitation on Distributions. No Member shall be entitled to a distribution pursuant to this Article VI, if, after giving effect to the distribution, the Company would not be able to pay its debts as they become due in the usual course of business, or if the Company's total assets would be less than the sum of its total liabilities. A determination that a distribution is not prohibited under this subsection or the Act may be based either on financial statements prepared on the basis of accounting practices and principles that are reasonable under the circumstances or on a fair valuation or other method that is reasonable under the circumstances. Unless otherwise agreed by the Members, a Member shall only be entitled to the distributions provided in this Agreement.

ARTICLE VII

POWERS, DUTIES, LIABILITIES, REIMBURSEMENT
AND DECISIONS OF MANAGEMENT COMMITTEE

7.1 Management of Business.

(a) The Company shall be managed by a Management Committee. Except as provided in subsection 7.1(b), the Management Committee shall be comprised of six Managers, three (3) Managers appointed by EDC and three (3) Managers appointed by MTI.

(b) In the event the number of Shares of Class A Membership Interest held by EDC is greater than (i) the number of Shares of Class A Membership Interest held by MTI and the MTI Affiliates, in the aggregate, plus (ii) the number of Shares of Class A Membership Interest for which MTI and the MTI Affiliates, in the aggregate, hold unexpired options to purchase pursuant to Section 4.2(c) or (e) ("Option Shares"), EDC shall be entitled to appoint two (2) additional Managers to the Management Committee. Thereafter, the Management Committee shall be comprised of eight (8) Managers, five (5) Managers appointed by EDC and three (3) Managers appointed by MTI. If the number of Shares and Option Shares of Class A Membership Interest held by MTI and the MTI Affiliates, in the aggregate, subsequently become equal to the number of Shares of Class A Membership Interest held by EDC, EDC shall cause two (2) of the Managers appointed by EDC to resign or be removed, and thereafter the Management Committee shall be comprised of six (6) Managers, three (3) appointed by EDC and three (3) appointed by MTI.

(c) The Managers shall serve for a term of three (3) years, unless a Manager is sooner removed or resigns pursuant to either this Section 7.1 or Section 7.9. The duties, compensation and benefits, if any, of the Managers shall be determined by reference to the provisions of this Agreement, the Act, and, if applicable, resolutions adopted by the Management Committee.

7.2 Authority of Management Committee.

(a) Subject to the limitations imposed by the Act and this Agreement, the Management Committee shall have full and exclusive authority to conduct, manage and control all of the business affairs of the Company and to make all decisions regarding the business of the Company. In furtherance of such authority, the Management Committee shall have all of the rights and powers provided in this Section 7.2, as amended from time to time, and, except as otherwise provided by law or this Agreement, any action taken by the Management Committee shall constitute the act of and serve to bind the Company.

(b) The Management Committee is hereby granted the exclusive right, power and authority to:

(1) Manage, operate, maintain and develop the business of the Company;

(2) Approve any loan agreements or instruments evidencing debt incurred by the Company; the selection of a bank in which Company funds shall be deposited; the selection of legal counsel; the approval of Company tax returns; and any other matters which the Management Committee shall deem to be of fundamental importance to the Company;

(3) Execute any and all agreements, contracts, documents, certifications, instruments, notes, mortgages, assignments and security agreements necessary or convenient in connection with the operation of the business of the Company;

(4) Borrow money and issue evidences of indebtedness in furtherance of any or all of the purposes of the Company, and to secure the same by mortgage, pledge or other lien on any Company Property;

(5) Protect and preserve the title and interest of the Company with respect to the assets at any time owned or acquired by the Company;

(6) Collect all amounts due to the Company, and otherwise to enforce all rights of the Company, including all of such rights inuring to the benefit of the Company under any agreement for the management of its assets, and, in that connection, to retain counsel and institute such suits or proceedings, in the name and on behalf of the Company, or, if the Management Committee shall so determine, in the name of the Members; provided, however, that the Members reserve the right to retain separate counsel to defend against any lawsuits which name the Members as separate parties to such proceedings;

(7) Enter into contracts with and pay fees or cause others to pay fees to any person or entity;

(8) Enter into agreements for the performance of legal, accounting, bookkeeping, tax, administrative reporting, receiving and paying of funds and other management services necessary or appropriate for the administration of the Company with any Person;

(9) Defend and hold harmless any Members against any claim in connection with the Company business other than a claim by another Member for breach of an obligation under this Agreement;

(10) Designate and appoint one or more employees of or agents for the Company who shall have such authority as may be conferred upon them by the Management Committee, and who may perform any of the duties and exercise any of the powers and authority conferred upon the Management Committee hereunder, including, without being limited to, the designation of an agent for service of process on the Company and one or more agents as authorized signatories on any bank accounts maintained by the Company;

(11) Invest and reinvest Company funds to the extent not currently required, in its sole discretion, for Company operating capital;

(12) To the extent that funds of the Company are available and the Management Committee deems it appropriate, make distribution to the Members in accordance with the provisions of this Agreement;

(13) Perform all normal business functions, and otherwise operate and manage the business and affairs of the Company, in accordance with this Agreement;

(14) Engage in any kind of activity and perform and carry out contracts of any kind necessary to, or in connection with or convenient or incidental to, the accomplishment of the purposes of the Company, so long as said activities and contracts may be lawfully carried on or performed by a limited liability company under the laws of the State of Delaware;

(15) Offer Shares that are Shares Authorized but unissued for sale for not less than fair market value to Persons that are identified by the Management Committee as prospective Members or as Key Employees, to enter into capital contribution agreements with such Persons in the name of and on behalf of the Company, to admit such Persons as Members upon receipt of the agreed upon capital contribution and to amend Exhibit A or B as applicable, to reflect the admission of such Persons as Members and the issuance of Shares to such Persons; and

(16) Request additional capital contributions consistent with Section 4.2.

7.3 Limitations on Management Committee and Managers. Notwithstanding the foregoing and any other provision contained in this Limited Liability Company Agreement to the contrary, no act shall be taken, sum expended, decision made, obligation incurred or power exercised by the Management Committee or any Manager on behalf of the Company, unless approved by the Class A Members holding at least seventy percent (70%) of the Shares of Class A Membership Interest entitled to vote with respect to those decisions set forth below:

(a) Any sale, lease, assignment, transfer, or other conveyance of all or substantially all of the assets of the Company or any merger, consolidation, dissolution, divestiture or winding-up of the Company;

(b) Any amendment or restatement of the Certificate or this Limited Liability Company Agreement;

(c) Any material change in the character of the business and affairs of the Company;

(d) Any change in the number of Shares Authorized for a Class A Membership Interest;

(e) The commission of any act which would make it impossible for the Company to carry on its ordinary business and affairs;

(f) The commission of any act that would contravene any provision of the Certificate or this Limited Liability Company Agreement or the Act; or

(g) The approval of any Contract Proposal.

7.4 Compensation; Expenses.

(a) Except as otherwise provided in this Section 7.4, no Manager shall receive any salary, fee, or draw for services rendered to or on behalf of the Company, nor shall any Manager be reimbursed for any expenses incurred by such Manager on behalf of the Company.

(b) Each Manager may charge the Company, and shall be reimbursed, for any reasonable direct expenses incurred in connection with the Company's business and in compliance with any procedures and requirements of the Company relating to such reimbursement.

7.5 Manager Duties.

(a) Except as provided in subsection 7.5(b) and Section 7.6, each Manager shall devote such time to the Company business as may be necessary

to adequately and properly manage and supervise the Company business and affairs in an efficient and workmanlike manner and discharge his or her duties as a Manager in good faith, with the care an ordinarily prudent person would exercise in similar circumstances, and in a manner he or she believes to be in the best interest of the Company. Notwithstanding the foregoing, the failure of any Manager appointed by EDC to approve a Contract Proposal pursuant to Section 7.3(g) shall not constitute a breach of any duty imposed upon such Manager under this Agreement or the Act, and MTI and its affiliates are forever barred from bringing, and hereby waive any right to bring, any action or suit against such Manager for failure to approve a Contract Proposal.

(b) Nothing in this Agreement shall be deemed to restrict in any way the rights of a Manager, or of any Affiliate of a Manager, to conduct any other business or activity whatsoever, and no Manager shall be accountable to the Company or to any Member with respect to that business or activity even if the business or activity competes with the Company's business. The organization of the Company shall be without prejudice to their respective rights (or the rights of their respective Affiliates) to maintain, expand, or diversify such other interests and activities and to receive and enjoy profits or compensation therefrom.

(c) (1) Each Manager shall deal in confidence with all matters involving the Company until such time as there has been a general public disclosure. Subject to subsection 7.5(c)(2), no Manager shall disclose or use any Confidential Information, Inventions or Confidential Documents of the Company (as such terms are defined below) except for the direct or indirect benefit of the Company.

(2) In the event a Manager receives a discovery request (including, without limitation, document requests, subpoenas, notices of deposition, orders to produce documents, information or individuals) in a judicial action or an arbitration (referred to hereinafter as "Discovery Requests"), each Manager agrees that:

(A) The Manager will notify the Company of the Manager's receipt of the Discovery Request within a reasonable time following such receipt to allow the Company to seek an order preventing or limiting the disclosure by the Manager of the Confidential Information from a tribunal having jurisdiction over the Discovery Request.

(B) The Manager will not take any action, including responding to the Discovery Requests before the response time, that would interfere with any efforts by the Company to pursue such legal remedies preventing or limiting disclosure of the Confidential Information.

(i) In the event of a Discovery Request other than a deposition request, this means that the Manager will not

respond until the date set forth in the Discovery Request, thus giving the Company full opportunity to obtain an order modifying the Manager's obligation to respond or to obtain an agreement from the party making the Discovery Request that the Manager is not obligated to respond at that time.

(ii) In the event of a deposition in which a question is posed requiring the disclosure of Confidential Information, this means that the Manager will not disclose the Confidential Information as long as the Company immediately requests an adjournment of the deposition in order to obtain direction from a tribunal having jurisdiction over the Discovery Request as to whether and under what circumstances the Manager can disclose the Confidential Information. If the parties to the action in which the deposition is taken do not permit the

Company to attend the deposition of the Manager, and a question requiring the disclosure of Confidential Information is asked, the Manager agrees that prior to disclosing the Confidential Information it will request an adjournment of the deposition in order to inform the Company of the question and to give the Company an opportunity to seek direction from such a tribunal.

(C) To the extent the Company fails to request or is unable to obtain an order from a tribunal having jurisdiction over the Discovery Request, nothing shall prevent the Manager from responding to a Discovery Request in the manner it considers appropriate.

(3) Each Manager acknowledges the disclosure of Confidential Information by the Managers or a breach of the provisions contained in this subsection 7.5(c) will give rise to irreparable injury to the Company or to the Company's clients and customers, which injury could not be adequately compensated for in damages. Accordingly, the Company or such other party may seek and obtain injunctive relief against the breach or threatened breach of the Manager's agreements and undertakings contained in this subsection 7.5(c), in addition to any other legal remedies which may be available to the Company or such other party.

(4) For purposes of this subsection 7.5(c), the terms defined below shall have the following meanings:

(A) "Confidential Documents" shall mean any papers, blueprints, records, notebooks, computer disks, computer tapes, or other similar repositories containing Confidential Information,

including copies thereof which have been prepared for the benefit of the Company or its employees or independent contractors, whether prepared by, its employees, independent contractors, or outside parties.

(B) "Confidential Information" shall mean information or knowledge not readily ascertainable by the general public or the industry in which the Company is or may become engaged regarding the Company's products, systems, processes, Inventions, designs, research, development, manufacture, purchasing, accounting, engineering, marketing, client or customer lists and information, merchandising and selling, and Confidential Documents.

(C) "Inventions" shall mean discoveries, concepts, and ideas, whether patentable or not, including but not limited to the design, specification and technology of systems, processes, methods, formulas, and techniques, as well as improvements or modifications of processes, systems, methods, formulas and techniques which are not readily ascertainable by the general public or the industry in which the Company is or may become engaged.

(d) When a Manager, directly or indirectly, has a financial or personal interest in a contract or transaction to which the Company is to be a party, the Manager is considered to be "interested" in the matter. An interested Manager shall disclose that interest and describe to the Management Committee all material facts concerning the matter with complete accuracy and inclusiveness. Provided such full and accurate disclosure is made, the interested Manager shall be allowed to discuss and vote on the matter and any such contract or transaction authorized by the Management Committee shall not be later subject to revocation on the basis that the terms of such contract

or transactions were not fair and commercially reasonable.

7.6 Additional Duties and Obligations of Management Committee

(a) The Management Committee shall take all actions which may be necessary or appropriate for the continuation of the Company's valid existence as a limited liability company under the laws of the State of Delaware.

(b) The Management Committee shall use its best efforts to meet all current and future federal income tax requirements to assure that the Company will not fail to be classified for federal income tax purposes as a partnership rather than as an association taxable as a corporation.

(c) The Management Committee shall direct the affairs of the Company in the best interest of the Company, including the safekeeping and use of all Company funds and assets and the use thereof for the benefit of the Company.

(d) The Management Committee shall, from time to time, prepare and file any amendment to the Company's Certificate and any other similar documents which are required by law to be filed and recorded for any reason in such office or offices as are required under the laws of the State of Delaware.

7.7 Management Committee Meetings and Decisions.

(a) A meeting of the Management Committee shall be held every month, on the 15th day of each month or on such other day of the month as determined by the Management Committee.

(b) All decisions made by the Management Committee shall require a vote of not less than fifty-one percent (51%) of all of the Managers. All actions shall be taken only at a meeting called at least five (5) days in advance of the meeting attended by not less than fifty-one percent (51%) of all of the Managers.

(c) Actions of the Management Committee may also be taken by written consent of all of the Managers.

(d) A Manager may participate in a meeting with the same effect as being present in person by a conference telephone or by other similar communications equipment through which all persons participating in the meeting may communicate with the other participants.

7.8 Removal or Resignation of Manager.

(a) The Class A Members, by a vote of at least seventy percent (70%), may remove a Manager for cause. For purposes of this Agreement, "cause" shall mean the Manager's gross negligence, willful misconduct, or bad faith in the performance of the material duties and obligations of the Manager under this Agreement, or the knowing violation of statutory obligations or fraud by the Manager.

(b) A Manager may be removed only at a meeting called by the Class A Members in accordance with the procedures required under Article VIII. Notice of the meeting shall be given to all Class A Members and the Manager. Further, the notice shall include notice of the specific allegations against the Manager which form the basis for the proposed removal. At the meeting called for the removal of the Manager, the Manager shall be given a full opportunity to be heard and to address the specific allegations against the Manager.

(c) A Manager may be removed at any time, with or without cause, by the Class A Member that appointed the Manager under Section 7.1. The Class

A Member taking such action shall provide prompt written notice of such action to all other Class A Members.

(d) Except as provided under Section 7.9(a) or 7.9(c), a Manager may not be removed.

(e) A Manager may resign by providing written notice to all Class A Members not less than forty-five (45) days prior to the effective date of such resignation. The resignation shall take effect forty-five (45) days after the date the Manager gives notice to all Class A Members, or at such later date stated in the notice of resignation.

7.9 Replacement Manager. A replacement Manager for any Manager that has been removed or has resigned shall be appointed by the Class A Member that had appointed the removed or resigning Manager within ten (10) business days of the date of removal or the effective date of resignation. The Class A Member appointing the replacement Manager shall provide prompt written notice to all other Class A Members of the name and address of the replacement Manager. Once appointed, the replacement Manager will serve the unexpired term of and will have all of the powers and duties of the Manager that resigned or was removed.

7.10 Officers of the Company.

(a) Power to Elect Officers. The Management Committee shall select a president, treasurer, and a secretary, and may select a chairman, one or more vice presidents, one or more assistant treasurers, and one or more assistant secretaries, and any other officers that the Management Committee deems in the best interest of the Company which may be appointed and their duties prescribed by resolution of the Management Committee.

(b) Removal of Officers and Agents. Any officer or agent may be removed by the Management Committee whenever, in the judgment of the Management Committee, the business interests of the Company will be served thereby.

(c) Delegation of Powers. For any reason deemed sufficient by the Management Committee, whether occasioned by absence or otherwise, the Management Committee may delegate all or any of the powers and duties of any officer to any other officer or Manager.

(d) Powers and Duties of Officers.

(1) Chairman. The Chairman shall be selected by and from the membership of the Management Committee. He or she shall conduct all meetings of the Management Committee and shall perform all duties incident thereto.

(2) President. The President shall have general and active management of the business of the Company and shall see that all orders and resolutions of the Management Committee are carried into effect. He or she shall be ex-officio, a member of all standing committees, and shall have the general powers and duties of supervision and management usually vested in the office of president of a corporation. During the prolonged absence or disability of the President, or the vacancy of his or her office, the below listed individuals shall perform the duties and exercise the power of President, until a successor is appointed, as follows: Vice President, and if he or she be not available, then whosoever shall be appointed by the Management Committee.

(3) Vice President. The duties which the Vice Presidents are to perform shall be designated by the Management Committee.

(4) Secretary. The Secretary shall attend all meetings of the Members and shall preserve in the books of the Company true minutes of the proceedings of all such meetings. He or she shall safely keep in his or her custody the seal of the Corporation, and shall have authority to affix the same to all instruments where its use is required. He or she shall give all notices required by statute, by-law or resolution. He or she shall perform such other duties as may be delegated to him or her by the Management Committee.

(5) Treasurer. The Treasurer shall have custody of all Company funds and securities, and shall keep in books belonging to the Company full and accurate accounts of all receipts and disbursements; he or she shall deposit all monies, securities and other valuable effects in the name of the Company in such depositories as may be designated for that purpose by the Management Committee. He or she shall disburse the funds of the Company as may be ordered by the Management Committee, taking proper vouchers for such disbursements and shall render to the President and directors at regular meetings of the Management Committee, and whenever requested by them, an account of all his or her transactions as Treasurer, and of the financial condition of the Management Committee. If required by the Management Committee, he or she shall deliver to the President of the Company, an shall keep in force, a bond in form, amount, and with a surety or sureties satisfactory to the Management Committee, conditioned for faithful performance of the duties of his or her office, and for restoration to the Company in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and property of whatever kind in his or her possession or under his or her control belonging to the Company.

(6) Assistant Secretary and Assistant Treasurer. The Assistant Secretary, in the absence or disability of the Secretary, shall perform the duties and exercise the powers of the Secretary. The Assistant Treasurer, in the absence or disability of the Treasurer, shall perform the duties and exercise the powers of the Treasurer.

(e) Each officer of the Company shall discharge his or her duties as an officer in good faith, with the care an ordinarily prudent person in a like position would exercise in similar circumstances and in a manner he or she reasonably believes to be in the best interests of the Company. In discharging his or her duties, an officer is entitled to rely in good faith upon the records of the Company and such information, opinions, reports or statements provided to any such officer by any other person as to matters the officer reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or

on behalf of the Company.

7.11 No Authority of Members. No Member is an agent of the Company or has the authority to make any contracts, enter into any transactions, or make any commitments on behalf of the Company, except that, prior to the first meeting of the Management Committee, either Member may execute any agreement, document or instrument required to be executed by the Company under this Agreement, the EDC Contribution Agreement or the MTI Contribution Agreement.

7.12 Actions Against Members for Breach of Contract. In the event that any Manager or Officer of the Company brings to the attention of the Management Committee any allegation of a breach of a contract between a Member and the Company, the Management Committee shall evaluate the validity of the allegations and vote on whether or not to take action against the subject Member. No Manager appointed by the subject Member shall be entitled to vote on any resolution to pursue any claim or take any action against the subject Member. The vote taken at the meeting shall be preliminary and subject to the obligation of the Management Committee to provide the Company's independent public accountants with a written report of their evaluation and assessment of the allegation of a breach by the subject Member of a contract with the Company. Such report shall be delivered by the Management Committee to such accountants within five (5) business days of such meeting. The Company's independent public accountants shall provide the Management Committee with a written report expressing their views and opinions with respect to the Management Committee's evaluation and assessment. Such report shall be provided to the Management Committee within ten (10) business days following such accountants' receipt of the Management Committee's written report and for the purpose of reviewing the Company's independent public accountant's written report. The Management Committee shall then convene a meeting for the specific purpose of determining what action to take with regard to the alleged breach of contract between the subject Member and the Company. At such meeting, no Manager appointed by the subject Member shall be entitled to vote on any resolution regarding whether or not to pursue a claim or other action against the subject Member.

ARTICLE VIII

ACTION OF MEMBERS AND MEMBER MEETINGS

8.1 Action of Members. Except to the extent that the Act, the Certificate, or this Agreement require otherwise, all actions of the Class A Members shall be taken either (a) by a majority vote of the votes entitled to be cast by all of the Class A Members at a properly called meeting of the Class A Members, when a quorum is present; or (b) by written action without a meeting, complying with Section 8.8.

8.2 Tri-Annual and Special Meetings.

(a) A tri-annual meeting of the Class A Members shall be held every third year, on the third Tuesday of January of such year, for the appointment of Managers to the Management Committee.

(b) A special meeting of the Class A Members may be called for any purpose or purposes at any time by the Management Committee or by one or more Class A Members having at least fifty-one percent (51%) of all of the votes entitled to be cast by Class A Members.

(c) For any special meeting not called by the Management Committee, the Class A Member or Class A Members who are calling the special meeting must give written notice to the Management Committee specifying the purpose of the meeting. Within thirty (30) days after the Management Committee receives a demand under this paragraph, the Management Committee shall call a special meeting of the Class A Members. If the Management Committee fails to call the special meeting, the Class A Member or Class A Members calling the meeting may, at the expense of the Company, call the meeting by giving the

notice described in Section 8.3.

8.3 Notice of Meetings. Written notice of each meeting of the Class A Members, stating the date, time, place, and the purposes or purposes, must be given to every Class A Member at least ten (10) days and not more than sixty (60) days prior to the meeting. The business transacted at any meeting of Class A Members is limited to the purposes stated in the notice of the meeting.

8.4 Location and Conduct of the Meetings; Adjournments.

(a) The location of each of the meetings of the Class A Members will alternate each meeting between 2000 Second Avenue, 644 WCB, Detroit, Michigan and 968 Albany - Shaker Road, Latham, New York, with the first meeting being held at the Detroit, Michigan location, or at some other suitable location within the same city, as designated by the Management Committee or the Class A Member or Class A Members calling the meeting, as applicable.

(b) A Manager designated by the Management Committee shall preside at each meeting of the Class A Members.

(c) At each tri-annual and special meeting of the Members, the Management Committee shall designate a Manager to act as secretary at the meeting, who shall record the discussions had and actions taken at such meeting and prepare minutes summarizing such discussions and actions. A copy of such minutes, certified by the secretary, shall be maintained at the Company's principal place of business with the records of the Company, and a copy shall be sent to each of the Members within thirty (30) days after the date of such meeting.

(d) The Management Committee shall have the power and authority to establish the rules of order to be followed at the tri-annual and special meetings of the Members.

(e) Any meeting of the Class A Members may be adjourned from time to time to another date and time and, subject to Section 8.4(a), to another place. If at the time of adjournment, the person presiding over the meeting announces the date, time, and place at which the meeting will be reconvened, no further notice of the reconvened meeting shall be required.

8.5 Waiver of Notice.

(a) A Class A Member may waive notice of the date, time, place, and purpose or purposes of a meeting of Class A Members. A waiver may be made before, at, or after the meeting, in writing, orally, or by attendance.

(b) Attendance by a Class A Member at a meeting is a waiver of notice of that meeting, unless the Class A Member objects at the beginning of the meeting to the meeting or the transaction of business at the meeting because the meeting is not properly called or convened, or objects before a vote on an item of business because the item may not properly be considered at that meeting and does not participate in the consideration of the item at that meeting.

8.6 Proxies.

(a) A Class A Member may cast or authorize the casting of a vote by filing a written appointment of a revocable proxy given to any other Class A Member with the Management Committee at or before the meeting at which the appointment is to be effective. The Class A Member may sign or authorize the written appointment by telegram, telecopy, cablegram, or other means of electronic transmission stating, or submitted with information sufficient to determine, that the Class A Member authorized the transmission. Any copy,

facsimile, telecommunication, or other reproduction of the original of either

the writing or the transmission may be used in lieu of the original, if it is a complete and legible reproduction of the entire original.

(b) A Class A Member may not grant or appoint an irrevocable proxy.

8.7 Quorum. For any meeting of the Class A Members, a quorum consists of Class A Members holding a majority of all of the votes entitled to be cast at a meeting of the Class A Members. If a quorum is present when a properly called meeting is convened, the Class A Members present may continue to transact business until adjournment, even though the departure of Class A Members originally present leaves less than the number of Class A Members otherwise required for a quorum.

8.8 Action Without a Meeting. Any action required or permitted to be taken at a meeting of the Class A Members may be taken without a meeting by written consent signed by all of the Class A Members who are entitled to vote at a meeting of the Class A Members. The action taken by unanimous written consent shall be effective when signed by all Class A Members entitled to vote, unless a different effective date is provided in the written consent.

8.9 Attendance by Conference Telephone. A Class A Member may participate in a meeting with the same effect as being present in person by a conference telephone or by other similar communications equipment through which all persons participating in the meeting may communicate with the other participants.

ARTICLE IX

MEMBERSHIP OBLIGATIONS AND CONDUCT

9.1 Compliance with Policies. It shall be the duty of each Member to act at all times consistently with and in compliance with all and each of the provisions of this Agreement and with all policies, rules, and decisions of the Company adopted in accordance with any of the provisions of this Agreement.

9.2 Authority to Bind. Only the Manager and agents of the Company authorized by the Management Committee shall have the authority to bind the Company. No Member who is not authorized as an agent of the Company by the Management Committee shall take any action to bind the Company, and each Member shall indemnify the Company for any costs or damages incurred by the Company as a result of any such unauthorized action by such Member. Provided, however, that, prior to the first meeting of the Management Committee, either Member may execute any agreement, document or instrument required to be executed by the Company under this Agreement, the EDC Contribution Agreement or the MTI Contribution Agreement.

9.3 Confidentiality.

(a) (1) Each Member shall deal in confidence with all matters involving the Company until such time as there has been a general public disclosure. Subject to subsection 9.3(a)(2), no Member shall disclose or use any Confidential Information, Inventions or Confidential Documents of the Company (as such terms are defined below) except for the direct or indirect benefit of the Company.

(2) In the event a Member receives a discovery request (including, without limitation, document requests, subpoenas, notices of deposition, orders to produce documents, information or individuals) in a judicial action or an arbitration (referred to hereinafter as "Discovery Requests"), each Member agrees that:

(A) The Member will notify the Company of the Member's receipt of the Discovery Request within a reasonable time following such receipt to allow the Company to seek an order preventing or limiting the disclosure by the Member of the Confidential Information from a tribunal having jurisdiction over the Discovery Request.

(B) The Member will not take any action, including responding to the Discovery Requests before the response time, that would interfere with any efforts by the Company to pursue such legal remedies preventing or limiting disclosure of the Confidential Information.

(i) In the event of a Discovery Request other than a deposition request, this means that the Member will not respond until the date set forth in the Discovery Request, thus giving the Company full opportunity to obtain an order modifying the Member's obligation to respond or to obtain an agreement from the party making the Discovery Request that the Member is not obligated to respond at that time.

(ii) In the event of a deposition in which a question is posed requiring the disclosure of Confidential Information, this means that the Member will not disclose the Confidential Information as long as the Company immediately requests an adjournment of the deposition in order to obtain direction from a tribunal having jurisdiction over the Discovery Request as to whether and under what circumstances the Member can disclose the Confidential Information. If the parties to the action in which the deposition is taken do not permit the Company to attend the deposition of the Member, and a question requiring the disclosure of Confidential Information is asked, the Member agrees that prior to disclosing the Confidential Information it will request an adjournment of the deposition in order to inform the Company of the question and to give the

Company an opportunity to seek direction from such a tribunal.

9.4 Business Opportunities

(a) Except as otherwise expressly provided in Section 9.4(b), nothing in this Agreement shall be deemed to restrict in any way the rights of any Member, or of any Affiliate of any Member, to conduct any other business or activity whatsoever, and no Member shall be accountable to the Company or to any other Member with respect to that business or activity even if the business or activity competes with the Company's business. The organization of the Company shall be without prejudice to their respective rights (or to the rights of their respective Affiliates) to maintain, expand, or diversify such other interests and activities and to receive and enjoy profits or compensation therefrom. Each Member waives any rights the Member might

otherwise have to share or participate in such other interests or activities of any other Member or the Member's Affiliates.

(b) Each Member understands and acknowledges that the conduct of the Company's business may involve business dealings and undertakings with Members and their Affiliates. In any of those cases, those dealings and undertakings shall be at arm's length and on commercially reasonable terms as determined by the Management Committee.

ARTICLE X

REQUIRED RECORDS; ACCOUNTING

10.1 Contents and Location of Required Records. The Company will maintain at its principal place of business the following records:

(a) A current list of the full name and last known address of each Member and Manager;

(b) A copy of the Certificate, together with any amendments to the Certificate;

(c) A copy of this Agreement as executed by the Members, together with all amendments to this Agreement;

(d) Copies of the Company's federal, state, and local income tax returns and reports, if any, for the three (3) most recent calendar years;

(e) Copies of any financial statements of the Company for the three (3) most recent calendar years;

(f) Records (including minutes and written consents) evidencing authorization of Company action;

(g) Copies of records that would enable a Member to determine the Member's relative Membership Interest, Voting Rights, and Shares, and, in the case of Class B Members, any vesting schedule to which their Class B Membership Interest is subject; and

(h) Such other records as the Company is required to maintain pursuant to the Act.

10.2 Access to Required Records.

(a) After giving reasonable advance notice to the Company, any Member may inspect and review the Required Records and may, at the Member's sole cost and expense, have the Company make copies of any portion or all of the records.

(b) Unless the Company agrees otherwise, all Member access to the Required Records must take place during the Company's regular business hours. The Company may impose additional reasonable conditions and restrictions on Members' access to the Required Records, including specifying the amount of advance notice a Member must give and the charges imposed for copying.

10.3 Tax Characterization and Returns.

(a) The Members acknowledge the intention that the Company be treated as a "partnership" for federal and state tax purposes. All provisions of this Agreement and the Certificate are to be construed so as to preserve that tax status.

(b) Within ninety (90) days after the end of each Taxable Year, the Management Committee will cause to be delivered to each person who was a Member at any time during such Taxable Year a Form K-1 and such other information, if any, with respect to the Company as may be necessary for the preparation of each Member's federal, state or local income tax (or information) returns.

10.4 Accounting Decisions.

(a) The Management Committee will make all decisions as to accounting matters; and

(b) The Management Committee may cause the Company to make whatever elections the Company may make under the Code or the tax laws of the State of Michigan or any other jurisdiction having taxing authority over the Company.

10.5 "Tax Matters Member". EDC is designated to act on behalf of the Company as the initial "tax matters partner" within the meaning of Section 6231(a)(7) of the Code. Any subsequent tax matters partner will be designated by EDC.

ARTICLE XI

ADMISSION OF ADDITIONAL MEMBERS

11.1 Admission of Additional Class A Members. Subject to any preemptive rights of the Class A Members pursuant to Section 4.3 (b), Additional Persons may be admitted as Class A Members pursuant to a written offer made to a Person by the Management Committee in connection with an offering of Shares in accordance with Section 4.3. The offer will establish all of the conditions for admission of a Person as an additional Class A Member, including the amount required as a Capital Contribution for such additional Class A Member.

11.2 Admission of Class B Members. The Management Committee may, from time to time, offer in writing Shares of Class B Membership Interests to Key Employees under such terms and conditions as the Management Committee shall determine in its sole discretion. The Management Committee may establish vesting schedules for individual Key Employees that defer such Key Employee's rights to full ownership of their respective Shares of Class B Membership Interests. Exhibit B shall be amended from time to time to reflect the admission of Key Employees as Class B Members, to reflect the granting of unvested and vested rights to Key Employees to become or as Class B Members, the vested number of Shares of Class B Membership of each Class B Member, and the unvested interest granted to each Key Employee, whether or not admitted as a Class B Member.

11.3 Admission of Substitute Class B Members. Upon the Disassociation of a Class B Member, the legal successor in interested of the Disassociated Class B Member shall be admitted as a Substitute Class B Member (as defined below). The Substitute Class B Member shall have all the rights and powers and shall be subject to all the restrictions and liabilities of the Disassociated Class B Member. The admission of a Substitute Class B Member will not release the Disassociated Class B Member from any liability of the Company that may have existed prior to the admission of the Substitute Class B Member. For purposes of this Article XI, "Substitute Class B Member" means the transferee of a Class B Membership Interest who has been admitted to all rights of Class B Membership pursuant to this Agreement.

11.4 Conditions to Admission. Notwithstanding the other provisions of this Agreement, a proposed additional Member or Substitute Class B Member will not be admitted as a Member until the proposed additional Member or Substitute Class B Member agrees in writing to be bound by the terms and provisions of the Certificate and this Agreement.

ARTICLE XII

TRANSFERS; WITHDRAWAL; DISASSOCIATION

12.1 Restrictions on Transfers.

(a) Except as provided in subsection 12.1(b) and Section 12.6, no Member shall Transfer all or any portion of his/her/its Membership Interest or any rights therein without the written consent of all Class A Members during the first three (3) years after the date of this Agreement and without the written consent of the Class A Members holding a majority of the outstanding Shares of Class A Membership Interest which consents may be in each case withheld by any Class A Member for any or no reason. Any Transfer or attempted Transfer by any Member in violation of the preceding sentences shall be null and void ab initio. Each Member acknowledges the reasonableness of the restrictions on Transfer imposed by this Agreement in view of the Company's purposes and the relationship of the Members. Accordingly, these restrictions on Transfer shall be specifically enforceable. Each Member further agrees to hold the Company wholly and completely harmless from any cost, liability, or damage (including, without limitation, liabilities for income taxes and costs of enforcing this indemnity) incurred by the Company as a result of a Transfer or an attempted Transfer in violation of this Agreement.

(b) Subject to compliance with all of the provisions of subsection 12.1(d) a Disassociated Class B Member's financial rights under his or her Class B Membership Interest will transfer to his or her legal successor in interest as provided under Section 12.5 and such legal successor in interest shall be admitted as a Substitute Class B Member upon compliance and in accordance with Sections 11.3 and 11.4.

(c) Any transferee of all or part of a Class B Membership Interest derives its rights exclusively through the Class B Member/transferor. Any such transferee takes the transferred Class B Membership Interest subject to any claims or offsets the Company has or may in the future have against the Class B Member/transferor.

(d) Notwithstanding anything else contained in this Article XI or Article XII to the contrary, Class B Membership Interests may not be transferred, in whole or in part:

(i) If the transfer, alone or taken together with other transactions, would result in a termination of the Company within the meaning of Code Section 708;

(ii) If the transferee is a Disqualified Person;

(iii) Without an opinion of counsel satisfactory to the Company that the transfer is subject to an effective registration under, or exempt from the registration requirements of, applicable state and federal securities laws; and

(iv) Unless and until the Company receives from the assignee the information and agreements that the Company may reasonably require, e.g., any taxpayer identification number, the transferee's initial tax basis in the transferred rights or interest, instruments of transfer, assignment, and assumption.

12.2 Voluntary Withdrawal. No Class A Member shall have the right to voluntarily withdraw from the Company. A Voluntary Withdrawal is a violation of this Agreement, and upon a Voluntary Withdrawal a Class A Member shall cease to be a Class A Member with no further right to participate in the Company's business, Profits and Losses, or distributions, and will not be entitled to receive any distribution pursuant to Section 18-604 of the Act. If the Company is continued as provided in Section 13.1(c), the Withdrawn Member shall have the right to receive the distribution provided for under Section 12.4, but shall not be entitled to receive in liquidation of the Withdrawn Member's Membership Interest the fair market value of the Withdrawn Member's Membership Interest, or any other amount on withdrawal pursuant to Section 18-604 of the Act.

12.3 Involuntary Withdrawal. Immediately upon the occurrence of an Involuntary Withdrawal, the successor of the Withdrawn Member (if any) shall become an assignee of the Withdrawn Member that holds all of its Membership Interest subject to all of the restrictions and limitations that would be applicable to that Membership Interest if it were still held by the Withdrawn Member, but shall not become a Member and/or shall cease to be a Member with no further right to participate in the Company's business, Profits and Losses, or distributions, and will not be entitled to receive any distribution pursuant to Section 18-604 of the Act. If the Company is continued as provided in Section 13.1(c), the Withdrawn Member or the assignee shall have the right to receive the distribution provided for under Section 12.4, but shall not be entitled to receive in liquidation of the Withdrawn Member's Membership Interest the fair market value of the Withdrawn Member's Membership Interest as of the date of the Involuntary Withdrawal or the date the assignee's interest is terminated, or any other amount on withdrawal pursuant to Section 18-604 of the Act.

12.4 Distribution on Withdrawal or Attempted Transfer. Upon any attempted Transfer by a Member of all or part of a Membership Interest or Voluntary Withdrawal of a Member, the Company may recover by offset or otherwise from such Member damages for such Member's breach of this Agreement.

Subject to the Act, Section 6.3, and the Company's right of offset under the preceding paragraph, upon a Member's attempted Transfer of all or part of his/her/its Membership Interest, a Member's Voluntary Withdrawal, or a Member's Involuntary Withdrawal, the Company shall, in complete liquidation of such Member's Membership Interest, make as a liquidating distribution for such

Membership Interest a Company note in an amount equal to fifty percent (50%) of the "Net Book Value" (as defined in Section 12.7) of such Member's Membership Interest calling for payment of the principal amount of the note in ten (10) equal annual installments, without interest, with the first annual installment being due on the later of one (1) year after the date of such note or five years after the date of this Agreement.

12.5 Disassociation. Upon the Disassociation of a Class B Member, the Company will continue without dissolution, and the Disassociated Class B Member shall be deemed to have transferred all of the financial rights associated with his/her/its financial rights to such Class B Member's legal successor in interest as set forth in Section 10.2(b).

12.6 Redemption of Class B Membership Interest. A Class B Member may at any time offer his/her vested Shares of Class B Membership Interest for sale to the

Company and the Company shall be obligated to purchase such Shares upon the following terms:

(a) The price ("Purchase Price") to be paid for such interest shall be an amount equal to the "Net Book Value" (as defined in Section 12.7) of such Class B Member's Membership Interest;

(b) The closing shall occur at the Company's registered office on the thirtieth (30th) day following the date of the offer to sell; and

(c) At the closing, the selling Class B Member shall assign its Shares of Class B Membership Interest to the Company and the Company shall deliver to the selling Class B Member a Company note in an amount equal to the Purchase Price calling for payment of the principal amount of the note in five (5) equal annual installments, together with quarterly payments of interest accruing on the unpaid principal amount of the note at the Applicable Federal Rate and permitting the Company to prepay such note at any time without penalty or premium.

12.7 "Net Book Value". For purposes of this Section 12.7 the "Net Book Value" of a Member's Membership Interest shall be determined as of the last day of the calendar month immediately preceding the occurrence of the Member's attempted Transfer, Voluntary or Involuntary Withdrawal, or Disassociation and shall equal the amount that would be distributed to such Member in liquidation of the Company pursuant to Article XIII, if (a) the Gross Asset Values of the Company Property were adjusted as set forth in Section 1.29(b) hereof, (b) all of the Company's assets were sold for their Gross Asset Values, as so adjusted, (c) the Company paid its accrued, but unpaid, liabilities and established reserves pursuant to Article XIII for the payment of reasonably anticipated contingent or unknown liabilities, and (d) the Company distributed the remaining proceeds to the Members in liquidation, as of such day.

The Net Book Value of a Member's Membership Interest shall be determined, without audit or certification, from the books and records of the Company by the

accounting firm regularly employed by the Company, and the amount of such Net Book Value shall be disclosed to the Company and each of the Members by written notice. The Net Book Value determination of such accountants shall be final and binding in the absence of a showing of gross negligence or willful misconduct.

ARTICLE XIII

DISSOLUTION, WINDING UP, LIQUIDATING DISTRIBUTIONS AND TERMINATION

13.1 Events Causing Dissolution. The Company shall dissolve and its business be wound up upon the occurrence of the first of any of the following events:

(a) By the unanimous written consent of all the Class A Members; or

(b) Disposition of all of or substantially all of the assets of the Company; or

(c) Upon the occurrence of a Voluntary or Involuntary Withdrawal of a Class A Member unless within ninety (90) days after the date of such occurrence, the remaining Class A Members by a majority vote of the Class A Shares held by the remaining Class A Members consent in writing to continue the business of the Company.

13.2 Certificate of Dissolution. As soon as practicable following the occurrence of any of the events specified in Section 13.1 that cause the dissolution of the Company, the Company shall execute and file a Certificate of Dissolution, as prescribed by the Act.

13.3 Dissolution Procedure. The Company shall be terminated after the dissolution described in Section 13.1, in which event the Management Committee shall promptly wind up the affairs of the Company, liquidate and discharge all debts and liabilities of the Company and distribute all assets in accordance with this Agreement and the Act.

13.4 Tax Obligations. Before the assets of the Company are distributed pursuant to Section 13.5 below, the Company shall file tax returns and pay tax obligations as required by applicable state tax laws.

13.5 Distributions at Liquidation. Subject to Section 13.10 and subject to the right of the Management Committee to establish cash reserves as may be deemed reasonably necessary for any contingent or unforeseen liabilities or obligations of the Company, the proceeds of the liquidation and any other funds of the Company shall be distributed as follows:

(a) First, to the payment and discharge of all Company Liabilities to creditors other than the Managers or Members;

(b) Second, to the payment and discharge of all Company Liabilities to the Managers and Members;

(c) Third, to the Members in accordance with their Capital Accounts, after giving effect to all contributions, distributions, and allocations for all periods; and

(d) The balance, if any, to the Members in proportion to the number of Shares held by each Member to the number of Shares Issued.

If any Member has a deficit balance in his/her/its Capital Account (after giving effect to all contributions, distributions, and allocations for all Taxable Years, including the Taxable Year during which such liquidation occurs), such Member shall have no obligation to make any contribution to the capital of the Company with respect to such deficit, and such deficit shall not be considered a debt owed to the Company or to any other Person for any purpose whatsoever.

13.6 Final Report. Within a reasonable time following the completion of the liquidation of the Company, the Management Committee shall supply to each Member a statement that states the assets and liabilities of the Company as of the date of complete liquidation and each Member's portion of payments and distributions pursuant to Section 13.5.

13.7 Rights of Members. Each Member shall look solely to the Company Property for all distributions with respect to the Company, to its Capital Contribution, and to its share of Profits and Losses, and no Member shall have recourse (upon dissolution or otherwise) against any other Member. No Member shall be entitled to receive Company Property other than cash upon the dissolution and termination of the Company.

13.8 Termination. Upon the completion of the liquidation of the Company and the distribution of all Company Property, the Company shall terminate. The Management Committee shall have the authority to execute and record a Certificate of Dissolution as well as any and all other documents required to effect the dissolution and termination of the Company.

13.9 Deemed Distribution and Recontribution. Notwithstanding any other provisions of this Article XIII, in the event the Company is liquidated within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g), but the Class A Members holding a majority of the Class A Shares entitled to vote have elected to continue the business of the Company under Section 13.1, the Company Property

shall not be liquidated, the Company's Liabilities shall not be paid or discharged, and the Company's affairs shall not be wound up.

13.10 Hire Company Employees. At any time following the dissolution of the Company, any Member, any Affiliate of any Member, any Manager or any Affiliate of any Manager shall have the right to solicit for hire, and hire, any Person who as an employee of the Company at any time.

ARTICLE XIV

INDEMNIFICATION; INSURANCE AND LIABILITY OF MEMBERS

14.1 Indemnity. The Company shall defend, indemnify and hold harmless each Manager from and against any cost, expense, damage or injury suffered or sustained by it by reason of any acts, omissions or alleged acts or omissions arising out of any of its activities on behalf of the Company or in furtherance of the interests of the Company, including without being limited to any judgment, award, settlement, reasonable attorneys' fees and other costs or expenses incurred in connection with the defense of any actual or threatened action, proceeding or claim, if the acts, omissions or alleged acts or omission upon which such actual or threatened actions, proceedings or claims are based did not involve gross negligence, willful misconduct, bad faith, the knowing violation of statutory obligations or fraud by such Manager. Any such indemnifications shall only be made from Company Property.

14.2 Disclosure. The amount of any indemnification or advance paid pursuant to this Article XIV and to whom and on whose behalf it was paid will be included in the Required Records.

14.3 Discretionary Indemnification. Nothing in this Article XIV limits the ability of the Management Committee to cause the Company to indemnify any Person that is not a Manager pursuant to, and to the extent described in, an agreement authorized by the Management Committee.

14.4 Insurance. The Company may purchase and maintain insurance on behalf of a Person in that Person's official capacity against any liability asserted against and incurred by the Person in or arising from that capacity, whether or not the Company would have been required to indemnify the Person against the liability under the provisions of this Article XIV.

14.5 Other Insurance. The Management Committee shall use its best efforts to obtain and maintain in force such insurance as it deems necessary to protect the Company Property and to protect the Company against liability for claims of third persons. The Company shall be a named insured on the policies obtained. Each Member shall be provided with a certificate disclosing the issuance of the policy and its basic terms. No such policy shall be canceled by the Management Committee except after it shall have given at least thirty (30) days prior written notice to the Members to that effect. Except as

assumed by the Company, each Member shall be responsible for insuring itself against damages, losses and liabilities relative to its Membership Interest in the Company.

14.6 Limited Liability of Members. Pursuant to the Act, the Members shall have no personal liability whatsoever, whether to the Company, to any of the Members, or to the creditors of the Company, for the debts of the Company or any of its losses beyond the amounts contributed or committed to be contributed by that Member to the capital of the Company pursuant to this Agreement; nor shall the Members have any other obligations or liabilities under this Agreement other than those specifically set forth in this Agreement.

ARTICLE XV

REMEDIES FOR BREACH

15.1 Specific Enforcement. All breaches of this Agreement are subject to specific enforcement, without prejudice to the right to seek damages or other remedies.

15.2 Attorney Fees and Other Litigation Expenses. If the Company resorts to litigation to remedy a breach of this Agreement by a Member or former Member and the Company prevails in the litigation, in addition to any other remedies available to the Company under this Agreement or by law the Company may collect its actual attorney fees and other costs and expenses of litigation.

ARTICLE XVI

AMENDMENTS

16.1 Amendment of Agreement. This Agreement may only be amended at a special meeting of Members called for the purpose of amending this Agreement or by the written consent of Members to a proposed written amendment to this Agreement.

16.2 Required Vote. Any proposed amendment to this Agreement shall only become effective upon the vote or written consent of more than fifty (50%) of all the votes entitled to be cast by the Class A Members; provided, however, that without the unanimous consent of all Class A Members, this Agreement shall not be amended to:

(a) Cause the Company to effect any registration of the Shares, except as provided in Section 4.8;

(b) Except as otherwise provided in Section 4.8, cause the Company to lose its status as a limited liability company, taxable as a partnership for federal income tax purposes;

(c) Amend this Section 16.2 or Sections 4.2, 4.3(b), 4.8, 5.1(a), 5.1(b), 7.1, 7.2, 7.2(b)(15), 7.3, 7.5, 7.6, 7.8, 7.9, 12.1 or 13.1 of this Agreement; or

(d) Affect any rights of the Class B Members in their Class B Membership Interests, including, but not limited to, amending any part of the definition in Section 1.13.

ARTICLE XVII

MISCELLANEOUS

17.1 Governing Law. All questions pertaining to this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

It is further agreed that any and all litigation relating to this Agreement or the Company shall be brought in a state or federal court located within the State of Michigan; and each party, for the purpose of all such litigation, hereby submits to the exclusive jurisdiction and venue of such courts.

17.2 Notices.

(a) Any notice, request, consent, offer or demand required or permitted to be given under this Agreement shall be in writing and shall either be delivered in person or mailed by first class mail, postage prepaid, or sent by telex, telecopy or telegram, addressed to the Party intended as the recipient as follows:

| | |
|--------------------------|-----------------------------|
| If to the Company: | With a copy to: |
| Plug Power, LLC | DTE Energy, Inc. |
| 968 Albany - Shaker Road | 2000 Second Avenue, 644 WCB |
| Latham, New York 12110 | Detroit, Michigan 48226 |
| Attn: Gary Mittleman | Attn: Chris C. Nern |
| Fax No.:(518) 785-2127 | Fax No.:(313) 235-8500 |

If to any Member: at the address shown on Exhibit A and B, unless a Member shall have requested the Company in writing at least thirty (30) days before the date of a notice to use a different address.

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

17.3 Agreement for Further Execution. As soon as practicable after being requested by the Management Committee to do so, the Members agree to sign, swear to or acknowledge the Certificate required by the Act; to sign, swear to, or acknowledge any amendment or cancellation as required by law; to sign, swear to or acknowledge similar certificates or affidavits or certificates of assumed firm name, trade name or the like (and any amendments or cancellations thereof) required by the laws of Delaware; and to cause the filing of any of the same for record wherever such filing shall be required by law.

17.4 Entire Agreement. This Agreement contains the entire understanding between the Members and the Company and supersedes any prior understanding and agreements between them respecting the subject matter herein. There are no representations, agreements, arrangements or understandings, oral or written, between the parties hereto relating to the subject matter of this Agreement which are not fully expressed or described herein.

17.5 Severability. This Agreement is intended to be performed in accordance with, and only to the extent permitted by, all applicable laws, ordinances, rules and regulations of the jurisdictions in which the Company does business. If any provision of this Agreement or the application thereto to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, the remainder of this Agreement and the application of such provision to any other Person or circumstances shall not be affected thereby, but rather shall be enforced to the greatest extent permitted by law.

17.6 Captions. All Section titles and captions contained in this Agreement are for convenience only and shall not be deemed part of the context of this Agreement.

17.7 Number and Gender. All the terms and words used in this Agreement,

regardless of the number and gender in which they are used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Agreement or any Section, paragraph or clause herein may require, the same as if such word had been fully and properly written in such number and gender.

17.8 Binding Effect. Subject to the provisions of this Agreement relating to transferability, this Agreement will be binding upon and shall inure to the benefit of the parties, and their respective distributees, heirs, successors and assigns.

17.9 Counterparts. This Agreement may be executed in several counterparts, each of which will be deemed an original but all of which will constitute one and the same.

EDISON DEVELOPMENT CORPORATION
(a Michigan corporation)

By: /s/ Larry Garberding

Its: Executive Vice-President

MECHANICAL TECHNOLOGY INCORPORATED
(a New York corporation)

By: /s/ Martin Mastroianni

Its: President

EXHIBIT A

CLASS A MEMBERS, CAPITAL CONTRIBUTIONS, AND SHARES

| Class A Members - - - - - | FMV of Capital Contributions ----- | Adjusted Basis ----- | Shares ----- |
|---------------------------------------|--|----------------------------|-----------------|
| Edison Development Corporation | \$4,750,000 | \$4,750,000 | 4,750,000 |
| Mechanical Technology Incorporated | \$4,750,000 | \$ 300,000 | 4,750,000 |

EXHIBIT B

CLASS B MEMBERS, CAPITAL CONTRIBUTIONS, AND SHARES

| Class B Members ----- | FMV of Capital Contribution ----- | Adjusted Basis ----- | Shares ----- |
|-----------------------------|---|----------------------------|-----------------|
|-----------------------------|---|----------------------------|-----------------|

EXHIBIT C

MILESTONES

CONFIDENTIAL TREATMENT REQUIRED

EXHIBIT D
CONTRACT PROPOSALS
CONFIDENTIAL TREATMENT REQUESTED

EXHIBIT E
EXCLUDED CONTRACTS AND PROPOSALS
None

EXHIBIT F

OPTION AGREEMENT - CONTRIBUTION MATCH

EXHIBIT G

OPTION AGREEMENT - RETURNED SHARES

CONTRIBUTION AGREEMENT

BETWEEN

MECHANICAL TECHNOLOGY INCORPORATED,
(a New York corporation)

AND

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

THIS CONTRIBUTION AGREEMENT (this "Agreement") is entered into between Mechanical Technology Incorporated, a New York corporation, and Plug Power, L.L.C., a Delaware limited liability company (the "Company"). This Agreement, the Limited Liability Company Agreement of Plug Power, L.L.C., a Delaware limited liability company (the "Operating Agreement"), and the Contribution Agreement between Edison Development Corporation, a Michigan corporation, and the Company (the "Management Agreement") are entered as of and shall be effective simultaneously with each other as of the close of business on the 27th day of June, 1997 (the "Contribution Date").

RECITALS

1. MTI conducts a business which is engaged in the research and development of technology for fuel cells, primarily as a contractor or subcontractor under government contracts, grants and cooperative agreements (the "Fuel Cell Business").

2. For the purpose set forth in Section 2.4 of the Operating Agreement, and as its initial Capital Contribution (as defined in Section 4.1 of the Operating Agreement), MTI wishes to contribute the Fuel Cell Business (except the "Excluded Assets", as defined in Section 1.2 of this Agreement) to the Company and in exchange for MTI's initial Capital Contribution MTI shall become a Class A Member (as defined in Section 1.12 of the Operating Agreement) in the Company and shall receive the number of Shares of Class A Membership Interest in the Company (as set forth on Exhibit A to the Operating Agreement) (the "MTI Shares").

3. In order to accomplish the foregoing, simultaneously with the execution of this Agreement and the Operating Agreement, MTI and the Company shall enter into the agreements identified in Section 4 below (collectively, the "Other Agreements").

4. The foregoing contribution of assets by MTI and assumption of liabilities by Company are all subject to the terms and conditions of this Agreement, the Operating Agreement and the Other Agreements.

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

1. Contribution of Assets by MTI.

1.1 Contribution of Assets. Subject to the terms and conditions of this Agreement, on the Contribution Date, MTI hereby assigns, transfers, and delivers to the Company, as a contribution to the capital of the Company, free and clear of all Liens, except Permitted Liens, all of the assets, properties, and business, (excepting the Excluded Assets) of every kind and description, wherever located, real, personal, or mixed, tangible or intangible, owned, leased or held by MTI, which are necessary for the conduct of the Fuel Cell Business by MTI as the same shall exist on the

Contribution Date including all assets and property shown on the Contributed FCB Balance Sheet (and not disposed of in the ordinary course of business) and all assets and property thereafter acquired by MTI in respect of or necessary for the conduct of and used in the Fuel Cell Business immediately prior to the Contribution Date (collectively, the "Assets"), and including, without limitation, all right, title, and interest of MTI in, to, and under:

(a) The machinery, equipment, furniture, vehicles, and other tangible property (including, without limitation, maintenance and operating supplies, fuel, and spare parts for such machinery and equipment) listed and described in Schedule 1.1(a) (the "Equipment");

(b) The raw materials, finished goods, work-in-process, supplies, and inventories described in Schedule 1.1(b) (the "Inventory");

(c) All rights of MTI (including, but not limited to, any and all Intellectual Property Rights) in and to the products sold or leased and in and to any products or other Intellectual Property Rights under research or development prior to or on the Contribution Date;

(d) All of the rights of MTI under all contracts, arrangements, leases and other agreements identified on Schedule 1.1(d), including, without limitation, any right to receive goods and services, pursuant to such agreements and to assert claims and take other rightful actions in respect of breaches, defaults and other violations of such contracts, arrangements, licenses, leases and other agreements and otherwise;

(e) All credits, prepaid expenses, deferred charges, advance payments, security deposits and pre-paid items, listed in Schedule 1.1(e);

(f) [Intentionally Omitted]

(g) All Intellectual Property Rights and all rights thereunder or in respect thereof primarily relating to or used or held for use in connection with the Fuel Cell Business all of which are listed on Schedule 1.1(g), including, but not limited to, rights to sue for an injunction, damages, and/or other remedies against past, present and future infringements thereof and to collect and retain any damages resulting therefrom for its own use and enjoyment, and rights of priority and protection of interests therein under the laws of any jurisdiction worldwide and all tangible embodiments thereof (together with all Intellectual Property rights included in the other clauses of this Section 1.1, the "Intellectual Property Assets");

(h) All of MTI's right, title, and interest in, to, and under each of the Government Contracts and commercial contracts for research and development of fuel cells listed in Schedule 1.1(h);

(i) All books, records, manuals and other materials (in any form or medium), including, without limitation, all records and materials maintained by MTI regarding any of the Assets and, with respect to the Assets and Fuel Cell Business, all price lists, correspondence, mailing lists, lists of customers, photographs, production data, sales and promotional materials and records, purchasing materials and records, manufacturing and quality control records and procedures, blueprints, research and development files, records, data and laboratory books, Intellectual Property disclosures, media materials and plates, accounting records, all files regarding any of the Government Contracts transferred hereunder, and litigation

files;

(j) To the extent their transfer is permitted by law, all Governmental Approvals, including all applications therefor, required for the conduct of the Fuel Cell Business or the occupancy or use of the Licensed Premises;

(k) All rights to causes of action, lawsuits, judgments, claims and demands of any nature available to or being pursued by MTI with respect to the Fuel Cell Business or the ownership, use, function or value of any Asset, whether arising by way of counterclaim or otherwise;

(l) All rights, title, and interest of MTI under any agreement with past or present employees or independent contractors of MTI regarding: (i) confidentiality or non-disclosure with respect to the Assets or Fuel Cell Business; (ii) the obligation of such employees or contractors to join in the filing of any patent application as an inventor and/or the obligation to assign to MTI any patent application on which such employee or contractor is named as an inventor; (iii) the obligation to assign and transfer any interest of such employee or contractor in any of the Intellectual Property Rights; and (iv) any restriction on the right of such employee or contractor to use any Intellectual Property Rights or

to compete with the Fuel Cell Business. Each such agreement is listed on Schedule 1.1(l); and

(m) All guarantees, warranties, indemnities and similar rights in favor of MTI with respect to any Asset.

1.2 Excluded Assets. The Company expressly understands and agrees that there shall be excluded from the Assets those assets and properties of MTI which are necessary for and used in the conduct of the Fuel Cell business as listed on Schedule 1.2.

In addition, the Company expressly understand and agrees that there shall be excluded from the Assets any assets, properties and businesses of every kind and description; wherever located; real, personal, or mixed; tangible or intangible; owned, leased or held; or used in the conduct of any business of MTI (including, but not limited to, assets, properties and businesses of MTI's Technology Division) other than the Fuel Cell Business, as the same shall exist on the Contribution Date; any and all intellectual property owned, held or primarily used by MTI in any business other than the Fuel Cell Business (including, but not limited to, use of the name Mechanical Technology Incorporated and all derivatives thereof); any and all cash, including petty cash, or receivables of MTI as of the close of business June 27, 1997, including any reflected on the Contributed FCB Balance Sheet.

1.3 Conveyance Instruments. In order to consummate MTI's contribution of the Assets, MTI has, or will hereafter, execute and deliver, or cause to be executed and delivered, all such documents or instruments of assignment, transfer, or conveyance, in each case dated the Contribution Date (collectively, the "Conveyance Instruments"), as EDC and MTI and their respective counsel shall reasonably deem necessary or appropriate to vest in, confirm title to and/or record the transfer of (in such form as may be required by any Governmental Authority) the Assets to the Company.

1.4 Assumed Liabilities. Subject to the terms and conditions of this Agreement and the Operating Agreement, in reliance on the representations, warranties, covenants, and agreements of the parties contained herein, the Company assumes and agrees to pay, discharge, or fulfill the liabilities and obligations relating to the Fuel Cell Business and listed on Schedule 1.4 (the "Assumed Liabilities").

1.5 Excluded Liabilities. The Company shall not assume any liabilities, obligations or commitments of MTI relating to or arising out of the operation of the Fuel Cell Business or the ownership of the Assets prior

to the Contribution Date other than the Assumed Liabilities (the "Excluded Liabilities").

1.6 Consent of Third Parties. Notwithstanding anything to the contrary in this Agreement, this Agreement shall not constitute an agreement to assign or transfer any Governmental Approval, instrument, contract, lease, permit or other agreement or arrangement or any claim, right or benefit arising thereunder or resulting therefrom if an assignment or transfer or an attempt to make such an assignment or transfer without the consent of a third party would constitute a breach or violation thereof or affect adversely the rights of the Company or MTI thereunder; and any transfer or assignment to the Company by MTI of any interest under any such instrument, contract, lease, permit or other agreement or arrangement which requires the consent of a third party shall be made subject to such consent or approval being obtained. In the event any such consent or approval is not obtained on or prior to the Contribution Date, MTI shall continue to use all best efforts to obtain any such approval or consent after the Contribution Date until such time as such consent or approval has been obtained, and MTI will cooperate with the Company in any lawful and economically feasible arrangement to provide that the Company shall receive the interest of MTI in the benefits under any such instrument, contract, lease or permit or other agreement or arrangement, including performance by MTI, as agent, if economically feasible, provided that the Company shall undertake to pay or satisfy the corresponding liabilities for the enjoyment of such benefit to the extent such liabilities are described as Assumed Liabilities in Schedule 1.4 and which the Company would have assumed if such consent or approval had been obtained. MTI shall cooperate with the Company and shall pay and discharge, and shall indemnify and hold the Company harmless from and against, any and all out-of-pocket costs incurred by MTI in seeking to obtain or obtaining any such consent or approval whether before or after the Contribution Date. Nothing in this Section 1.6 shall be deemed a waiver by the Company of its right to have received on or before the Contribution Date an effective assignment of all of the Assets nor shall this Section 1.6 be deemed to constitute an agreement to exclude from the Assets any assets described under Section 1.1.

2. Events Occurring on the Contribution Date.

2.1 Deliveries by MTI. Simultaneously with the execution of this Agreement, MTI shall execute and agree to be bound by all of the terms and conditions of the Operating Agreement and shall deliver to the Company the following:

(a) The Conveyance Instruments to effect the contribution of the Assets to the Company, such Conveyance Instruments to be those reasonably deemed necessary by, and to be in form and substance reasonably satisfactory to counsel for EDC and MTI;

(b) A copy of the resolutions of MTI's Board of Directors, certified by its Secretary, authorizing or ratifying its execution and

delivery of this Agreement, the Operating Agreement, and the Other Agreements, and the consummation of the transactions contemplated hereby and thereby;

(c) All of the Other Agreements to which MTI is a party, duly executed by it.

(d) A copy of MTI's certificate of incorporation, a certified copy of its bylaws and other organizational documents;

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

(f) An employment agreement with Wayne Huang, and an employment agreement executed by Manmohian Dhar each of which will be agreements to be entered into with the Company and in the form and substance of the agreements attached in Schedule 2.1(f);

(g) The executed counterpart copies of all Consents and Governmental Approvals set forth in Schedule 3.1(c);

(h) The opinion of counsel for MTI, dated the Contribution Date, in form and substance reasonably satisfactory to EDC's counsel;

(i) All other previously undelivered items required to be delivered by MTI at or prior to the Contribution Date pursuant to the terms of this Agreement, the Operating Agreement, and the Other Agreements.

2.2 Deliveries by the Company.

(a) Copy of filed Certificate of Formation of the Company;

(b) Execution copies of the Limited Liability Company Agreement of Plug Power, LLC, a Delaware limited liability company, dated the Contribution Date;

(c) Executed copy of the Contribution Agreement between the Company and EDC;

(d) Execution copies of the Distribution Agreement between EDC and the Company; and

(e) A transition services agreement between MTI and the Company.

2.3 Effect of Contributions. In exchange for its initial Capital Contribution, as defined in Section 4.1 of the Operating Agreement, (i) MTI shall become a Class A Member (as defined in Section 1.12 of the Operating Agreement) in the Company pursuant to the terms of the Operating Agreement; (ii) MTI will receive the Shares; and (iii) the Capital Account of MTI will be credited with such amount set forth beside its name on Exhibit A to the Operating Agreement. Such Class A Membership Interest and Capital Account shall be subject to adjustment as provided under Section 4.7 of the Operating Agreement.

3. Representations and Warranties.

3.1 Representations and Warranties of MTI. MTI represents and warrants to the Company as follows:

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

(b) Corporate Status.

(i) MTI is a corporation duly organized, validly existing and in good standing under the laws of the State of New York with full corporate power and authority to carry on the Fuel Cell Business and to own or lease and operate the properties as and in the places where such business is conducted and such properties are owned, leased or operated.

(ii) MTI is duly qualified or licensed to do business and is in good standing in each of the jurisdictions specified in Schedule 3.1(b)(ii), which are the only jurisdictions in which the operation of the Fuel Cell business or the character of the properties owned, leased or operated by MTI in connection with the Fuel Cell Business makes such qualification or licensing necessary.

(iii) MTI has delivered to the Company complete and correct copies of its certificate of incorporation and by-laws or other organizational documents, in each case, as amended and in effect on the date hereof. MTI is not in violation of any of the

provisions of its certificate of incorporation or by-laws or other organizational documents.

(c) No Conflicts. The execution, delivery and performance by MTI of this Agreement and the consummation of the transactions contemplated hereby, do not and will not conflict with or result in a violation of or a default under (with or without the giving of notice of the lapse of time or both) (i) any Applicable Law applicable to MTI or any of the Assets, (ii) the certificate of incorporation or by-laws or other organizational documents of MTI or (iii) except as specifically set forth in Schedule 3.1(c) and except for any conflict which would cause no material adverse affect on the Company (any conflict which would affect the transfer of the Assets shall be deemed material), any Contract or other contract, agreement or other instrument to which MTI or any of its Affiliates is a party or by which MTI or any of its properties or assets, including, but not limited to the Assets, may be bound or affected. Except as specified in Schedule 3.1(c), no Governmental Approval or other Consent is required to be obtained or made by MTI in connection with the execution and delivery of this Agreement or the Other Agreements or the consummation of the transactions contemplated thereby.

(d) Financial Statements. MTI has delivered to the Company a pro forma balance sheet for the Fuel Cell Business as of May 23, 1997 (the "Preliminary Contributed FCB Balance Sheet"), a copy of which is attached as Schedule 3.1(d). Within ten (10) days after the Contribution Date, MTI will deliver to the Company a pro forma balance sheet for the Fuel Cell Business (excluding the Excluded Assets and Excluded Liabilities) as of the Contribution Date (the "Contributed FCB Balance Sheet"); (the Preliminary Contributed FCB

Balance Sheet and the Contributed FCB Balance Sheet are the "Financial Statements"). The Financial Statements fairly present the financial condition and results of operations of the Fuel Cell Business for the period and as of the dates stated therein. The Total Liabilities reflected on the Contributed FCB Balance Sheet shall not exceed by more than \$25,000 the total amount of the Assumed Liabilities shown on Schedule 1.4.

(e) Absence of Undisclosed Liabilities. MTI has no Knowledge of any liabilities or obligations of any nature, absolute, accrued, contingent or otherwise and whether due or to become due, arising out of or relating to the Fuel Cell Business, except (a) as set forth in Schedule 3.1(e), (b) as and to the extent disclosed or reserved against in the Contributed FCB Balance Sheet and (c) for liabilities and obligations that (i) individually and in the aggregate are not material to the Fuel Cell Business and have not had or resulted in, and will not have or result in, a material adverse effect on the Fuel Cell Business or Assets.

(f) Taxes.

(i) MTI has duly and timely filed all Tax Returns affecting the Fuel Cell Business with respect to Taxes required to be filed on or before the Contribution Date ("Covered Returns"). Except for Taxes set forth on Schedule 3.1(f)(i), which are being contested in good faith and by appropriate proceedings, the following Taxes have been duly and timely paid: (1) all Taxes shown to be due on the Tax Returns, (2) all deficiencies and assessments of Taxes of which notice has been received by MTI that are or may become payable by the Company or chargeable as a lien upon the Fuel Cell Business, and (3) all other Taxes due and payable as of the Contribution Date for which neither filing of Tax Returns nor notice of deficiency or assessment is required, of which MTI has Knowledge that may become payable by the Company or chargeable as a lien upon the Fuel Cell Business. All Taxes required to be withheld by or on behalf of MTI in connection with amounts paid or owing to any employee, independent contractor, creditor or other party with respect to the Fuel Cell Business ("Withholding Taxes") have been withheld, and such withheld taxes have either been duly and timely paid to the proper Governmental Authorities or set aside in accounts for such purpose.

(ii) Except as set forth on Schedule 3.1(f)(ii), no agreement or other document extending, or having the effect of extending, the period of assessment or collection of any Taxes or Withholding Taxes, and no power of attorney with respect to any such Taxes, has been filed with the IRS or any other Governmental Authority.

(iii) Except as set forth on Schedule 3.1(f)(iii), (1) there are no Taxes or Withholding Taxes asserted in writing by any Governmental Authority to be due and (2) no issue has been raised in writing by any Governmental Authority during the course of any audit with respect to Taxes or Withholding Taxes. Except as set forth on Schedule 3.1(f)(iii), no Taxes and no Withholding Taxes are currently under audit by any Governmental Authority. Except as set forth on Schedule 3.1(f)(iii), neither the IRS nor any other Governmental Authority is now asserting or, to the best knowledge of MTI, threatening to assert against MTI any deficiency or claim for additional Taxes or any adjustment of Taxes that would, if

paid by the Company, have an adverse effect on the Fuel Cell Business or the Assets, and there is no reasonable basis for any such assertion of which MTI is or reasonably should be aware.

(iv) Except as set forth on Schedule 3.1(f)(iv), there is no litigation or administrative appeal pending or, to the best knowledge of MTI, threatened against or relating to MTI in connection with Covered Taxes.

(g) Absence of Changes. Except as set forth in Schedule 3.1(g), since May 23, 1997, MTI has conducted the Fuel Cell Business only in the ordinary course consistent with prior practice and has not, on behalf of, in connection with or relating to the Fuel Cell Business or the Assets:

(i) suffered any adverse effect;

(ii) to MTI's Knowledge incurred any obligation or liability, absolute, accrued, contingent or otherwise, whether due or to become due, except current liabilities for trade or business obligations incurred in connection with the purchase of goods or services in the ordinary course of business consistent with prior practice;

(iii) discharged or satisfied any Lien other than those then required to be discharged or satisfied, or paid any obligation or liability, absolute, accrued, contingent or otherwise, whether due or to become due, other than current liabilities incurred since the date thereof in the ordinary course of business consistent with prior practice;

(iv) mortgaged, pledged or subjected to Lien, any property, business or assets, tangible or intangible, held in connection with the Fuel Cell Business;

(v) sold, transferred, leased to others or otherwise disposed of any of the Assets (except in the ordinary course of business), or cancelled or compromised any debt or claim, or waived or released any right of substantial value;

(vi) received any notice of termination of any contract, lease or other agreement or suffered any damage, destruction or loss (whether or not covered by insurance);

(vii) transferred or granted any rights under, or entered into any settlement regarding the breach or infringement of, any Intellectual Property, or modified any existing rights with respect thereto, other than as set forth in this Agreement;

(viii) made any change in the rate of compensation, commission, bonus or other direct or indirect remuneration payable, or paid or agreed or orally promised to pay, conditionally or otherwise, any bonus, incentive, retention or other compensation, retirement, welfare, fringe or severance benefit or vacation pay, to or in respect of any shareholder, director, officer, employee, salesman, distributor or agent of MTI relating to the Fuel Cell Business;

(ix) encountered any labor union organizing activity, had any actual or threatened employee strikes, work stoppages, slowdowns or lockouts, or had any material change in its relations with its employees, agents, customers or suppliers;

(x) made any purchase commitment in excess of the normal, ordinary and usual requirements of the Fuel Cell Business or at any price in excess of the then current market price or upon terms and conditions more onerous than those usual and customary in the industry, or made any change in its selling, pricing, advertising or personnel practices inconsistent with its prior practice and prudent business practices prevailing in the industry;

(xi) made any capital expenditures or capital additions or improvements in excess of an aggregate of \$10,000;

(xii) instituted, settled or agreed to settle any litigation, action or proceeding before any court or governmental body which may affect the Fuel Cell Business or the Assets other than in the ordinary course of business consistent with past practices but not in any case involving amounts in excess of \$10,000;

(xiii) entered into any transaction, contract or commitment in the ordinary course of business or paid or agreed to pay any legal, accounting, brokerage, finder's fee, Taxes or other expenses in connection with, or incurred any severance pay obligations by reason of this

Agreement or the transactions contemplated hereby, except as otherwise provided in this Agreement; or

(ix) to MTI's Knowledge, taken any action or omitted to take any action that would result in the occurrence of any of the foregoing.

(h) Litigation. Except as set forth on Schedule 3.1(h), there is no action, claim, demand, suit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry or investigation of any nature, civil, criminal, regulatory or otherwise, in law or in equity pending or threatened against or relating to the Assets or the Fuel Cell Business or against or relating to the transactions contemplated by this Agreement, and MTI does not have Knowledge of any basis for the same. Except as set forth in

such Schedule 3.1(h), no citations, fines or penalties have been asserted against MTI with respect to the Division under any Environmental Law or any federal, state or local law relating to occupational health or safety.

(i) Compliance with Laws; Governmental Approvals and Consents; Governmental Contracts.

(i) Except as disclosed in Schedule 3.1(i)(i), MTI has complied in all material respects with all Applicable Laws applicable to the Fuel Cell Business or the Assets, and MTI has not received any notice alleging any such conflict, violation, breach or default.

(ii) Schedule 3.1(i)(ii) sets forth all Governmental Approvals and other Consents necessary for, or otherwise material to, the conduct of the Fuel Cell Business. Except as set forth in Schedule 3.1(i)(ii), all such Governmental Approvals and Consents have been duly obtained and are in full force and effect, and MTI is in compliance with each of such Governmental Approvals and Consents held by it with respect to the Assets and the Fuel Cell Business.

(iii) Schedule 3.1(i)(iii) sets forth all Government Contracts.

(iv) Except as set forth in Schedule 3.1(iv)(iv), to MTI's Knowledge as of the Contribution Date, there are no proposed laws, rules, regulations, ordinances, orders, judgments, decrees, governmental takings, condemnations or other

proceedings which would be applicable to the business, operations or properties of the Fuel Cell Business and which might adversely affect the properties, assets, liabilities, operations or prospects of the Fuel Cell Business, either before or after the Contribution Date.

(j) Operation of the Fuel Cell Business. Except as set forth in Schedule 3.1(j), (i) MTI has conducted the Fuel Cell Business only through MTI and not through any direct or indirect subsidiary or affiliate of MTI and (ii) no part of the Fuel Cell Business is operated by MTI through any entity other than MTI.

(k) Assets. Except as disclosed in Schedule 3.1(k), MTI has good title to all the Assets free and clear of any and all Liens other than Permitted Liens. The Assets, together with the services and arrangements described in Section 4, comprise all assets and services necessary for the continued conduct of the Fuel Cell Business by the Company as now being conducted. The Assets, taken as a whole, constitute all the properties and assets relating to or used or held for use in connection with the Fuel Cell Business during the past twelve months (except cash disposed of, accounts receivable collected, prepaid expenses realized, Contracts fully performed, properties or assets replaced by equivalent or superior properties or assets, in each case in the ordinary course of business, employees not hired by the Company, the Excluded Assets, and those services which the Company has the right to receive from MTI under the Services Agreement). Except for Excluded Assets, there are no assets or properties used in the operation of the Fuel Cell Business and owned by any Person other than MTI that will not

be leased or licensed to the Company under valid, current leases or license arrangements. The Assets are in all material respects adequate for the purposes for which such assets are currently used or are held for use, and are in reasonably good repair and operating condition (subject to normal wear and tear) and, to the Knowledge of MTI, there are no facts or conditions affecting the Fuel Cell Business or the Assets which could, individually or in the aggregate, interfere in any material respect with the conduct of the Fuel Cell Business.

(1) Contracts.

(i) Schedule 3.1(1)(i) contains a complete and correct list of all agreements, contracts, commitments and other instruments and arrangements (whether written or oral) of the types described below (1) by which any of the Assets are

bound or affected or (2) to which MTI is a party or by which it is bound that affects the Fuel Cell Business or the Assets (the "Contracts"):

(1) licenses, permits, Governmental Approvals, and other contracts concerning or relating to the Licensed Premises;

(2) employment, consulting, agency, collective bargaining or other similar contracts, agreements, and other instruments and arrangements relating to or for the benefit of current, future or former employees or inventors, officers, directors, sales representatives, distributors, dealers, agents, independent contractors or consultants;

(3) loan agreements, indentures, letters of credit, mortgages, security agreements, pledge agreements, deeds of trust and instruments relating to the borrowing of money or obtaining of or extension of credit;

(4) licenses, licensing arrangements and other contracts providing in whole or in part for the use of, or limiting the use of, any of the Intellectual Property Rights;

(5) notifications, requests for bid, proposals, awards, contracts, and grants under which MTI has or may have rights to obligations;

(6) joint venture, partnership and similar contracts involving a sharing of profits or expenses (including, but not limited to, joint research and development and joint marketing contracts);

(7) asset purchase agreements and other acquisition or divestiture agreements, including, but not limited to, any agreements relating to the sale, lease or disposal of any Assets (other than sale of inventory in the ordinary course of business) or involving continuing indemnity or other obligations;

(8) orders and other contracts for the purchase or sale of materials, supplies, products or services, each of which involves aggregate payments in excess of \$10,000 in the case of purchases or \$10,000 in the case of sales;

(9) contracts with respect to which the aggregate amount that could reasonably be expected to be paid or received thereunder in the future exceeds \$10,000 per annum or \$30,000 in the aggregate;

(10) sales agency, manufacturer's representative, marketing or distributorship agreements;

(11) contracts, agreements or arrangements with respect to the representation of the Fuel Cell Business in foreign countries; and

(12) master lease agreements providing for the leasing of personal property primarily used in, or held for use primarily in connection with, the Fuel Cell Business.

(ii) MTI has delivered to the Company complete and correct copies of all written Contracts, together with all amendments thereto, and accurate descriptions of all material terms of all oral Contracts, set forth or required to be set forth in Schedule 3.1(1)(i).

(iii) All Contracts are in full force and effect and enforceable against each party thereto. There does not exist under any Contract any event of default or event or condition that, after notice or lapse of time or both, would constitute a violation, breach or event of default thereunder on the part of MTI or, to the knowledge of MTI, any other party thereto except as set forth in Schedule 3.1(1)(iii). Except as set forth in Schedule 3.1(1)(iii), no consent of any third party is required under any Contract as a result of or in connection with, and the enforceability of any Contract will not be affected in any manner by, the execution, delivery and performance of this Agreement or any of the Other Agreements or the consummation of the transactions contemplated thereby.

(iv) MTI has no outstanding power of attorney relating to the Fuel Cell Business.

(m) Territorial Restrictions. Except as set forth in Schedule 1.1(m), MTI is not restricted by any written agreement or understanding with any other Person from carrying on the Fuel Cell Business anywhere in the world. The Company, solely as a result of its receipt of MTI's contribution of the Fuel Cell Business pursuant to this Agreement or by its assumption of the Assumed Liabilities, will not become restricted in carrying on any business anywhere in the world.

(n) Inventories. All Inventories are of good, usable and merchantable quality.

(o) Suppliers; Raw Materials. Schedule 3.1(o) sets forth (i) the names and addresses of all suppliers from which the Fuel Cell Business ordered raw materials, supplies, merchandise and other goods and services with an aggregate purchase price for each such supplier of \$100 or more during the twelve month period ended May 31, 1997 and (ii) the amount for which each such supplier invoiced the Fuel Cell Business during such period. MTI has not received any notice or has any reason to believe that there has been any material adverse change in the price of such raw materials, supplies, merchandise or other goods or services, or that any such supplier will not sell raw materials, supplies, merchandise and other goods to the Company at any time after the Contribution Date on the terms and conditions similar to those used in its current sales to the Fuel Cell Business, subject to general and customary price increases. To the best knowledge of MTI, no supplier of the Fuel Cell Business described in clause (i) of the first sentence of this Section 3.1(o) has otherwise threatened to take any action described in the preceding sentence as a result of the consummation of the transactions contemplated by this Agreement or the Other Agreements.

(p) Government Contracts.

(i) Government Contracts. Schedule 3.1(i)(iii) identifies all contracts, grants, cooperative agreements, awards, proposals, requests to bid, notification of opportunity to bid, or other arrangements in which MTI is either a prime contractor, subcontractor, grantee, awardee, bidder, or prospective bidder or any such arrangement between MTI and its subcontractors for any Government Contract relating to the Fuel Cell Business ("Government

Contracts"). Except for explicit references to sections of the applicable agency acquisition regulations, or Federal Acquisition Regulations, none of the Government Contracts is subject to any "implied" clauses or other understandings which modify, extend or limit the contract in any way.

(ii) Patent Rights. MTI has or will, upon the receipt of the Consents, have the authority and ability to assign to the Company all patent rights accrued as a result of its performance under the Government Contracts ("MTI Patent Rights").

(iii) Exceptions to Patent Rights. Except as noted on

Schedule 3.1(p)(ii), MTI has complied with all applicable agency policies and contract procedures necessary to secure in itself the right to file patent applications for the MTI Patent Rights. MTI shall, within sixty (60) days of the date of this Agreement, secure in itself the right to file patent applications for MTI Patent Rights which it has not yet secured in itself. MTI shall assign such patent rights solely to the Company within ten (10) days of securing such rights.

(iv) Third Party and Government Rights. Except in the case of the Government Contracts set out on Schedule 3.1(p)(iv), no other party has a license, whether express or implied, to use the MTI Patent Rights. In the case of the Government Contracts set out on Schedule 3.1(p)(iv), the parties to each such contract, including the United States government, have only a non-exclusive, perpetual, non-assignable, license to use the MTI Patent Rights, as of the date of this Agreement.

(v) March In Rights. MTI has complied with its obligations set out in the Government Contracts and otherwise required by 35 U.S.C. 203, to prevent the relevant Federal agency from requiring the assignment of the MTI Patent Rights to any other party, including a signatory to the applicable Government Contract.

(q) Absence of Certain Fuel Cell Business Practices. To MTI's Knowledge, neither MTI, nor any officer, employee or agent of MTI, or any other person acting on MTI's behalf, has, directly or indirectly, within the past five years given or agreed to give any gift or similar benefit to any customer, supplier,

governmental employee or other person who is or may be in a position to help or hinder the Fuel Cell Business (or assist MTI in connection with any actual or proposed transaction relating to the Fuel Cell Business) (i) which subjected or might have subjected MTI to any damage or penalty in any civil, criminal or governmental litigation or proceeding, (ii) which if not given in the past, might have had an adverse effect on the Fuel Cell Business or MTI, (iii) which if not continued in the future, might have an adverse effect on the Fuel Cell Business or the Assets or subject the Fuel Cell Business or the Company to suit or penalty in any private or governmental litigation or proceeding, (iv) for any of the purposes described in Section 162(c) of the Code or (v) for the purpose of establishing or maintaining any concealed fund or concealed bank account.

(r) Intellectual Property Rights.

(i) MTI owns, or is licensed or otherwise possesses legally enforceable and sufficient rights to use the Intellectual Property Rights. Schedule 3.1(r)(i) lists all current and past (lapsed, expired, abandoned or cancelled) patents, registered and material unregistered copyrights, trade marks, service marks, trade names and any applications therefor that are necessary for the conduct of the Fuel Cell Business and specifies the jurisdictions in which each such Intellectual Property Right has been issued or registered or in which an application for such issuance and registration has been filed, including the respective registration or application numbers and the names of all registered owners.

Schedule 3.1(r)(i) lists (1) any requests MTI has received to make any registration of the type referred to in the immediately preceding sentence, including the identity of the requestor and the item requested to be so registered, and the jurisdiction for which such request has been made; (2) all licenses, sublicenses and other agreements (written or oral) as to which MTI is a party and pursuant to which any person is authorized to use any Intellectual Property Right, or any trade secret material of the Fuel Cell Business, and includes the identity of all parties thereof, a description of the nature and subject matter thereof, the applicable royalty and the term thereof; and (3) all licenses, sublicenses, and other agreements (written or oral) as to which MTI is a party and pursuant to which MTI is authorized to use any intellectual property rights in MTI's conduct of the Fuel Cell Business ("Third Party Intellectual Property Rights"), or

other trade secret of a third party in or as to any product, and includes the identity of all parties thereto, a description of the nature and subject matter thereof, the applicable royalty and the term thereof. MTI is not party to any oral license, sublicense or agreement which, if reduced to written form, would be required to be listed in Schedule 3.1(r)(i).

(ii) Except as otherwise provided in this Agreement or as set forth in Schedule 3.1(r)(ii), MTI is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations hereunder, in violation of any license, sublicense, or agreement described in Schedule 3.1(r)(i). No claims with respect to the Intellectual Property Rights, or Third Party Intellectual Property Rights, to the extent arising out of any use, reproduction or distribution of such Third Party Intellectual Property Rights by or through MTI, are currently pending or, to the Knowledge of MTI are threatened by any Person, nor does MTI have Knowledge of any valid grounds for any such claims that are bona fide (1) to the effect that the manufacture, sale, licensing or use of any product as now used, sold or licensed or proposed for use, sale or license by MTI infringes on any copyright, patent, trademark, service mark or trade secret; (2) against the use by MTI of any of the Intellectual Property Rights; (3) challenging the ownership, validity or effectiveness of any of the Intellectual Property Rights or other trade secret material to the Fuel Cell Business; or (4) challenging the license or legally enforceable right to use any of the Third Party Intellectual Property Rights. To the Knowledge of MTI, all patents, registered trademarks, trade names and copyrights held by MTI are valid and subsisting. Except as set forth in Schedule 3.1(r)(ii), to the Knowledge of MTI, there is no material unauthorized use, infringement or misappropriation of any of the Intellectual Property Rights by any third party, including any employee or former employee of MTI.

(iii) Except as set forth in Schedule 3.1(r)(iii), MTI (1) has not been sued, charged in writing, or otherwise notified of any claim that any of the Intellectual Property Rights infringe any other Person's trade secrets, patents, trademarks, service marks, trade names or copyrights and which has not been finally terminated prior to the date

hereof, nor has MTI been informed or notified by any third party that MTI's use of any of the Intellectual Property Rights and/or operation of the Fuel Cell business may

constitute such an infringement and (2) has no Knowledge of any infringement liability with respect to, or infringement by MTI in its conduct of the Fuel Cell Business of any trade secret, patent, trademark, service mark, trade names or copyright of another.

(iv) Employee Restrictions. To MTI's Knowledge none of MTI's employees (past or present, full or part-time) involved in MTI's conduct of the Fuel Cell Business is obligated under any contract or contracts ((including licenses, agreements, covenants and other commitments of any nature), or is subject to any order, writ, judgment, injunction, decree, determination or award of any court, administrative agency or other tribunal, that restricts the employee's activities on behalf of MTI's conduct of the Fuel Cell Business or interferes with the use of such employee's best efforts to promote the interests of MTI in the conduct of the Fuel Cell Business.

(v) Confidential Information. MTI has not disclosed any information of a proprietary or confidential nature relating to its business, products, technology or financial condition to any person or entity, except as described in Schedule 3.1(r) (v).

(s) Insurance. Schedule 3.1(s) contains a complete and correct list and summary description of all insurance policies maintained by MTI for the benefit of or in connection with the Assets or the Fuel Cell Business. MTI has delivered to the Company complete and correct copies of all such policies together with all riders and amendments thereto. Such policies are in full force and effect, and all premiums due thereon have been paid. MTI has complied in all material respects with the terms and provisions of such policies. The insurance coverage provided by such policies is adequate and customary for the Fuel Cell Business. Schedule 3.1(s) sets out all claims made by MTI under any policy of insurance during the past two years with respect to the Fuel Cell Business and in the opinion of MTI reasonably formed and held, there is no basis on which a claim should or could be made under any such policy with respect to it.

(t) Licensed Premises. MTI is the owner of the real property in which the Licensed Premises are located (the "Property"). MTI's license under the Services Agreement to the Company of the Licensed Premises does not violate or conflict with any instrument of record or agreement affecting the Property. MTI has no Knowledge of any eminent domain or

similar proceedings against the Property which could adversely affect the Company's use or occupancy of the Licensed Premises during the term of the license. There are no defaults by MTI under any mortgage on the Property which could give rise to the mortgagee's foreclosure on the Property or give rights to any mortgagee to disturb the Company's use or occupancy of the Licensed Premises during the term of the license.

(u) Environmental Matters.

(i) Permits. All Environmental Permits necessary for the conduct of the Fuel Cell Business are identified Schedule 3.1(u)(i), and MTI currently holds all such Environmental Permits, and all such Environmental Permits to the extent permitted by law shall be validly transferred to the Company on the Contribution Date. MTI has not been notified by any relevant Governmental Authority that any such Environmental Permit will be modified, suspended, cancelled or revoked, or cannot be renewed in the ordinary course of business.

(ii) No Violations. MTI has complied in all material respects with all Environmental Permits and all applicable Environmental Laws pertaining to the Licensed Premises and MTI's conduct of the Fuel Cell Business. No Person has alleged any violation by MTI of any such Environmental Permits or any applicable Environmental Law relating to MTI's conduct of the Fuel Cell Business.

(iii) No Actions. Except as set forth in Schedule 3.1(u)(iii), MTI has not caused or taken any action that has resulted or may result in any liability or obligation relating to (1) the environmental conditions on, under, or about the Licensed Premises, the Assets or other properties or assets owned, leased or used by MTI in connection with and necessary for the conduct of the Fuel Cell Business, or (2) the past or present use, management, handling, transport, treatment, generation, storage or Release of any Hazardous Substances, except for any such liabilities and obligations that, individually and in the aggregate, are not material to the Fuel Cell Business and have not had or resulted in, and will not have or result in, any material adverse effect on the Fuel Cell Business.

(iv) Other. Except as set forth in Schedule 3.1(u)(iv): (1) MTI has not transported or arranged for transportation (directly or indirectly) of any Hazardous Substances relating to the Fuel Cell Business to any location that is, listed or proposed for listing under CERCLA, or on any similar state list, or the subject of federal, state or local enforcement actions or investigations or Remedial Action; and (2) no work, repair, construction or capital expenditure is required or planned in respect of the Assets or the Licensed Premises pursuant to or to comply with any Environmental Law, nor has MTI received any notice of any such requirement, except for such work, repair, construction or capital expenditure as is not material to the Fuel Cell Business and is in the ordinary course of business.

(v) Full Disclosure. MTI has disclosed and made available to the Company, all information, including, without limitation, all studies, analyses and test results, in the possession, custody or control of MTI relating to Hazardous Substances used, managed, handled, transported, treated, generated, stored or Released by MTI or any other Person at any time on the Licensed Premises, or otherwise in connection with the use or operation of the properties or assets used in or held for use in connection with the Fuel Cell Business.

(v) Employees, Labor Matters, etc. MTI is not a party to or bound by any collective bargaining agreement and there are no labor unions or other organizations representing, purporting to represent or attempting to represent any employees employed in the operation of the Fuel Cell Business. Schedule 3.1(v) contains a list of all employees of MTI that work for or in the Fuel Cell Business, along with the position and the annual rate of compensation of each such person. Each such employee, as well as any other person who was involved in the development or creation of MTI's Intellectual property Rights, has entered into a confidentiality and assignment of inventions agreement with MTI, a copy of which has previously been delivered to the Company. Except as set forth in Schedule 3.1(v), to the Knowledge of MTI, no key employee or group of employees employed by MTI in the Fuel Cell Business has any plans to terminate employment with MTI. MTI has complied in all material respects with all provisions of Applicable Law pertaining to the employment of the employees of the Fuel Cell Business, including, without limitation, all such Laws relating to labor relations, equal employment, fair employment practices, entitlements, prohibited discrimination or

other similar employment practices or acts, except for any failure or failures to comply that, individually or together with all such other failures, has not and will not result in a material liability or obligation on the part of the Fuel Cell Business, and has not had or resulted in, and will not have or result in, an adverse effect on the Fuel Cell Business.

(w) Employee Benefit Plans. Schedule 3.1(w) lists each pension, retirement, profit sharing, deferred compensation, bonus or other incentive plan, or other employee benefit program, arrangement, agreement or understanding, or medical, vision, dental or other health plan, or life insurance or disability plan, or any other employee benefit plan, including, without limitation, any "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), to which MTI contributes or is a party or is bound or under which it may have liability and under which employees or former employees of the Fuel Cell Business (or their beneficiaries) are eligible to participate or derive a benefit ("Employee Benefit Plans"). MTI has delivered to the Company true, correct and complete copies of all Employee Benefit Plans.

(x) Confidentiality. Except as set forth on Schedule 3.1(x), MTI has taken all steps necessary to preserve the confidential nature of all material confidential information (including, without limitation, any proprietary information) with respect to the Fuel Cell Business, including, but not limited to, the manufacturing or marketing of any of the Fuel Cell Business products or services.

(y) No Guarantees. Except as set forth on Schedule 3.1(y), none of the obligations or liabilities of the Fuel Cell Business or of MTI incurred in connection with the operation of the Fuel Cell Business is guaranteed by or subject to a similar contingent obligation of any other Person. MTI has not guaranteed or become subject to a similar contingent obligation in respect of the obligations or liabilities of any other Person. There are no outstanding letters of credit, surety bonds or similar instruments of MTI or any of its Affiliates in connection with the Fuel Cell Business or the Assets.

(z) Disclosure. No representation or warranty made by MTI in this Agreement nor any statement or certificate furnished or to be furnished by MTI to the Company or its representatives in connection with or pursuant to this Agreement contains or will contain any untrue statement of a material fact, or omits or will omit to state any material fact required to make the statements

not misleading. There is no fact (other than matters of a general economic or political nature which do not affect the Fuel Cell Business uniquely) known to MTI that has not been disclosed by MTI to the Company that might reasonably be expected to have or result in a material adverse effect on the Fuel Cell Business.

(aa) Contract Payments. MTI has not received any prepayments or advances under any Contract or Government Contract.

4. Related Transactions.

4.1 Other Agreements. Contemporaneously with the execution of this Agreement and the Operating Agreement, MTI and the Company shall enter into the following agreements:

(a) A Distribution Agreement in the form attached as Schedule 4.1(a).

(b) A Services Agreement in the form attached as Schedule 4.1(b).

5. Covenants of MTI.

5.1 Information Retention. Other than the books and records of MTI and the Fuel Cell Business contributed to the Company hereunder, MTI will retain all books and records relating to the Fuel Cell Business in accordance with MTI's record retention policies as presently in effect. During the three (3) year period beginning on the Contribution Date, MTI shall not dispose of or permit the disposal of any such books and records not required to be retained under such policies without first giving 60 days' prior written notice to the Company offering to surrender the same to the Company at the Company's expense.

5.2 [Intentionally Omitted.]

5.3 Liability for Transfer Taxes. MTI shall be responsible for the timely payment of, and shall indemnify and hold harmless the Company against, all sales, use, value added, documentary, stamp, gross receipts, registration, transfer, conveyance, excise, recording, license and other similar Taxes and fees ("Transfer Taxes"), arising out of or in connection with or attributable to the transactions effected pursuant to this Agreement. MTI shall prepare and timely file all Tax Returns required to be filed in respect of Transfer Taxes, provided that the Company shall be permitted to prepare any such Tax Returns that are the primary

responsibility of the Company under applicable law. The Company's

preparation of any such Tax Returns shall be subject to MTI's approval, which approval shall not be withheld unreasonably.

5.4 Certificates of Tax Authorities. MTI shall provide to the Company copies of certificate from the appropriate taxing authority for which the Company could have liability to withhold or pay Taxes with respect to the transfer of the Assets or the Fuel Cell Business within _____ days following the Contribution Date.

5.5 Confidentiality. MTI will treat and hold as such all of the Confidential Information, refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to the Company or destroy, at the request and option of the Company, all tangible embodiments (and all copies) of the Confidential Information which are in its possession. In the event that MTI is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, MTI will notify the Company promptly of the request or requirement so that the Company may seek an appropriate protective order or waive compliance with the provisions of this Section 5.5. If in the absence of a protective order or the receipt of a waiver hereunder, MTI is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal, MTI may disclose the Confidential Information to the tribunal.

5.6 Covenant Not to Compete. For a period of three (3) years from and after the Contribution Date, MTI will not engage directly or indirectly in any business previously or presently (as of the Contribution Date) conducted by the Fuel Cell Business in the United States; provided, however, that no owner of less than 5% of the outstanding stock of any publicly traded corporation shall be deemed to engage solely by reason thereof in any of such publicly trade company's businesses. If the final judgment of a court of competent jurisdiction declares that any term or provision of this Section 5.6 is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration, or area of the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified after the expiration of the time within which the judgment may be appealed. This covenant shall not prevent MTI from performance under the Distribution Agreement described in Section 2.2(d) or conduct of any further research and development under the NYSERDA contract regarding the hybrid electrical vehicle, an Excluded Asset.

6. Indemnification.

6.1 By MTI.

(a) MTI - Indemnity for Breach of Representations, Warranties, Covenants and Agreements. MTI agrees to indemnify, defend and hold harmless the Company from and against all Losses which may be incurred by the Company arising out of any breach by MTI of any of MTI's representations warranties, covenants or agreements made in this Agreement, the Schedules attached hereto or any document or instrument delivered in connection with the transactions contemplated hereby. The maximum liability of MTI to the Company under this Section 6.1 for breaches of MTI's representations and warranties in Section 3 shall be limited to the total amount of Capital Contributions made by EDC to the Company under Article 4 of the Operating Agreement.

(b) MTI - Indemnity for Excluded Liabilities. MTI agrees to indemnify, defend and hold harmless the Company from and against all Losses which may be incurred by the Company with respect to or arising out of any of the Excluded Liabilities. There shall be no limitation of either time or amount on MTI's obligation to indemnify, defend and hold harmless the Company under this Section 6.1(b).

6.2 By Company. The Company agrees to indemnify MTI with respect to any and all claims, losses, liabilities, costs and expenses (including attorneys' fees and reimbursable expenses) which may be reasonably incurred by MTI arising out of any breach by the Company of any of its representations, warranties, covenants or agreements made in this Agreement, the Schedules hereto or any document or instrument delivered in connection with the transactions contemplated hereby or arising out of any of the Assumed Liabilities.

6.3 Notice and Defense of Claims. A party claiming indemnification under this Section 6 (the "Asserting Party") must promptly notify in writing the party from which indemnification is sought (the "Defending Party") of the nature and basis of such claim for indemnification. If such claim relates to a claim, litigation or other action by a third party against the Asserting Party, or any fixed or contingent liability to a third party (a "Third Party Claim"), the Defending Party may elect to assume the defense of the Third Party claim at its own expense with counsel selected by the Defending Party. The Defending Party may not assume the defense if the named parties to the Third Party Claim (including any impleaded parties) include both the Defending Party and the Asserting Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them, in which case the Asserting Party shall have the right to defend the Third Party Claim and to employ counsel approved by the

Defending Party at the expense of the Defending Party. If the Defending Party assumes the defense of the Third Party Claim, the Defending Party shall be liable for any fees and expenses of counsel for the Asserting party incurred thereafter in connection with the Third Party Claim (except in the case of actual or potential differing interests, as provided in the preceding sentence). If the Defending Party does not assume the defense of the Third Party Claim, the Asserting Party shall have the right to assume the defense of and settle the Third Party Claim (at the Defending Party's expense), if such Asserting Party shall notify the Defending Party of the Asserting Party's intention to settle the Third Party Claim (at the Defending Party's expense), unless the Defending Party shall notify Asserting Party in writing within five (5) days after receipt of such notice of intention to settle of the Defending Party's election to assume (at its expense) the defense of the Third Party Claim and promptly thereafter takes appropriate action to implement such defense. The

Asserting Party and the Defending shall use all reasonable efforts to cooperate fully with respect to the defense of any claim, action or proceeding covered by this Section 6.

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

7. Public Announcements. Any and all press releases and other public announcements or communications concerning this Agreement and the transactions hereunder shall be made only with the Company's prior written approval or as otherwise required by law.

8. Brokers.

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

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

9. Definition of Certain Terms.

The terms defined in this Section 9, whenever used in this Agreement (including in the Schedules), shall have the respective meanings indicated below for all purposes of this Agreement. All references herein to a Section or Schedule are to a Section or Schedule of or to this Agreement, unless otherwise indicated.

"Affiliate" of a Person means a Person that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the first Person. "Control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person, whether through the ownership of voting securities, by contract or credit arrangement, as trustee or executor, or otherwise.

"Agreement" means this Contribution Agreement, including the Schedules hereto.

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

"Assets" is defined in Section 1.1.

"Assumed Liabilities" is defined in Section 1.4.

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

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

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

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

"Contracts" is defined in Section 3.1(l) (i).

"Contributed FCB Balance Sheet" is defined in Section 3.1(d).

"Contribution Date" is defined in the introductory paragraph of this Agreement.

"Copyrights" shall mean the copyrights registered with the U.S. Copyright Office, as further described on Schedule 9 - Copyrights, attached, which lists all federally registered copyrights now held or at anytime held by MTI and used in the Fuel Cell Business, together with all other copyrighted or copyrightable works used in the Fuel Cell Business (as described on Schedule 9 - Copyrights, the "Works") and any derivative works of the Works and any "Moral Rights" MTI may have in the Works, including the Works described in any registered copyrights listed on Schedule 9 - Copyrights.

"Covered Returns" is defined in Section 3.1(f) (i).

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

"EDC" means Edison Development Corporation, a Michigan corporation, whose address is 2000 Second Avenue, Detroit, Michigan 48226-1279.

"Environmental Laws" means all Applicable Laws relating to the protection of the environment, to human health and safety, or to any emission, discharge, generation, processing, storage, holding, abatement, existence, Release, threatened Release or transportation of any Hazardous Substances, including, without limitation, (i) CERCLA, the Resource Conservation and Recovery Act, and the Occupational Safety and Health Act, (ii) all other requirements pertaining to reporting, licensing, permitting, investigation or remediation of emissions, discharges, releases or threatened releases of Hazardous Materials into the air, surface water, groundwater or land, or relating to the manufacture, processing, distribution, use, sale, treatment, receipt, storage, disposal, transport or handling of Hazardous Substances, and (iii) all other requirements pertaining to the protection of the health and safety of employees or the public.

"Environmental Liabilities and Costs" means all Losses, whether direct or indirect, known or unknown, current or potential, past, present or future, imposed by, under or pursuant to Environmental Laws, including, without limitation, all Losses related to Remedial Actions, and all fees, disbursements and expenses of counsel, experts, personnel and consultants based on, arising out of or otherwise in respect of: (i) the ownership or operation of the Fuel Cell Business or the Assets; and (ii) expenditures necessary to cause the Licensed Premises or any aspect of the Fuel Cell

Business to be in compliance with any and all requirements of Environmental Laws as of the Contribution Date.

"Environmental Permits" means any federal, state and local permit, license, registration, consent, order, administrative consent order, certificate, approval or other authorization with respect to MTI necessary for the conduct of the Fuel Cell Business as currently conducted or previously conducted under any Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Excluded Assets" is defined in Section 1.2.

"Excluded Liabilities" is defined in Section 1.5.

"Financial Statements" means each of the financial statements required to be provided by MTI under Section 3.1(d).

"Fuel Cell Business" means the business acquired or to be acquired by the Company pursuant to this Agreement, consisting of the Assets and the Assumed Liabilities, but not including the Excluded Assets or Excluded Liabilities.

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

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

"Hazardous Substances" means any substance that: (i) is or contains asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum or petroleum derived substances or wastes, radon gas or related materials; (ii) requires investigation, removal or remediation under any Environmental Law, or is defined, listed or identified as a "hazardous waste" or "hazardous substance" thereunder; or (iii) is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous and is regulated by any Governmental Authority or Environmental Law.

"Intellectual Property Assets" is defined in Section 1.1(h).

"Intellectual Property Rights" shall refer collectively and singularly to Patent Rights, Copyrights, Trademark Rights, Trade Secrets and Know

How, except to the extent that MTI expressly indicates on the attached schedules that it has transferred such Intellectual Property Rights.

"Inventories" is defined in Section 3.1(n).

"IRS" means the Internal Revenue Service.

"Know How" shall mean all drawings, prototypes, computer files (in object and source code) and other such tangible materials.

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

"Licensed Premises" is [to be provided by MTI].

"Lien" means any mortgage, pledge, hypothecation, right of others, claim, security interest, encumbrance, lease, sublease, license, occupancy agreement, adverse claim or interest, easement, covenant, encroachment, burden, title defect, title retention agreement, voting trust agreement, interest, equity option, lien, right of first refusal, charge or other restrictions or limitations of any nature whatsoever, including, but not limited to, such as may arise under any Contracts.

"Losses" is defined as any and all claims, liabilities, obligations, losses, fines, costs, royalties, proceedings, deficiencies or damages (whether absolute, accrued, conditional or otherwise and whether or not resulting from third party claims), including out-of-pocket expenses and reasonable attorneys' and accountants' fees incurred in the investigation or defense of any of the same or in asserting any of their respective rights.

"MTI" means Mechanical Technology Corporation, a New York corporation.

"Moral Rights" shall mean all rights of paternity or integrity relating to each Work including, without limitation, all rights to be identified as the author of the Work(s), to object to the modification of any of the Work, and any similar rights existing under the judicial or statutory laws of any country in the world or any treaty, regardless of whether such right is denominated or generally referred to as moral rights.

"Other Agreements" means the agreements and other documents and instruments described in Section 4.

"Patent Rights" shall mean all Letters Patent, together with all foreign Letters Patent corresponding thereto listed on Schedule 9 - Patent Rights, further together with, foreign or domestic patent applications corresponding thereto, excluding those listed on Schedule 9 - Patent Rights and related thereto; patentable rights, excluding those listed on

Schedule 9 - Patent Rights and related thereto, whether or not such rights are registered, or applications for registration have been filed with any Governmental Authority, and all proprietary: drawings, plans; designs; quality control; machine and mechanical specifications; engineering data; production techniques; installation data; application data; flow charts; logic diagrams relating to the Patent, and any other foreign or domestic patentable rights that may be obtained in respect thereof; and any foreign or domestic reissues, reexaminations certificates, extensions, substitutions, confirmations, divisions, and continuations or continuations-in-part of any of the foregoing.

"Permitted Liens" means (i) Liens for Taxes not yet due and payable or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on MTI's books in accordance with GAAP; or (ii) Liens that, individually and in the

aggregate, do not and would not materially detract from the value of any of the Assets or interfere with the conduct of the Fuel Cell Business by MTI or the Company or as listed in Schedule 9 - Permitted Liens.

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

"Release" means any releasing, disposing, discharging, injecting, spilling, leaking, leaching, pumping, dumping, emitting, escaping, emptying, seeping, dispersal, migration, transporting, placing and the like, including without limitation, the moving of any materials through, into or upon, any land, soil, surface water, ground water or air, or otherwise entering into the environment.

"Remedial Action" means all actions required to (i) clean up, remove, treat or in any other way remediate any Hazardous Substances; (ii) prevent the release of Hazardous Substances so that they do not migrate or endanger or threaten to endanger public health or welfare or the environment; or (iii) perform studies, investigations and care related to any such Hazardous Substances.

"Tax" means any federal, state, provincial, local, foreign or other income, alternative, minimum, accumulated earnings, personal holding company, franchise, capital stock, net worth, capital, profits, windfall profits, gross receipts, value added, sales, use, goods and services, excise, customs duties, transfer, conveyance, mortgage, registration, stamp, documentary, recording, premium, severance, environmental (including taxes under Section 59A of the Code), real property, personal property, ad valorem, intangibles, rent, occupancy, license, occupational, employment, unemployment insurance, social security, disability, workers' compensation, payroll, health care, withholding, estimated or assessment or deficiencies thereof (including all interest and penalties thereon and additions thereto whether dispute or not).

"Tax Return" means any return, report, declarations, form, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Trade Secrets" shall mean methods, processes, know how and all other proprietary data and information relating to MTI's conduct of the Fuel Cell Business, products and/or services, including customer lists and business methods.

"Trademark Rights" shall mean the foreign or domestically registered trademarks described on Schedule 9 - Trademark Rights, which is attached hereto and made a part hereof and constitutes all of the foreign or domestically registered trademarks now held or at any time held by MTI and used in the Fuel Cell Business, any trademark applications (state or federal), common law trademark rights, and all other trademarks or service marks now owned or ever owned by MTI and used at any time in connection with its Fuel Cell Business, including the sale and promotion of its goods and services, together with the goodwill of the business relating to such trademarks or service marks.

"Transfer Taxes" is defined in Section 5.3.

"Treasury Regulations" means the regulations prescribed pursuant to the Code.

"Withholding Taxes" is defined in Section 3.1(f)(i).

10. Miscellaneous.

10.1 Survival of Representations and Warranties, etc. The

representations and warranties contained in this Agreement shall survive the execution and delivery of this Agreement, any examination by or on behalf of the parties hereto and the completion of the transactions contemplated herein, but only to the extent of the time periods specified below:

(a) Except as set forth in clause (b) below, the representations and warranties contained in Section 3.1 shall survive until the earlier of (i) an initial public offering of equity interests in the Company and in accordance with the requirements of the Securities Act of 1933 or (ii) for a period of five (5) years following the Contribution Date.

(b) The representations and warranties of MTI contained in Section 3.1(f) shall survive as to any Tax covered by such representations and warranties for so long as any statute of limitations for such Tax remains open, in whole or in part, including without limitation by reason of waiver of such statute of limitations.

All other agreements, covenants and obligations of the parties hereunder shall survive the execution and delivery of this Agreement and the completion of the transactions hereunder.

10.2 Expenses. Except as otherwise expressly provided herein, the Company and MTI shall each pay their own expenses in connection with this Agreement and the transactions contemplated hereby.

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

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

(i) if to the Company to,

Gary Mittleman
968 Albany-Shaker Road
Latham, New York 12110

with a copy to:

Chris Nern
2000 Second Avenue
Detroit, Michigan 48226

Ananth G. Ananthasubramaniam
2000 Second Avenue
Detroit, Michigan 48226

Cathy Hill
Whiteman Osterman & Hanna
One Commerce Plaza
Albany, New York 12260

(ii) if to MTI,

Marty Mastriani
Mechanical Technology Inc.
968 Albany-Shaker Road
Latham, New York 12110

with a copy to:

Cathy Hill
Whiteman Osterman & Hanna
One Commerce Plaza
Albany, New York 12260

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

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

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

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

10.7 Governing Law, etc. This Agreement shall be governed in all respects, including as to validity, interpretation and effect, by the internal laws of the State of Michigan, without giving effect to the conflict of laws rules thereof. The Company and MTI hereby irrevocably submit to the jurisdiction of the courts of the State of Michigan and the Federal courts of the United States of America located in the State of Michigan in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suite or proceeding may not be brought or is not maintainable in said courts or that the venue thereof or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any of such document may not

be enforced in or by said courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such a Michigan or Federal court. The Company and MTI hereby consent to and grant any such court jurisdiction over the person of such parties and over the subject matter of any such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 8.4 or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

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

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

10.10 Amendment; Waivers, etc. No amendment, modification or discharge of this Agreement, and no waiver hereunder, shall be valid or binding unless set forth in writing and duly executed by the party against whom enforcement of the amendment, modification, discharge or waiver is sought. Any such waiver shall constitute a waiver only with respect to the specific matter described in such writing and shall in no way impair the rights of the party granting such waiver in any other respect or at any other time. Neither the waiver by any of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any party may otherwise have at law or in equity.

10.11 Further Assurances. In addition to MTI's obligations under Section 1.3, each of the parties shall execute such documents and other papers and perform such further acts as may be reasonably required or desirable to carry out the provisions hereof and the transactions contemplated hereby.

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

MECHANICAL TECHNOLOGY INCORPORATED
(a New York corporation)

By: /s/ Martin Mastroianni

Its: President

"MTI"

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

By: /s/ Larry Garberding

Its: Executive Vice-President

"Company"

SCHEDULE 1.1(a) -- Assets

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 1.1(b) -- Inventory

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 1.1(d) -- Rights of MTI

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 1.1(e) - Credits, Prepaid Expenses, Deferred Charges, Advance
Payments, Security Deposits and Pre-Paid Items

None

SCHEDULE 1.1(g) -- Intellectual Property

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 1.1(h) -- Interests in Government Contracts

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 1.1(1) -- Employee and Independent

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 1.2 -- Excluded Assets

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 1.4 - Assumed Liabilities

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 2.1(f) -- Employment Agreements

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(b) (ii) -- States in Which MTI is Qualified to do Business

Maryland

New York

SCHEDULE 3.1(c) -- Required Consents and Government Approvals

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(d) -- Contributed Business Balance Sheet

Attached is a Contributed Business Balance Sheet as of 6/25/97

Mechanical Technology Inc.
 Fuel Cell Activity
 Proforma Statement of New Assets at 5/23/97

| | Total ----- | To Plug Power ----- |
|---|------------------------------|------------------------------|
| Assets | | |
| Cash | \$ 0 | \$ 0 |
| (1) - Accounts Receivable | 348,794 | 0 |
| Inventory | 77 | 77 |
| Property, Plant & Equipment at Acquisition Cost | 463,532 | 463,532 |
| Accumulated Depreciation | (82,600) | (82,600) |
| Net Property, Plant, and Equipment | 380,932 | 380,932 |
| Total Assets | 729,803 | 381,009 |
| Liabilities | | |
| (2) - Accounts Payable | 52,191 | 10,585 |
| Notes Payable | 18,384 | 18,384 |
| Accrued Vacation | | |
| Base Vacation | 49,141 | 24,571 |
| Purchased Vacation | 2,150 | 2,150 |
| (3) - Accrued FSA | 2,662 | 2,662 |
| Total Liabilities | 124,528 | 58,352 |
| Net Assets | ----- \$ 605,275 ===== | ----- \$ 322,658 ===== |
| (1) - Retained by MTI | | |
| (2) - Will transfer payables associated with transferred assets, materials, and supplies. | | |
| For example, per the attached list, laboratory expenditures of \$430.7 thousand had been authorized and \$389 thousand recorded, as of 5/23/97. | | |
| Payables associated with the \$389 thousand expenditure will be transferred. Additional payables, including but not limited to authorized but unexpended Plan Appropriations, will also transfer. | | |
| (3) - Subject to IRS regulations that may inhibit transfer of this liability. | | |
| Backlog | \$ 657,000 ===== | \$ 657,000 ===== |

See Schedule 1.4

See Schedule 3.1(g)

SCHEDULE 3.1(f) (i) -- Taxes Contested in Good Faith

MTI pays a variety (sales, use franchise, property, and income, etc.) of taxes at various and numerous levels of government including, but not limited to, school, town, county, state, and federal.

In the ordinary course of business MTI is subject to audit by the various taxing authorities.

MTI is currently involved in settling, in good faith, both New York State corporation franchise tax and sales and use tax for several open years.

MTI also has contested Property taxes (Town of Colonie) for 1995/96 and 1996/97.

SCHEDULE 3.1(f) (ii) -- Extension of Assessment on Taxes

In connection with both New York State corporation franchise tax and sales and use tax audits, MTI has consented to extending the period of limitation.

SCHEDULE 3.1(f) (iii) -- Disclosures Regarding Taxes and Withholding Taxes

See Schedule 3.1(f) (i) and Schedule 3.1 (f) (ii)

SCHEDULE 3.1(f) (iv) -- Litigation or Administrative Appeals Pending In Connection with Covered Taxes

See Schedule 3.1(f) (i) and Schedule 3.1(f) (ii)

SCHEDULE 3.1(g) -- Changes in Conduct of Business Since Audited Balance Sheet

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(h) -- Litigation, Citations, Fines or Penalties

None

SCHEDULE 3.1(i) (i) -- Violations of Applicable Laws

None

SCHEDULE 3.1(i) (ii) -- Governmental Approval and Consents Required for Conduct of the Business

1. See Schedule 1.1(h)
2. See Schedule 3.1(c)
3. See Schedule 3.1(u) (i)
4. Received Approvals only from the Chase Manhattan Bank, NYSEEDA and LANL.

SCHEDULE 3.1(i) (iii) -- Contracts with Governmental Authority

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(i) (iv) -- Disclosures Regarding Business

1. The Committee on Appropriations, Subcommittee on Interior and Related

Agencies, has completed a "mark-up" of the budget that includes the DOE Office of Advanced Automobile Technologies Programs, and has moved \$10 Million from the fuel cell area to the heavy duty diesel area. This action would reduce the fuel cell effort from \$29.6 Million to \$19.6 Million. It is the understanding of many that this action is counter to DOE plans and results from the interests of the diesel engine technology community. It is difficult to understand the wisdom of moving money to the giant diesel engine industry with its mature technology while depriving the embryonic fuel cell industry with its potential for break-through commercial technology that can rival the emergence of the PC industry from the mainframe computer.

2. Phase II of the Ford contract will not be completed within the current limits of the contract. -- Please the Addendum to Schedule 3.1(g)

SCHEDULE 3.1(j) -- Operation of the Business

MTI has conducted the Business only through MTI. There are no exceptions.

SCHEDULE 3.1(k) -- Permitted Liens

1. All government property as set forth on Schedule 1.1(a), items in Government owned property room, Ford Phase I material, and Ford Phase II material is owned exclusively by the Department of Energy and used by MTI in connection with research and development activities.

2 Air Compressor Engineering lien, as assigned to LCA.

3. Limitations on Intellectual Property Rights, as set forth in Schedules 3.1(p)(iii)-(iv)

SCHEDULE 3.1(l)(i) -- Contracts

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(l)(iii) -- Existing Default Under Contracts

None

SCHEDULE 3.1(m) -- Territorial Restrictions

See Schedule 1.1(h)

SCHEDULE 3.1(o) -- Suppliers to Fuel Cell Business

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(p)(i) -- Government Contracts

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(p)(iii) -- Exceptions to Patent Rights

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(p)(iv) -- Third Party and Government Rights

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(r)(i) -- Intellectual Property Owned by MTI

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(r)(ii) -- Infringement by Third Party of MTI Intellectual Property Rights

None

SCHEDULE 3.1(r) (ii) -- Infringement of Third Party Intellectual Property Rights

None

SCHEDULE 3.1(r) (v) -- Confidential Information

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(s) -- Insurance

This Schedule contains a complete list of all insurance policies maintained by MTI. A summary description of each policy is attached. No claims have been made by MTI's Fuel Cell Business during the past two years.

| Coverage ----- | Claims (Past 2 Years) ----- |
|---------------------------------------|--------------------------------|
| Directors & Officers Liability | None |
| Excess Directors & Officers Liability | None |
| Property & General Liability | None |
| Air Craft Products Liability | None |
| Workers Compensation | None |
| Commercial Umbrella | None |
| ERISA Bond | None |
| Commercial Crime Policy | None |
| Commercial Auto | None |
| California Tax Bond | None |
| Open Cargo Policy | None |

SCHEDULE 3.1(u) (iii) -- Disclosure of Information Regarding Environmental Conditions Relating to the Business, Assets or leased Property

See Attached Phase I (Hard Copy Previously Provided)

SCHEDULE 3.1 (u) (iv) -- Other

None

SCHEDULE 3.1(v) -- Employees of MTI

CONFIDENTIAL TREATMENT REQUESTED

SCHEDULE 3.1(w) -- Employee Benefit Plans

Existing MTI Employee Benefit Plans are listed as follows:

1. 401(k) Savings Plan (Administered by Mass Mutual)
2. Medical Insurance (Four carriers are currently available at the

employees option)

- Capital District Physician's Health Plan (CDPHP)
- Blue Shield of Northeastern New York
- Mohawk Valley Physicians (MVP)
- Community Health Plan (CHP)

3. Dental Insurance (Offered through Phoenix Home Life. Employees with CHP medical coverage may select CHP Dental)
4. Long Term Disability Insurance (Policy with UNUM)
5. Short Term Disability Insurance (Policy with Phoenix Home Life)
6. Flexible Spending Account (Administered by Lawrence Healthcare)
7. Life Insurance (Policy with Mass Mutual)
8. Vacation
 - Earned Vacation
 - Vacation Purchase
9. Short Term Personal Illness
10. Extended Personal Illness
11. Personal Business Time
12. Voluntary Furlough Program
13. Technology Division Profit Sharing Plan
14. Stock Incentive Plan

Profit Sharing Plan
Technology Division
1996 Fiscal Year

Effective: Fiscal Year 1995

Eligibility:

* All full time employees and scheduled employees who work more than 1000 hours. Distributions made on basis of individual salary as a percentage of total salary.

* New hires may participate on a pro rata share basis at the discretion of management at the time of hiring.

* Must be on the payroll on 9/30/96 to receive distribution.

* Non-discretionary.

* Based upon earnings before taxes, but after corporate assessment.

Formula:

Earnings < Budget No Distribution

Earnings = Budget 10% Payment to Pool

Earnings > Budget 10% of amount = budget, +
15% of any additional earnings

Impact:

Budget = \$200,000 income pre-tax

| Earnings | Distribution |
|------------|--------------|
| ----- | ----- |
| \$ 200,000 | \$ 20,000 |
| 300,000 | 35,000 |
| 500,000 | 65,000 |

Comments:

* Plan is identical to 1995 approved plan

SCHEDULE 3.1(x) -- Confidentiality

None

SCHEDULE 3.1(y) -- Guarantees By Third Parties

Guaranty dated as of October 31, 1995, by MASCO Corporation, a Delaware corporation, located at 21001 Van Born Road, Taylor, Michigan 48180, in favor of Chemical Bank, to secure payment of a \$4,000,000 Promissory Note dated October 31, 1995 by Mechanical Technology Incorporated in favor of Chemical Bank.

SCHEDULE 9 -- COPYRIGHT, PATENT AND TRADEMARK RIGHTS

See Schedule 1.1(g)

ASSET PURCHASE AGREEMENT

BETWEEN

MECHANICAL TECHNOLOGY INCORPORATED
(A New York Corporation)

AND

NOONAN MACHINE COMPANY
(an Illinois Corporation)

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is entered into between Noonan Machine Company, an Illinois corporation (the "Purchaser"), and Mechanical Technology Incorporated, a New York corporation ("Seller"). This Agreement is entered into as of this 22nd day of September, 1997. The Bill of Sale, the Assignment and Assumption of Contracts, the Assignment of Intellectual Property Rights, the \$400,000 Promissory Note, the \$250,000 Promissory Note and the Security Agreement, are all dated as of the 30th day of September, 1997 (the "Transactional Documents").

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

1. Sale of Assets.

1.1 Sale of Assets. Subject to the terms and conditions of this Agreement, on the Closing Date, Seller hereby assigns, transfers, and delivers to the Purchaser all of the assets and properties of the Business, owned, leased or held by Seller (other than the excluded assets as set forth on Schedule 1.1 hereof ("Excluded Assets")), as the same shall exist on the Closing Date,

including all assets and property shown on the Contributed Balance Sheet (and not disposed of in the ordinary course of business) and all assets and property thereafter acquired by Seller in respect of or necessary for the conduct of the Business immediately prior to the Closing Date (collectively, the "Assets"), free and clear of all Liens, except Permitted Liens.

1.2 Purchase of Assets. Subject to the terms and conditions of this Agreement, Purchaser hereby agrees to pay Seller, in exchange for the Assets, a total purchase price of three million two hundred and fifty thousand dollars (\$3,250,000.00), unless the Net Tangible Assets of the L.A.B. Division of Seller is less than \$650,000, in which case the purchase price shall be reduced by the amount by which \$650,000 exceeds the Net Tangible Assets (the "Purchase Price"). Such Purchase Price shall be payable as follows: a) three hundred and fifty

thousand dollars (\$350,000) shall be payable by wire transfer into an escrow account with the law firm of Whiteman, Osterman & Hanna, pursuant to the terms of the Escrow Agreement, between the parties and Whiteman, Osterman & Hanna, attached hereto as exhibit A; b) two million two hundred and fifty thousand dollars (\$2,250,000.00) shall be payable in cash, by wire transfer or by certified check, in full, at the Closing, unless the Purchase Price is adjusted as set forth above, in which case the cash portion of the Purchase Price shall be reduced as needed; b) four hundred thousand dollars shall be payable pursuant to a promissory note, payable in equal monthly installments of principal and interest over a period of five years commencing as of the Closing Date, at ten percent (10%) simple interest per annum, with no penalty for pre-payment, which note shall be secured by a blanket lien on all of the assets of Purchaser, subordinate to the lien of Old Kent Bank securing the one million, eight hundred and fifty thousand dollar (\$1,850,000) indebtedness of Purchaser to Old Kent Bank; and c) two hundred fifty thousand

dollars (\$250,000) shall be payable pursuant to a promissory note, payable in one balloon payment of principal and interest at the end of one year, the principal amount of this note shall be reduced if (i) all of the furniture, fixtures and equipment of the Business are offered for sale and sold in a private sale to a purchaser other than Purchaser, Subsidiary or any subsidiary or affiliate of Purchaser, or at public auction (the "Sale"), and (ii) the proceeds of such Sale does not exceed five hundred thousand dollars (\$500,000), in which case the principal amount due on the note shall be reduced by the product of .5 multiplied by (five hundred thousand dollars (\$500,000) minus the proceeds of such Sale) (the "Net Principal"); such note shall bear interest on the lesser of \$250,000 or the Net Principal (if applicable), at ten percent (10%) simple interest per annum, commencing as of the Closing Date, with no penalty for pre-payment, such note shall also be secured by a blanket lien on all of the assets of Purchaser, subordinate to the lien of Old Kent Bank securing the one million, eight hundred and fifty thousand dollar (\$1,850,000) indebtedness of Purchaser to Old Kent Bank.

1.3 Assumed Liabilities. Subject to the terms and conditions of this Agreement, the Purchaser assumes and agrees to pay, discharge, or fulfill any and all liabilities and obligations of Seller (including but not limited to contingent liabilities) concerning the Business, other than Excluded Liabilities (the "Assumed Liabilities").

1.4 Excluded Liabilities. The Purchaser shall not assume any liabilities, obligations or commitments of Seller a) concerning products liability for any product Completed prior to the Closing Date; or b) other than as set forth in section 1.7 of this Agreement, any liability of Seller for any employee-related

actions, claims, suits or proceedings (the "Excluded Liabilities").

1.5 Duty to Defend. The Purchaser shall pay all defense costs with respect to any actions, claims, suits or proceedings by any and all LAB employees against Purchaser accruing as of or after the Closing Date or related to the transactions contemplated by this Agreement. Notwithstanding the foregoing, Purchaser retains the right, in its sole and absolute discretion, to retain its own counsel with respect to any such matters. Purchaser's defense of Seller shall not be construed as an indemnification or hold harmless of Seller with respect to any underlying liability.

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

1.7 LAB Employees. Seller agrees to use its best efforts to retain all of the current employees of the Business until the Closing Date. Purchaser shall hire all of the current employees of the Business as of the Closing Date for a period of not less than thirty (30) calendar days after the Closing Date. All such employees are currently, and shall be hired by Purchaser, as employees at will. Purchaser shall make available to such employees benefits that approximate those provided to existing employees of Purchaser, however, Purchaser shall not assume any liability for continuation of any employee benefit plan instituted or carried out by Seller (other than payment of accrued vacation and as set forth in Section 1.5 hereof). Purchaser shall not, for a period of one calendar year, commencing as of the Closing Date, hire any employee of the Business terminated by Seller during the period August 29, 1997 through ten days after the Closing Date.

1.8 Guarantee of Aged Accounts Receivable. Seller shall, as of the Closing Date, guarantee the payment of all accounts receivable that are ninety (90) days past due as of the Closing Date (as set forth on schedule 1.8 to this Agreement) ("Guaranteed Accounts"), provided however, that Purchaser shall have no right to enforce this guarantee until Purchaser has used its best efforts, in accordance with Purchaser's ordinary collections practices, to collect upon all such Guaranteed Accounts, and such Guaranteed Account is at least one hundred and twenty (120) days past due. Upon payment of the guarantee as contemplated by this section, Purchaser agrees to a) permit Seller to collect upon any uncollected Guaranteed Accounts, b) to subrogate any and all rights Purchaser may have with respect to any such Guaranteed Accounts, to the rights of Seller, and c) to pay over to Seller any payment received on such Guaranteed Accounts within ten days of the receipt of such payment.

2. Events Occurring on the Closing Date

2.1 Closing. The Initial Payment and Transactional Documents shall be delivered into escrow pursuant to the terms of the Escrow Agreement, as of the date hereof, to be held and ultimately released in accordance with the terms of the Escrow Agreement. The remaining Purchase Price shall be paid as of September 30, 1997 (the "Closing Date"). The closing shall take place in Skaneateles, New York, or at such other location as the parties shall mutually agree.

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

(a) The Bill of Sale, the Assignment and Assumption of Contracts, the Assignment and Assumption of Lease, and the Assignment of Intellectual Property Rights (the "Conveyance Instruments");

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

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

(d) A Financial Statement, certified as accurate by the Chief Financial Officer of Seller, confirming the amount of Net Tangible Assets of the L.A.B. division of Seller;

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

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

2.3 Deliveries by the Purchaser.

(a) Cash, wire transfer or certified check payable (or any combination thereof) to the Seller for \$2,600,000.00 (or such amount as adjusted pursuant to Section 1.2 hereof);

(b) Duly executed copies of the \$400,000 Promissory Note, the \$250,000 Promissory Note and the Security Agreement (the "Notes");

(c) Duly executed copies of every other Transactional Document to which the Purchaser is a party;

(d) A copy of the resolutions of Purchaser's directors, certified by its Secretary or other authorized party, authorizing or ratifying the execution and delivery of this Agreement, the Notes, and the other Transactional Documents,

and the consummation of the transactions contemplated hereby and thereby;

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

(f) A certificate from the Secretary of State of Illinois as to L.A.B. Equipment Inc.'s good standing in such state certified as of a date within thirty (30) days of the Closing date;

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

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

3. Representations and Warranties.

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

(a) Authorization, etc. Seller has the corporate power and authority to

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

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

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

(d) Financial Statements. Seller has delivered to Purchaser a pro forma balance sheet for the Business as of August 31, 1997 (the "Preliminary Contributed Balance Sheet"), a copy of which is attached as Schedule 3.1(d), which fairly represents the financial condition of the Business as of the date thereof. Within twenty (20) business days after the Closing Date, Seller will deliver to Purchaser a balance sheet for the Business as of the Closing Date (the "Contributed Balance Sheet"); (the Preliminary Contributed Balance Sheet and the Contributed Balance Sheet are the "Financial Statements").

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

(f) Absence of Changes. Since August 22, 1997, Seller has conducted the Business only in the ordinary course consistent with prior practice and no material adverse change (other than the announcement of this Transaction, and any adverse consequences related directly thereto, including but not limited to the potential walk out of all or some of the employees of the Business) has occurred in the Business since August 22, 1997.

(g) Contracts. Attached hereto as Schedule 3.1(h) is a true and complete schedule of the material contracts of the Business as of the date hereof. Each contract is in full force and effect and Seller is in compliance with the terms thereof.

(h) Leases. Attached hereto as Schedule 3.1(i) is a true and complete schedule of the leases of the Business as of the Date hereof. Each lease is in full force and effect and Seller is in compliance with the terms thereof.

(i) Litigation. To the best of Seller's knowledge, after due inquiry, there is no action, claim, demand, suit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry or investigation of any nature, including, but not limited to products liability, civil, criminal, regulatory or otherwise, in law or in equity pending or threatened against Seller relating to the Assets, the Business or the transactions contemplated by this Agreement.

(j) Insurance. Schedule 3.1(h) contains a complete and correct list of all insurance policies maintained by Seller for the benefit of the Assets or the Business. Such policies are in full force and effect, and all premiums due thereon have been paid. Seller has complied in all material respects with the terms and provisions of such policies. The insurance coverage provided by such policies is adequate and customary for the Business. Seller agrees to maintain products liability coverage with respect to the products of the Business Completed as of the Closing Date for a period of five (5) years.

(k) No Material Omissions or Misstatements. To the best of Seller's knowledge, after due inquiry, there are no material misstatements or omissions of material fact in connection with the Letter of Intent executed by Seller and Purchaser, this Agreement or any of the transactions contemplated hereby or thereby.

(l) Employees. Seller is an employer at will and has no employment contracts with any employee of the Business. Seller is a non-union shop and has no union contracts or agreement. There have been no material changes in the compensation of the employees of the Business since August 29, 1997.

(m) Bring Down. All of the representations and warranties of Seller are made as of the date of this Agreement, and as of the Closing Date.

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

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

binding obligation of Purchaser, enforceable in accordance with its terms.

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

(c) No Conflicts. The execution, delivery and performance by Purchaser of this Agreement and the consummation of the transactions contemplated hereby, do not conflict with or result in a violation of or a default under (i) any Applicable Law applicable to the Purchaser or any of its assets, (ii) the certificate of incorporation and bylaws of Purchaser or (iii) except as set forth in Schedule 3.2(c) any Contract or other contract, agreement or other

instrument to which Purchaser is a party and by which Purchaser or any properties or assets are bound. Except as specified in Schedule 3.2(c), no Governmental Approval or other Consent is required to be obtained or made by Purchaser in connection with the execution and delivery of this Agreement, the Notes or the Transactional Documents or the consummation of the transactions contemplated thereby.

(d) Financial Statements. Purchaser has delivered to Seller a compiled financial statement for each of the past three fiscal years and unaudited interim financial statements for the last two quarters (the "Purchaser's Financial Statements"), which fairly represent the financial condition of its business as of the dates thereof. For so long as any of the Notes remain outstanding, within ninety (90) business days after the close of Purchaser's

fiscal year, and within fifteen (15) days of the close of Purchaser's fiscal quarter, Purchaser shall deliver an audited (if available) balance sheet, statement of profit and loss and income statement to Seller. The accuracy of such financial statements shall be certified by the chief financial officer or president of Purchaser.

(e) Taxes. Purchaser has duly and timely filed all tax returns affecting its business with respect to taxes required to be filed on or before the Closing Date. Except for taxes set forth on Schedule 3.2(e), which are being contested in good faith and by appropriate proceedings, all taxes have been duly and timely paid. All taxes required to be withheld by or on behalf of Purchaser in connection with amounts paid or owing to any employee, independent contractor, creditor or other party with respect to its business have been withheld, and such withheld taxes have been duly and timely paid to the proper Governmental Authorities or set aside in accounts for such purpose.

(f) Absence of Changes. Since June 30, 1997, Purchaser has conducted its business only in the ordinary course consistent with prior practice and no material adverse change has occurred in Purchaser's business since June 30, 1997.

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

(h) Insurance. Purchaser has in full force and effect any and all policies of insurance as are necessary or customary for its business. The insurance coverage provided by such policies is adequate and customary for its business.

(i) No Material Omissions or Misstatements. To the best of Purchaser's knowledge, after due inquiry, there are no material misstatements or omissions of material fact in connection with the Letter of Intent executed by Seller and Purchaser, this Agreement or any of the transactions contemplated hereby or thereby.

(j) Bring Down. All of the representations and warranties of Purchaser are made as of the date of this Agreement, and as of the Closing Date.

4. Indemnification.

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

4.2 By Purchaser. Purchaser agrees to indemnify against all losses, actions, suits, claims or proceedings (including attorneys fees) that may be incurred by the Seller arising out of any breach by Purchaser or any of Purchaser's representations warranties, covenants or agreements made in this Agreement, the Schedules attached hereto or any document or instrument delivered in connection with the transactions contemplated hereby. Purchaser also agrees to indemnify Seller against all losses, actions, suits, claims or proceedings (including attorneys fees) that may be incurred by the Seller arising out of a products liability claim for any products Completed after the Closing Date.

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

interests, as provided in the preceding sentence). If the Defending Party shall have the right to assume the defense of and settle the Third Party Claim (at the Defending Party's expense), unless the Defending Party shall notify the Asserting Party in writing within five (5) days after receipt of such notice of intention to settle the Defending Party's election to assume (at its expense) the defense of the Third Party Claim and promptly thereafter takes appropriate action to implement such defense. The Asserting Party and the Defending shall use all reasonable efforts to cooperate fully with respect to the defense of any claim, action or proceeding covered by this Section 4.

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

5. Brokers.

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

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

6. Definition of Certain Terms.

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

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

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

"Assets" is defined in Section 1.1.

"Assumed Liabilities" is defined in Section 1.3.

"Business" shall mean the L.A.B. Division of Mechanical Technology Incorporated.

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

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

"Completed" means the earlier of a) the date on which all work called for in a contract has been completed, b) the date on which all of the work to be done at the site has been completed if a contract calls for work at more than one site, or c) the date on which the part of work done at a job site has been put to its intended use by any person or organization other than another contractor or subcontractor working on the same project. A product shall not be considered completed if it is not covered by Seller's Products -Completed Operations Hazard Insurance.

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

"Closing Date" is defined in Section 2.1.

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

"Excluded Assets" is defined in Section 1.1.

"Excluded Liabilities" is defined in Section 1.4.

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

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

"IRS" means the Internal Revenue Service.

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

"Lien" means any mortgage, pledge, hypothecation, security interest, encumbrance, lease, sublease, license or easement.

"Net Tangible Assets" means accounts receivable plus inventory (including work-in-process and raw materials) less assumed liabilities.

"Permitted Liens" means Liens for taxes not yet due and payable or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on Seller's books in accordance with GAAP.

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

7. Miscellaneous.

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

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

7.3 Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered personally, (b) mailed by first-class, registered or certified mail, return

receipt requested, postage prepaid, or (c) sent by next-day or overnight mail or delivery:

(i) if to the Purchaser to:

William R. Noonan
President
Noonan Machine Co.
1091 E. Green Street
Franklin Park, Illinois 60131

with a copy to:

Steven P. Bloomberg, Esq.
Moss & Bloomberg, Ltd.
305 West Briarcliff Road
P.O. Box 1158
Bolingbrook, Illinois 60440-0858

and:

DeGraff, Foy, Holt-Harris & Kunz. LLP
Ninety State Street
Albany, New York 12207
Attn: Terrence J. Devine, Esq.

(ii) if to Seller:

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

with a copy to:

Catherine S. Hill, Esq.
Whiteman, Osterman & Hanna
1 Commerce Plaza
Albany, New York 12201

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

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

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

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

7.6 Governing Law, etc. This Agreement shall be governed in all respects, including as to validity, interpretation and effect, by the internal laws of the State of New York without giving effect to the conflict of laws rules thereof. The Purchaser and the Seller hereby irrevocably submit to the jurisdiction of the courts of the state of New York and the Federal courts of the United States of America located in the State of New York in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding that such action, suit or proceeding may not

be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any of such document may not be enforced in or by said courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such a New York or Federal court. The Purchaser and the Seller hereby consent to and grant any such court jurisdiction over the person of such parties and over the subject matter of any such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 7.3 or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

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

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

7.9 Assignment. This Agreement is non-assignable and non-transferrable. Notwithstanding the foregoing, Purchaser may assign this Agreement and the Transactional Documents to an Illinois corporation that is a wholly owned subsidiary of Purchaser ("Subsidiary"), upon the prior written consent of Seller, which consent will be granted if a) Subsidiary is sufficiently capitalized to carry on the operations of the Business; b) Seller remains fully liable for all representations, warranties and indemnifications, as set forth in sections 3.2, 4 and 5 of this Agreement; c) Purchaser agrees to

guarantee the obligations of Subsidiary (subordinate to the lien of Old Kent Bank as set forth herein) pursuant to the \$400,000 and \$250,000 Promissory Note; d) Purchaser agrees that a blanket lien on all of its assets and all assets of Subsidiary will remain as security for the \$400,000 Promissory Note and the \$250,000 Promissory Note; e) Purchaser will take all action necessary or desirable to perfect Seller's lien on assets of Purchaser and Subsidiary; and f) Subsidiary agrees to reaffirm all representations and warranties set forth in this Agreement with respect to itself as of the date of the assignment.

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

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

MECHANICAL TECHNOLOGY INCORPORATED
(a New York corporation)

By: \s\ Steve Wilson

Steve Wilson
Chief Financial Officer

NOONAN MACHINE COMPANY
(an Illinois corporation)

By: \s\ William R. Noonan

William R. Noonan
President

SCHEDULE 1.1

SCHEDULE OF EXCLUDED ASSETS

1. Option Agreement entered into between Finger Lakes Realty and Mechanical Technology Incorporated dated July 1, 1985 and amended thereafter by letter agreements dated November 16, 1989 and June 30, 1995. Please find attached hereto as exhibit A a photocopy of the original Lease Agreement which contains the abovementioned Option Agreement and the amendments thereto.
2. Any accrued or accruing bonuses due to all employees of the L.A.B. division, whether previously or presently employed.
3. All funds contained in the "Petty Cash Fund" of the L.A.B. division as of September 30, 1997.

SCHEDULE 1.8

See Attached Schedule of Accounts Receivable 90 Days Past Due as of 9/26/97.

SCHEDULE OF ACCOUNTS RECEIVABLE 90 DAYS PAST DUE AS OF 9/26/97

L.A.B. Division
 Accounts Receivable Balance
 September 30, 1997

| Customer Number | Customer Name | Invoice Date | Project Number | Invoice Number | Invoice Amount | Current | Over 30 Days | Over 60 Days | Over 90 Days | Over 120 Days |
|-----------------|--------------------------|--------------|----------------|----------------|----------------|-----------|--------------|--------------|--------------|---------------|
| 10562 | Abbott Care Systems | 09/25/97 | #34898 | 567-00457 | \$625.00 | \$625.00 | | | | |
| 10574 | Aircraft Braking Systems | 09/02/97 | #34883 | 567-00424 | 120.00 | 120.00 | | | | |
| 10747 | Flightline Electronics | 09/04/97 | #34879 | 567-00430 | 734.20 | 734.20 | | | | |
| 10747 | Flightline Electronics | 09/30/97 | #34908 | 567-00463 | 174.02 | 174.02 | | | | |
| 10838 | Johnson & Johnson | 09/24/97 | #34904 | 567-00454 | 94.14 | 94.14 | | | | |
| 11040 | Systemes Industries | 06/10/97 | #11576 | 567-00325 | 12,409.00 | | | | \$12,409.00 | |
| 11040 | Systemes Industries | 06/12/97 | #24963 | 567-00329 | 18,620.00 | | | | 18,620.00 | |
| 11040 | Systemes Industries | 06/27/97 | #24970 | 567-00347 | 6,988.00 | | | | 6,988.00 | |
| 11040 | Systemes Industries | 09/10/97 | #34893 | 567-00438 | 40.00 | 40.00 | | | | |
| 11101 | Vibration Maint Service | 07/15/97 | #34849 | 567-00375 | 618.00 | | | \$618.00 | | |
| 11101 | Vibration Maint Service | 08/05/97 | #34865 | 567-00398 | 1,030.00 | | \$1,030.00 | | | |
| 11329 | Latin American Paper | 09/29/97 | #34895 | 567-00461 | 4,265.00 | 4,265.00 | | | | |
| 11330 | Neltronics Ltd | 09/09/97 | #34892 | 567-00436 | 60.00 | 60.00 | | | | |
| 11333 | Medtronics | 09/04/97 | #34887 | 567-00431 | 388.00 | 388.00 | | | | |
| 11353 | Miller-Holzwarth | 08/28/97 | #34873 | 567-00423 | 2,377.26 | | 2,377.26 | | | |
| 11375 | Trio Tech International | 06/30/97 | #34819 | 567-00353 | 2,650.00 | | | | 2,650.00 | |
| 11375 | Trio Tech International | 07/07/97 | #34840 | 567-00366 | 450.00 | | | 450.00 | | |
| 11375 | Trio Tech International | 08/19/97 | #34872 | 567-00413 | 860.00 | | 860.00 | | | |
| 11435 | Clemson University | 09/10/97 | #34894 | 567-00439 | 64.00 | 64.00 | | | | |
| 11496 | Data General Corp. | 09/19/97 | #33713 | 567-00448 | 3,767.87 | 3,767.87 | | | | |
| 11637 | Monsanto Company | 08/26/97 | #34877 | 567-00419 | 49.99 | | 49.99 | | | |
| 11767 | Frigidaire | 09/09/97 | #34889 | 567-00435 | 75.08 | 75.08 | | | | |
| 11947 | Jefferson Smurfit | 08/19/97 | #31214 | 567-00410 | 29,800.00 | | 29,800.00 | | | |
| 11959 | Spartan Bookstore | 08/29/97 | #34884 | 567-00427 | 331.50 | | 331.50 | | | |
| 11970 | Mitsubishi Electronics | 09/25/97 | #29056 | 567-00441 | 74,110.00 | 74,110.00 | | | | |
| 11998 | Kruger, Inc. | 08/27/97 | #33711 | 567-00426 | 2,143.63 | | 2,143.63 | | | |
| 12040 | Commun Instrumentation | 09/03/97 | #34882 | 567-00429 | 550.00 | 550.00 | | | | |
| 12140 | Acousticom | 08/05/97 | #33707 | 567-00402 | 1,387.24 | | 1,387.24 | | | |
| 12174 | Rosemount Analytical | 08/27/97 | #34876 | 567-00422 | 755.00 | | 755.00 | | | |
| 12227 | O'Sullivan Industries | 09/19/97 | #27143 | 567-00449 | 23,950.00 | 23,950.00 | | | | |
| 12309 | United Defense | 09/09/97 | #27142 | 567-00433 | 13,900.00 | 13,900.00 | | | | |
| 12363 | Power Conversions | 09/19/97 | #34845 | 567-00450 | 680.00 | 680.00 | | | | |

| | | | | | | | | | | | |
|------------------------------|---------------------|----------|--------|-----------|-----------|--------------|--------------|-------------|------------|-------------|-------------|
| 12395 | ALHU International | 08/20/97 | #31217 | 567-00414 | 18,696.60 | | 18,696.60 | | | | |
| 12478 | Hewlett Packard | 09/24/97 | #34902 | 567-00453 | 134.00 | 134.00 | | | | | |
| 12483 | AgrEvo USA | 08/06/97 | #33708 | 567-00403 | 1,770.00 | | 1,770.00 | | | | |
| 12483 | AgrEvo USA | 08/12/97 | #34874 | 567-00404 | 62.65 | | 62.65 | | | | |
| 12498 | Funai Corporation | 08/28/97 | #29053 | 567-00420 | 18,625.00 | | 18,625.00 | | | | |
| 12630 | Spectral Technology | 09/22/97 | #34886 | 567-00451 | 900.00 | 900.00 | | | | | |
| 12696 | Nestle Frozen Foods | 09/11/97 | #34890 | 567-00442 | 61.75 | 61.75 | | | | | |
| 12746 | Allied Signal | 09/30/97 | #34907 | 567-00462 | 800.75 | 800.75 | | | | | |
| 12789 | Pepsi | 09/19/97 | #34899 | 567-00447 | 260.00 | 260.00 | | | | | |
| 12792 | Georgia Pacific | 09/30/97 | #39592 | 567-00464 | 1,962.50 | 1,962.50 | | | | | |
| 12809 | Revcor | 09/11/97 | #34888 | 567-00443 | 366.75 | 366.75 | | | | | |
| 12820 | AMP, Inc. | 09/03/97 | #34867 | 567-00428 | 2,723.02 | 2,723.02 | | | | | |
| 12866 | Mitchel-Lincoln | 08/27/97 | #33712 | 567-00425 | 900.00 | | 900.00 | | | | |
| 12885 | Delphi Thermal | 08/14/97 | #33710 | 567-00408 | 1,169.70 | | 1,169.70 | | | | |
| 12901 | Lenexa Products | 09/24/97 | #34901 | 567-00446 | 420.00 | 420.00 | | | | | |
| 13028 | Zotos Corporation | 02/26/97 | #24954 | 567-00213 | 6,980.00 | | \$6,980.00 | | | | |
| 13028 | Zotos Corporation | 02/26/97 | #29016 | 567-00214 | 5,075.00 | | 5,075.00 | | | | |
| 13037 | Brockway Standard | 06/02/97 | #24966 | 567-00314 | 11,835.00 | | 11,835.00 | | | | |
| 13037 | Brockway Standard | 07/03/97 | #24966 | 567-00365 | 67.61 | | 67.61 | | | | |
| 13055 | Tira GMBH | 07/03/97 | #29046 | 567-00360 | 4,735.15 | | 4,735.15 | | | | |
| 13077 | Laboratori General | 03/11/97 | #29021 | 567-00192 | 5,829.00 | | 5,829.00 | | | | |
| 13086 | Philips Electronics | 09/15/97 | #29054 | 567-00444 | 28,000.00 | 28,000.00 | | | | | |
| 13100 | Proxitron AB | 04/01/97 | #29022 | 567-00195 | 1,149.10 | | 1,149.10 | | | | |
| 13100 | Proxitron AB | 06/17/97 | #34834 | 567-00332 | 750.00 | | 750.00 | | | | |
| 13142 | Lease Advisors | 06/06/97 | #29033 | 567-00318 | 2,600.79 | | 2,600.79 | | | | |
| 13142 | Lease Advisors | 08/19/97 | #20951 | 567-00411 | 17,484.56 | | 17,484.56 | | | | |
| 13155 | Orsam Sylvania | 09/23/97 | #34903 | 567-00452 | 77.23 | 77.23 | | | | | |
| 13161 | Greb International | 07/25/97 | #39588 | 567-00386 | 2,000.00 | | 2,000.00 | | | | |
| 13167 | GEC Marconi | 07/30/97 | #34868 | 567-00394 | 169.00 | | 169.00 | | | | |
| 13182 | Nestle R&D | 09/05/97 | #29059 | 567-00432 | 28,475.00 | 28,475.00 | | | | | |
| 13182 | Nestle R&D | 09/22/97 | #24974 | 567-00460 | 12,590.00 | 12,590.00 | | | | | |
| 13182 | Nestle R&D | 09/30/97 | #29059 | 567-00466 | 483.58 | 483.58 | | | | | |
| 13182 | Nestle R&D | 09/30/97 | #24974 | 567-00468 | 130.63 | 130.63 | | | | | |
| 13183 | PSI, Inc. | 09/12/97 | #24972 | 567-00434 | 12,325.00 | 12,325.00 | | | | | |
| 13184 | Qualcomm | 09/10/97 | #29062 | 567-00437 | 5,683.81 | 5,683.81 | | | | | |
| 13184 | Qualcomm | 09/30/97 | #29062 | 567-00467 | 158.55 | 158.55 | | | | | |
| 13189 | Northrop Grumman | 09/15/97 | #34897 | 567-00445 | 120.00 | 120.00 | | | | | |
| 13195 | Air Packaging Tech | 09/26/97 | #29060 | 567-00458 | 10,225.00 | 10,225.00 | | | | | |
| 13195 | Air Packaging Tech | 09/26/97 | #24975 | 567-00459 | 18,435.00 | 18,435.00 | | | | | |
| 13200 | Beijing Packaging | 09/30/97 | #33709 | 567-00465 | 14,536.14 | 14,536.14 | | | | | |
| Balance @ September 30, 1997 | | | | | | \$442,907.37 | \$262,466.02 | \$97,443.13 | \$8,039.76 | \$55,852.79 | \$19,105.67 |

SCHEDULE 3.1 (c)

SCHEDULE OF SELLER'S CONTRACTS, AGREEMENTS OR INSTRUMENTS WHICH CONFLICT WITH THE ASSET PURCHASE AGREEMENT; SCHEDULE OF GOVERNMENTAL APPROVALS OR OTHER CONSENTS REQUIRED TO BE MADE BY SELLER IN CONNECTION WITH THE EXECUTION AND DELIVERY OF THE ASSET PURCHASE AGREEMENT

Conflicting contracts, agreements or instruments

1. Lease Agreement dated July 1, 1985 and all amendments thereto (attached

as exhibit "A").

2. Master Lease agreement (attached as exhibit "B") between MTI and Tokai Financial Services, Inc. dated May 22, 1995, for one telephone system.

3. Lease Agreement between Pitney Bowes Credit Corporation and MTI for one postage meter and one mail machine (attached as exhibit "C").

SCHEDULE 3.1(d)

PRELIMINARY CONTRIBUTED BALANCE SHEET

EXHIBIT B

L.A.B. Division
Contributed Balance Sheet (estimate)*
September 30, 1997

(dollars in thousands)

| | August 1997 | ASSETS Adjustments | Contributed (estimate) |
|----------------------------|-------------|-----------------------|---------------------------|
| Cash | 2 | (2) | 0 |
| Accounts Receivable-Net | 537 | 11 | 548 |
| Inventory | 433 | 0 | 433 |
| PrePaid Expenses | 1 | 7 | 8 |
| Total Current Assets | 973 | 16 | 989 |

| | | | |
|--|-------|------|-------|
| Goodwill & Intangibles | 41 | (41) | 0 |
| Other Assets | 0 | 0 | 0 |
| Property, Plant & Equipment-Begin Year | 1,025 | 0 | 1,025 |
| Current Year Disposals | 9 | 0 | 9 |
| Current Year Capital Expenditures | 60 | 0 | 60 |
| Accumulated Depreciation | 984 | 0 | 984 |
| ----- | | | |
| Net Property, Plant & Equipment | 92 | 0 | 92 |
| ----- | | | |
| Total Assets | 1,106 | (25) | 1,081 |
| ===== | | | |

LIABILITIES & EQUITY

| | | | |
|--|---------|---------|-------|
| Accounts Payable & Accrued Expenses | 278 | (29) | 249 |
| Current Maturities on Long-Term Debt | 0 | 0 | 0 |
| Income Taxes Payable | 0 | 0 | 0 |
| ----- | | | |
| Total Current Liabilities | 278 | (29) | 249 |
| Other Liabilities | 0 | 0 | 0 |
| InterCompany Account-Beginning of Year | (4,200) | 4,200 | 0 |
| Current Year InterCompany Activity | (90) | 90 | 0 |
| Retained Earnings-Beginning of Year | 4,740 | (4,740) | 0 |
| Current Year Net Profit after Tax | 378 | (378) | 0 |
| Current Year Translation Adjustment | 0 | 0 | 0 |
| ----- | | | |
| Total Liabilities and Equity | 1,106 | (857) | 249 |
| ===== | | | |
| Total Net Assets Contributed | | | 832 |
| | | | ===== |

* The Contributed Balance Sheet estimate is based upon the actual August 1997 Balance Sheet. The actual Contributed Balance Sheet will be subject to activity during the month of September 1997.

SCHEDULE 3.1(e)

SCHEDULE OF TAXES BEING CONTESTED BY SELLER IN GOOD FAITH

None.

SCHEDULE 3.1(h)

MATERIAL CONTRACTS OF SELLER, INCLUDING INSURANCE POLICIES

1. Lease agreement, between Finger Lakes Realty and Mechanical Technology Incorporated dated July 1, 1985, and all amendments thereto.
2. Master Lease agreement between Mechanical Technology Incorporated and Tokai Financial Services, Inc. dated May 22, 1995, for one telephone system.
3. Lease Agreement between Pitney Bowes Corporation and Mechanical Technology Incorporated for one Postage Meter.
4. Lease Agreement between IKON Capital and Mechanical Technology Incorporated for one copier and sorter.
5. Insurance policies issued by Marshall & Sterling Upsate Inc. maintained by Mechanical Technology Incorporated:
 - a. Directors & Officers Liability
 - b. Excess Directors & Officers Liability
 - c. Property & General Liability
 - d. Air Craft Products Liability
 - e. Workers Compensation
 - f. Commercial Umbrella
 - g. ERISA Bond
 - h. Commercial Crime Policy
 - i. Commercial Auto
 - j. California Tax Bond
 - k. Open Cargo Policy

SCHEDULE 3.1(i)

SCHEDULE OF LEASES OF SELLER

See Schedule 3.1(h) (1) through 3.1(h) (4) above.

SCHEDULE 5.1

SCHEDULE OF BROKER ARRANGEMENTS AND AGREEMENTS ENTERED INTO
BY SELLER

1. MTI is a party to a broker agreement with First Albany Corp. whereby MTI will pay First Albany \$75,000.00 plus expenses for services rendered in the process of finding a suitable purchaser for the L.A.B. division.

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 |

<ARTICLE> 5
<MULTIPLIER> 1000

| | | |
|------------------------------|--------|-------------|
| <PERIOD-TYPE> | 12-MOS | |
| <FISCAL-YEAR-END> | | SEP-30-1997 |
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| <CASH> | | 1,425 |
| <SECURITIES> | | 0 |
| <RECEIVABLES> | | 6,936 |
| <ALLOWANCES> | | 153 |
| <INVENTORY> | | 3,392 |
| <CURRENT-ASSETS> | | 12,116 |
| <PP&E> | | 18,141 |
| <DEPRECIATION> | | 15,793 |
| <TOTAL-ASSETS> | | 14,756 |
| <CURRENT-LIABILITIES> | | 5,949 |
| <BONDS> | | 0 |
| <PREFERRED-MANDATORY> | | 0 |
| <PREFERRED> | | 0 |
| <COMMON> | | 5,909 |
| <OTHER-SE> | | 2,304 |
| <TOTAL-LIABILITY-AND-EQUITY> | | 14,756 |
| <SALES> | | 31,980 |
| <TOTAL-REVENUES> | | 31,980 |
| <CGS> | | 20,300 |
| <TOTAL-COSTS> | | 31,400 |
| <OTHER-EXPENSES> | | (188) |
| <LOSS-PROVISION> | | 0 |
| <INTEREST-EXPENSE> | | 323 |
| <INCOME-PRETAX> | | 2,127 |
| <INCOME-TAX> | | 114 |
| <INCOME-CONTINUING> | | 2,013 |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 2,507 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | 4,520 |
| <EPS-PRIMARY> | | .80 |
| <EPS-DILUTED> | | .80 |