



Mechanical Technology, Incorporated

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Shareholder Information

To expedite requests regarding misplaced stock certificates, address changes, or the consolidation of accounts, shareholders are asked to contact the Transfer Agent:

American Stock Transfer & Trust Co LLC
6201 15th Avenue
Brooklyn, NY 11219
800.937.5449



Mechanical Technology, Incorporated

2016 Annual Report

Ticker Symbol:
MKTY

Dear Fellow Shareholders and Employees:

growth by leveraging our technology and products to grow revenue profitably, and we will add another facet to our growth plan - we will also pursue acquisition opportunities. We believe that combining organic growth with a disciplined acquisition strategy will accelerate our growth and shareholder value maximization plans.

We achieved our 2016 goals by improving our cash position and increasing stockholders' equity. Our cash at the end of 2016 increased to \$3.4 million from \$462 thousand at the end of 2015, an increase of 631.8%. Stockholders' equity increased to \$4.2 million at the end of 2016 from \$1.5 million at the end of 2015, an increase of 171.8%. Several factors contributed to this success including the award of the \$9.35 million U.S. Air Force multi-year contract to purchase new PBS 4100+ and PBS4100R+ vibration measurement and balancing systems and corresponding maintenance or previously deployed systems and accessories. This contract brought in \$1.1 million in revenues during the second half of 2016, offsetting declines in commercial engine vibration analysis system sales and generating positive cash flows from operations. During October 2016, the Company issued and sold 3.75 million shares of common stock to Brookstone Partners Acquisition XXIV, LLC (Brookstone), for \$2.7 million. This new investment provided the Company with additional capital and access to financial resources to fund strategic initiatives including acquisitions. In conjunction with the Brookstone investment, the Company adopted a Section 382 rights plan to protect its ability to use its net operating loss carryforward (NOL), which totaled approximately \$51.9 million at the end of 2016. NOLs may be used, under certain circumstances, to reduce future taxable income. These NOLs are a valuable asset, and protecting and utilizing them is a high priority.

Our organic growth strategy aims to tap into new markets with product development initiatives designed to enhance and differentiate our existing products by expanding product offerings and providing more value-added services. We believe that this will allow us to better serve our existing customers by extracting more value from the assets we have by focusing on growing our analytical measurement business with our market leading sensors, instruments and systems. Asia continues to be the "manufacturer for the world" for which, in general, we see strong potential in the number and quality of prospective customers that could positively impact our revenue. Other steps taken in 2017 to date to improve our growth has been the rebuilding our Web site and a recent re-organization of our sales department.

Acquisitions are an important component of our growth plan. We intend to pursue acquisition opportunities aggressively but we will be patient and disciplined in closing deals. Our goal is to accelerate MTT's growth and profitably with acquisitions that enhance and diversify MTT's growth potential. We cannot put a timetable on closing deals but the discovery process is underway. Our prospects for acquiring a company and structuring a deal were greatly improved for this upcoming year due to the strengthening of our balance sheet in 2016 as a result of the investment by Brookstone and our solid relationship with them.

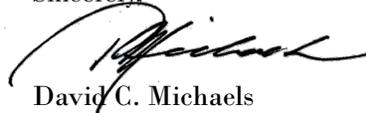
I am delighted to share my first Annual Letter since taking on the role of Chairman, and I'm pleased to report that while our goal to grow the business and maximize shareholder value has not changed, our approach has. We will continue pursuing organic

With respect to potential acquisitions, we are primarily focusing on companies that: 1) have \$10 million to \$30 million in annual revenues; 2) \$2 million to \$10 million in earnings before interest, taxes, depreciation and amortization; 3) manufacture precision test and measurement sensors, instruments and systems used in automated manufacturing and assembly and consistent operation of complex machinery; and 4) focus on aerospace, semiconductor, electronics, automotive and/or general industrial sectors. Within this framework, while we intend to target companies that can add additional strategic or competitive value to our operations, we may pursue companies that, while not necessary complementary to our own in this regard, have high growth potential. In this regard, we intend to concentrate on businesses with favorable long-term economic characteristics, operations in markets and industries we understand and readily apparent opportunities to help facilitate higher growth and profitability.

In early 2017, Kevin Lynch announced he was retiring from the position of Chief Executive Officer and Chairman of MTT's Board of Directors. We are grateful for the leadership and expertise that Kevin brought to MTT and the value he created by repositioning MTT for growth. Kevin remains on the Board and Rick Jones has been appointed the Chief Executive Officer of MTT. Rick brings over twenty years' experience working for the Company. Rick understands the Company, its products, our employees and our customers. Rick has earned the respect of the organization and we believe he is the right guy at the right time to accomplish our goals.

I want to thank you for your continued confidence and assure you that we are committed to maximizing long-term, sustainable shareholder value. We are taking the necessary steps to see the Company thrive and achieve significant growth in the coming years. We will do this by maximizing the value of our existing business and through investing in new ones. It is important to understand that the fundamentals of our business have not changed. It is an exciting time for the Company and we are eager to continue building on our recent progress. We believe that as we continue to take our business to the next level, our market value will more adequately reflect our growth and value prospects. We are looking forward to a stronger 2017.

Sincerely,



David C. Michaels

Chairman

Mechanical Technology, Incorporated