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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 0-4041

HATHAWAY CORPORATION

(Exact name of registrant as specified in its charter)

Colorado	**84-0518115**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8228 Park Meadows Drive **Littleton, Colorado**	**80124**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(303) 799-8200**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value

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 ☒ No o

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. o

As of September 16, 2002, the aggregate market value of voting stock held by non-affiliates of the Registrant, computed by reference to the average bid and asked prices of such stock approximated $12,767,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated September 21, 2002 are incorporated by reference in Part III of this Report.

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PART I

Item 1. Business.

Hathaway Corporation (the Company) was organized under the laws of Colorado in 1962. The Company is engaged in the business of designing, manufacturing and selling motion control products to a broad spectrum of customers throughout the world. Prior to July 29, 2002, the Company was also engaged in designing, manufacturing and selling advanced systems and instrumentation to the worldwide power and process industries. As discussed more fully in Note 10 of the Notes to Consolidated Financial Statements on page 36, on July 29, 2002, the Company sold substantially all of its Power and Process Business, and intends to focus substantially all of its resources in the motor and motion control products markets. The Company operates primarily in the United States and the United Kingdom. Prior to the sale of its Power and Process Business, the Company also had joint venture investments in China. In connection with the sale of its Power and Process Business as discussed below, the Hathaway name will become the property of the buyers; therefore, the Company, at its upcoming Annual Meeting, is asking its shareholders to consider and vote on a proposal to amend the Articles of Incorporation to change the Company's name to Allied Motion Technologies, Inc.

Motion Control Business

Hathaway's motion control business offers quality, cost-effective products that suit a wide range of applications in the telecommunications, semiconductor processing, industrial, medical, military and aerospace industries, as well as in the manufacturing of analytical instruments and computer peripherals. End products using Hathaway technology include tuneable lasers, wavelength meters and spectrum analyzers for the fiber optic industry, robotic systems for the semiconductor industry, anti-lock braking transducers, satellite tracking systems, MRI scanners and high definition printers.

The motion control group is organized into one division and two subsidiaries, respectively, of Hathaway Motion Control Corporation, a wholly-owned subsidiary of the Company: Motors and Instruments Division (MI—Tulsa), Emoteq Corporation (Emoteq—Tulsa) and Computer Optical Products, Inc. (COPI—Chatsworth, CA).

The MI division manufactures precision direct current fractional horsepower motors and certain motor components. Industrial equipment and military products are the major application for the motors. This division also supplies spare parts and replacement equipment for general-purpose instrumentation products.

Emoteq-Tulsa designs, manufactures and markets direct current brushless motors, related components, and drive and control electronics. Markets served include semiconductor manufacturing, industrial automation, medical equipment, and military and aerospace. Effective July 1, 1998, Emoteq Corporation acquired all of the outstanding shares of Ashurst Logistic Electronics Limited of Bournemouth, England (Ashurst). Ashurst manufactures drive electronics and position controllers for a variety of motor technologies as well as a family of static frequency converters for military and aerospace applications and has extensive experience in power electronics design and software development required for the application of specialized drive electronics technology. The acquired company was renamed Emoteq UK Limited.

Optical encoders are manufactured by COPI. They are used to measure rotational and linear movements of parts in diverse applications such as tunable lasers, spectrum analyzers, machine tools, robots, printers and medical equipment. The primary markets for the optical encoders are in the telecommunications, computer peripheral manufacturing, industrial and medical sectors. COPI also designs, manufactures and markets fiber optic-based encoders with special characteristics, such as immunity to radio frequency interference and high temperature tolerance, suited for industrial, aerospace and military environments. Applications include airborne navigational systems, anti-lock braking transducers, missile flight surface controls and high temperature process control equipment.

Effective July 30, 2002 the Company acquired 100% of the stock of Motor Products—Owosso Corporation and Motor Products—Ohio Corporation ("Motor Products") from Owosso Corporation, a publicly held corporation. Motor Products, located in Owosso, Michigan has been a motor producer for more than fifty years and is a vertically integrated manufacturer of customized, highly engineered sub-fractional horsepower permanent magnet DC motors serving a wide range of original equipment applications. The motors are used in HVAC and actuation systems in a variety of markets including trucks, buses, RV's, off-road vehicles, health, fitness, medical and industrial equipment. Motor Products will continue to operate its business in Owosso, Michigan under the existing management team.

Power and Process Business

On July 29, 2002, the Company sold substantially all of its Power and Process Business.

Power Instrumentation

Hathaway's power instrumentation products help ensure that electric utilities provide high quality service to consumers of electricity. With manufacturing facilities in Seattle and Belfast, Northern Ireland, and sales and engineering functions in Seattle, Belfast and Denver, the power products group produces a range of products designed exclusively for the power industry worldwide. Hathaway's equipment assists electric power system operators in operating and maintaining proper system performance. The products, which are used to monitor and control the power generation, transmission and distribution processes, include fault recording products, fault location products, condition monitoring (circuit breaker) products and remote terminal units for Supervisory Control and Data Acquisition (SCADA) systems.

The Company had three joint venture investments in China—a 20% interest in Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), a 25% interest in Zibo Kehui Electric Company Ltd. (Kehui) and a 40% interest in Hathaway Power Monitoring Systems Company, Ltd. (HPMS). Si Fang designs, manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems in China and is one of the largest Chinese supplier of digital relays in China. The Company sold its interest in Si Fang effective July 5, 2001 for cash of $3,020,000. Kehui designs, manufactures and sells cable and overhead fault location products, Supervisory Control and Data Acquisition (SCADA) systems and other test instruments within the China market. HPMS manufactures and sells instrumentation products designed by the Company to electric power companies in China. The Company sold its investments in Kehui and HPMS effective July 29, 2002 as part of the sale of the Power and Process Business.

Systems Automation

Effective September 30, 1996, the Company acquired Tate Integrated Systems which has since operated under the name of Hathaway Industrial Automation (HIA), a wholly-owned subsidiary of the Company. HIA is located near Baltimore, Maryland and is a full service supplier of process automation systems for industrial applications. HIA has developed a state-of-the-art software system for SCADA and Distributed Control Systems (DCS). The HIA system has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. The focus of the systems business has shifted from industrial automation applications to the power generation and transmission industry. The automation system provides the user the ability to securely send and receive information to and from intelligent electronic devices in transmission and distribution substations to help monitor and control the delivery of electricity. In addition, the automation system is used by organizations responsible for operating the transmission grid and ensuring the reliable delivery of electricity. It is used to communicate with and control the output of power generators and to securely communicate metering information from such generators to ensure the proper billing for such electricity.

Process Instrumentation

The process instrumentation products group manufactures and markets products for industrial applications including monitoring systems and calibration equipment. The monitoring systems, called visual annunciators and sequential event recorders, provide both visual and audible alarms and are used to control processes in various plants, including electrical generating plants, chemical, petroleum, food and beverage, pulp and paper, and textiles. Calibration equipment is used to test and adjust instrumentation for proper and accurate operation in measuring electricity, temperatures and pressure within the process industry. The calibration equipment products were not part of the sale of substantially all of the Power and Process Business. Subsequent to June 30, 2002, the Company committed to a plan to dispose of the calibrator business within one year.

Product Distribution and Principal Markets

The Company maintains a direct sales force. In addition to its own marketing and sales force, the Company has developed a worldwide network of independent sales representatives and agents to market its various product lines.

The Company faces competition in all of its markets, although the number of competitors varies depending upon the product. The Company believes there are numerous competitors in the motion control market. Competition involves primarily product performance and price, although service and warranty are also important.

Financial Information about Operating Segments

The information required by this item is set forth in Note 9 of the Notes to Consolidated Financial Statements on page 34 herein.

Availability of Raw Materials

All parts and materials used by the Company are in adequate supply. No significant parts or materials are acquired from a single source.

Patents, Trademarks, Licenses, Franchises and Concessions

The Company holds several patents and trademarks regarding components used by the various subsidiaries; however, none of these patents and trademarks are considered to be of major significance.

Seasonality of the Business

The Company's business is not of a seasonal nature; however, revenues derived from the power market may be influenced by customers' fiscal year ends and holiday seasons.

Working Capital Items

The Company currently maintains inventory levels adequate for its short-term needs based upon present levels of production. The Company considers the component parts of its different product lines to be readily available and current suppliers to be reliable and capable of satisfying anticipated needs.

Sales to Large Customers

During fiscal 2002, 2001 and 2000, no single customer accounted for more than 10% of the Company's consolidated revenue.

Sales Backlog

The Company's backlog at June 30, 2002, excluding backlog related to the Power and Process Segment sold or committed to sale subsequent to year-end, consisted of sales orders totaling approximately $5,836,000, of which $5,599,000 is expected to ship within fiscal 2003. This compares to a

backlog of $13,044,000 at June 30, 2001, of which $12,699,000 was scheduled for shipment in fiscal 2002. Backlog at June 30, 2001 included $7,426,000 of orders to supply motors and optical encoders to the fiber optic telecommunications industry which were cancelled in fiscal 2002. Without including the backlog related to these order cancellations in the June 30, 2001 backlog, backlog for fiscal 2002 increased 4%. The July 2002 Motor Products acquisition adds approximately $6,800,000 in sales order backlog to the Motion Control Business backlog. There can be no assurance that the Company's backlog can be converted into revenue.

Government Sales

Approximately $671,000 of the Company's backlog as of June 30, 2002 related to the Motion Control Business consisted of contracts with the United States Government. The Company's contracts with the government contain a provision generally found in government contracts that permits the government to terminate the contract at its option. When the termination is attributable to no fault of the Company, the government would, in general, have to pay the Company certain allowable costs up to the time of termination, but there is no compensation for loss of profits.

Engineering and Development Activities

The Company's expenditures on engineering and development were $4,490,000 in fiscal 2002, $4,806,000 in fiscal 2001 and $4,274,000 in fiscal 2000. Of these expenditures, no material amounts were charged directly to customers.

Environmental Issues

No significant pollution or other types of emission result from the Company's operations and it is not anticipated that the Company's proposed operations will be affected by Federal, State or local provisions concerning environmental controls. However, there can be no assurance that any future regulations will not affect the Company's operations.

In 2001, the Company, with other parties, was named as a defendant in an environmental contamination lawsuit. Additional information required by this item is set forth in Note 7 of the Notes to Consolidated Financial Statements on page 34 herein.

Foreign Operations

The information required by this item is set forth in Note 9 of the Notes to Consolidated Financial Statements on page 34 herein.

Employees

As of the end of fiscal 2002, the Company had approximately 331 full-time employees, of which 151 remained with the Company after the sale of the Power and Process Business on July 29, 2002. After the acquisition of Motor Products on July 30, 2002, the Company had 378 employees.

Item 2. Properties.

As of June 30, 2002, the Company leased its administrative offices and manufacturing facilities as follows:

Description/Use	Location	Approximate Square Footage
Corporate headquarters and sales and engineering offices	Littleton, Colorado	14,000
Engineering and development facility	Evergreen, Colorado	3,000
Office and manufacturing facility	Farmers Branch, Texas	8,000
Office and manufacturing facility	Auburn, Washington	33,000
Engineering, development and administrative office	Hunt Valley, Maryland	14,000
Office and manufacturing facility	Tulsa, Oklahoma	20,000
Office and manufacturing facility	Chatsworth, California	22,000
Office and manufacturing facility	Tulsa, Oklahoma	10,000
Office facility	Hoddesdon, England	3,000
Office and manufacturing facility	Belfast, Northern Ireland	17,000
Office and manufacturing facility	Bournemouth, England	2,000

Subsequent to the July 2002 Power and Process Business sale and the July 2002 Motor Products acquisition, the Company occupies the following administrative offices and manufacturing facilities:

Description/Use	Location	Approximate Square Footage	Owned Or Leased
Corporate headquarters	Littleton, Colorado	5,000	Leased
Engineering and development facility	Evergreen, Colorado	3,000	Leased
Office and manufacturing facility	Farmers Branch, Texas	8,000	Leased
Office and manufacturing facility	Tulsa, Oklahoma	20,000	Leased
Office and manufacturing facility	Chatsworth, California	22,000	Leased
Office and manufacturing facility	Tulsa, Oklahoma	10,000	Leased
Office and manufacturing facility	Bournemouth, England	2,000	Leased
Office and manufacturing facility	Owosso, Michigan	82,500	Owned

The Company's management believes the above-described facilities are adequate to meet the Company's current and foreseeable needs. All facilities described above are operating at or near full capacity.

Item 3. Legal Proceedings.

In 2001, the Company, with other parties, was named as a defendant in an environmental contamination lawsuit. The lawsuit relates to property that was occupied by the Company's Power and Process Business over 37 years ago. In connection therewith, subsequent to June 30, 2002, the Company agreed to settle this environmental contamination lawsuit. Accordingly, during the quarter ended June 30, 2002, the estimated charge for the settlement and related legal fees of $1,429,000 ($961,000 net of the tax effect) was recorded. While the Company believes that the suit against the Company was without merit, it agreed to the settlement to eliminate future costs of defending itself and the uncertain risks associated with litigation. This settlement is subject to approval by the court, and accordingly, may change based upon the ultimate outcome. Additional information required by this item is set forth in Note 7 of the Notes to Consolidated Financial Statements on page 34 herein.

The Company is also involved in certain actions that have arisen out of the ordinary course of business. Management believes that resolution of the actions will not have a significant adverse affect on the Company's consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of the security holders of the Company in the fourth quarter of fiscal year 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Hathaway Corporation's common stock is traded on the Nasdaq Small Cap Market System and trades under the symbol HATH. The number of holders of record of the Company's common stock as of the close of business on September 9, 2002 was 572. The Company did not pay or declare any dividends during fiscal years 2002 and 2001 as the Company's long-term financing agreement prohibits the Company from doing so without prior approval.

The following table sets forth, for the periods indicated, the high and low prices of the Company's common stock on the Nasdaq Small Cap Market System, as reported by Nasdaq.

	Price Range	
	High	Low
FISCAL 2001		
First Quarter	$ 9.88	$ 5.06
Second Quarter	7.38	2.25
Third Quarter	6.94	2.94

Fourth Quarter	4.84	3.10
FISCAL 2002		
First Quarter	$ 3.90	$ 2.04
Second Quarter	3.25	1.75
Third Quarter	3.00	2.60
Fourth Quarter	3.15	2.25

Item 6. Selected Financial Data.

The following table summarizes data from the Company's annual financial statements for the fiscal years 1998 through 2002 and notes thereto; the Company's complete annual financial statements and notes thereto for the current fiscal year appear in Item 8 beginning on page 15 herein. See Management's Discussion and Analysis for discussion of non-recurring items that affect the comparability of results between periods. Further, as discussed herein and in Note 10 to the

consolidated financial statements, on July 29, 2002, the Company sold its Power and Process Business. In future periods, this business will be treated as a discontinued operation.

	For the fiscal years ended June 30,				
	2002	2001	2000	1999	1998
	In thousands (except per share data)				
Statements of Operations Data:					
Net revenues	$ 42,059	$ 48,386	$ 45,133	$ 41,691	$ 41,317
(Loss) income before income taxes	$ (586)	$ 2,572	$ 1,604	$ (1,317)	$ (2,161)
Benefit (provision) for income taxes	320	(576)	(129)	(208)	184
Net (loss) income	$ (266)	$ 1,996	$ 1,475	$ (1,525)	$ (1,977)
Diluted net (loss) income per share	$ (0.06)	$ 0.41	$ 0.31	$ (0.36)	$ (0.46)
Cash dividends:					
Per share	$ —	$ —	$ —	$ —	$ —
Total amount paid	$ —	$ —	$ —	$ —	$ —

	At June 30,				
	2002	2001	2000	1999	1998
Balance Sheet Data:					
Total assets	$ 22,629	$ 20,203	$ 19,937	$ 16,398	$ 17,820
Total current and long-term debt	$ —	$ 553	$ 1,546	$ 1,308	$ 1,245

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

All statements contained herein that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word "believe," "anticipate," "expect," "project," "intend," "will continue," "will likely result," "should," "growth," "growing," "significant demand," "expanding growth opportunities," "new market," "maximize profits," or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results of the Company to differ materially from the forward-looking statements. Due to the sale of the Power and Process Business and the purchase of Motor Products, the Company's past business practices and operating results may not provide a meaningful basis to predict future risks and uncertainties. Risks and uncertainties include, among others, the following: international, national and local general business and economic conditions in the Company's motion control business, risks related to the acquisition of Motor Products and other acquisitions that the Company may pursue and/or complete in the future, introduction of new technologies, products and competitors, the ability to protect the Company's intellectual property, the ability of the Company to sustain, manage or forecast its growth and product acceptance, the continued success of the Company's customers to allow the Company to realize revenues from its order backlog and to support the Company's expected delivery schedules, the continued viability of the Company's customers and their ability to adapt to changing technology and product demand, the ability of the Company to meet the technical specifications of its customers or the emerging industry standards and practices on a cost effective and timely basis the continued availability of parts and components, increased competition and changes in competitor responses to the Company's products and services, changes in government regulations, the ability to attract and retain qualified personnel who can design new applications and products for the motion control industry, ability to retain and the performance of sales personnel, availability of financing and the ability of the Company's lenders and financial institutions to provide additional funds if needed. We may have to seek third party investment in order to provide additional working capital and to finance acquisitions to enhance our motion

control business. We cannot be certain that financing from third parties will be available on acceptable terms to us or at all. If we cannot raise funds on acceptable terms, we may not be able to develop our motion control products and services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which could have a material adverse affect on our ability to grow our business. Further, if we issue equity securities, the new equity securities may have rights, preferences or privileges senior to those of our Common Stock and such securities could be dilutive to the holders of the Company's common stock.

New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The Company's expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis; however, the Company makes no assurance that expectations, beliefs or projections will be achieved.

Because of the risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company has no obligation or intent to release publicly any revisions to any forward-looking statements, whether as a result of new information, future events, or otherwise.

OPERATING RESULTS
Fiscal year 2002 compared to fiscal year 2001

Consolidated Results

The Company achieved consolidated net income before the estimated charge for litigation settlement and related legal fees of $695,000 or $.15 per share for its fiscal year ended June 30, 2002 compared to $1,996,000, or $.41 per diluted share for the year ended June 30, 2001. After the estimated litigation charge of $961,000 (net of taxes), the Company reported a consolidated net loss for fiscal 2002 of $266,000 or $.06 per share.

Subsequent to June 30, 2002, the Company agreed to settle an environmental contamination lawsuit filed in 2001 pursuant to which Hathaway, with other parties, was named as a defendant. Accordingly, during the fourth quarter, an estimated charge for the settlement and related legal fees of $961,000, net of tax, was recorded. The lawsuit relates to property that was occupied by the Company's Power business over 37 years ago. While the Company believes the suit against the Company was without merit, it agreed to the settlement to eliminate future costs of defending itself and the risks associated with litigation. This settlement is subject to approval by the court, and accordingly, may change based upon the ultimate outcome.

Consolidated results for fiscal 2002 also include the gain on the sale of the Company's investment in the Si Fang joint venture, resulting in a pretax gain of $674,000. Consolidated net income for fiscal years 2001 and 2000 included $1,116,000 and $670,000, pretax, of equity income related to the Company's investment in Si Fang, respectively.

Revenues for the fiscal year 2002 decreased 13% to $42,059,000 this year from $48,386,000 last year. Refer to segment results below for discussion of the decrease.

Total gross product margin as a percentage of revenues remained consistent at 39% during fiscal year 2002 and 2001. Selling, general and administrative expenses increased just over 1% to $11,897,000 this year from $11,725,000 last year due to cost reduction efforts by the Company offset by increased employee insurance costs. Engineering and development expenses decreased 7% to $4,490,000 from $4,806,000 for fiscal years 2002 and 2001, respectively primarily due to one-time costs incurred in fiscal 2001 to develop a configuration tool kit for the Company's remote terminal units used by the power industry.

Sales to international customers decreased 12% to $13,496,000 in fiscal 2002 from $15,282,000 in fiscal 2001 but remained consistent at 32% of sales.

At June 30, 2002, total backlog, consisting of sales orders received, was $15,002,000 compared to $21,713,000 at June 30, 2001. Excluding backlog related to the Power and Process Segment sold or committed to sale subsequent to year-end, backlog consisted of sales orders totaling approximately $5,836,000 and $13,044,000 at June 30, 2002 and 2001, respectively. The decrease was primarily due to the cancellation of $7,426,000 of orders to supply motors and optical encoders to the fiber optic telecommunications industry, which were included in the backlog at June 30, 2001. Without including the backlog related to these order cancellations in the June 30, 2001 backlog, backlog for fiscal 2002 increased 4%. There can be no assurance that the Company's backlog as of any date can be converted into revenue.

For the year ended June 30, 2002, the Company recognized a benefit from income taxes of $320,000 compared to a provision for income taxes of $576,000 for last year. The effective income tax rate as a percentage of income before income taxes was 55% in fiscal 2002 and 22% in fiscal 2001. The difference in the effective tax rate between periods is primarily due to the impact of foreign tax rates,

foreign tax jurisdiction income and loss, expenses not deductible for tax purposes and changes in the valuation allowance recorded against the Company's net deferred tax assets.

Effective July 29, 2002, the Company sold substantially all of its Power and Process Business, and intends to focus substantially all of its resources in the motor and motion control products markets. Prior to the sale, the Company managed its business in two operating segments. Because the sale of the Power and Process Business was subject to shareholder approval (which approval was obtained on July 25, 2002), and in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," related to the presentation of discontinued operations, the assets, liabilities and operations for the Power and Process Business were not reflected as a discontinued operation as of June 30, 2002, but will be so in future reporting periods. See the information provided in Note 10 to the consolidated financial statements for further discussion. To facilitate analysis, the following represents the results of operations of the two segments (in thousands):

	For the fiscal years ended June 30,		
	2002	**2001**	**2000**

	Power and Process	Motion Control	Power and Process	Motion Control	Power and Process	Motion Control
Revenue from external customers	$ 26,336	$ 15,723	$ 27,198	$ 21,188	$ 26,542	$ 18,591
Equity income and gains on sale from investments in joint ventures	833	—	1,170	—	824	—
(Loss) income before income taxes	(1,833)	842	(1,539)	3,584	(1,643)	3,139
Identifiable assets	11,390	6,127	12,142	6,532	10,620	7,134

The following is a reconciliation of segment information to consolidated information (in thousands):

	For the fiscal years ended and as of June 30,		
	2002	2001	2000
Segments' income (loss) before income taxes	$ (991)	$ 2,045	$ 1,496
Corporate activities	405	527	108
Consolidated (loss) income before income taxes	$ (586)	$ 2,572	$ 1,604
Segments' identifiable assets	$ 17,517	$ 18,674	$ 17,754
Corporate assets and eliminations	5,112	1,529	2,183
Consolidated total assets	$ 22,629	$ 20,203	$ 19,937

In future periods, the results of the power and process business will be reported as results of discontinued operations, and the Motion Control Segment's results will include the results of operations of Motor Products subsequent to the acquisition date.

Motion Control Segment Results

Pretax profit for Motion Control for fiscal 2002 was $842,000 compared to $3,584,000 last fiscal year. Revenues for the year ended June 30, 2002 decreased 26% to $15,723,000 from $21,188,000 last year. Gross margin for Motion Control was 31% for fiscal 2002 compared to 38% for fiscal 2001. In 1999, the motion control industry began to suffer from the slowdown in the economy. The continued slowdown adversely affected the revenue, gross margin and income before income taxes of the Motion Control Segment in fiscal year 2002. The decrease in gross margin was due to fixed overhead costs that

cannot be reduced in direct correlation to reduced revenue. The Company responded early to these changing market conditions by reducing operating costs and developing applications for the Company's products into new markets and broader segments of existing markets. The Company's two largest industry sectors, telecommunications and semiconductor processing, have not yet begun to recover, but the Company has been successful in expanding into other industry sectors including military and automotive applications. The Company has received significant orders from these sectors during this fiscal year. During this period of economic adversity, the Company has not lost any significant customers.

At June 30, 2002 backlog for Motion Control for fiscal 2002 decreased 55% to $5,836,000 from $13,044,000 at June 30, 2001. The decrease was primarily due to the cancellation of $7,426,000 of orders to supply motors and optical encoders to the fiber optic telecommunications industry, which were included in the backlog at June 30, 2001. Without including the backlog related to these order cancellations in the June 30, 2001 backlog, backlog for fiscal 2002 increased 4%. There can be no assurance that the Company's backlog as of any date can be converted into revenue.

On July 30, 2002 the Company acquired 100% of the stock of Motor Products—Owosso Corporation and Motor Products—Ohio Corporation ("Motor Products") for $11,800,000 from Owosso Corporation, a publicly held corporation. Motor Products, located in Owosso, Michigan has been a motor producer for more than fifty years and is a vertically integrated manufacturer of customized, highly engineered sub-fractional horsepower permanent magnet DC motors serving a wide range of original equipment applications. The motors are used in HVAC and actuation systems in a variety of markets including trucks, buses, RV's, off-road vehicles, health, fitness, medical and industrial equipment. Motor Products had revenues of $25,300,000, pretax income before corporate allocation of $1,850,000, and earnings before interest, depreciation and taxes of $2,800,000 for its fiscal year ended October 28, 2001 and total assets of $11,000,000 at October 28, 2001. Motor Products also brings $6,800,000 of sales order backlog to the Company. Motor Products will continue to operate out of Owosso, Michigan under the existing management team.

Power and Process Segment Results

Power and Process reported a pretax loss of $1,883,000 for the year ended June 30, 2002 compared to $1,539,000 for the year ended June 30, 2001. The current year's Power and Process results include the estimated pretax charge for litigation settlement and related legal fees of $1,429,000. Without consideration of such loss, pretax loss would have been $454,000. Revenues for fiscal 2002 decreased 3% to $26,336,000 from $27,198,000 for last year. The decrease in Power and Process revenues is due to the Company's decision to shift the focus of the systems automation business to power generation and transmission automation systems and away from industrial automation applications. The new power business has not accelerated as quickly as the industrial projects have completed resulting in a significant decline in systems revenues.

During the first quarter of the current fiscal year, the Company completed the sale of its 20% equity interest in Hathaway Si Fang Protection and Control Company, Ltd., the largest of the Chinese joint venture investments. The Power and Process Segment results include a $674,000 pretax gain on the $3,020,000 sale of Si Fang. In addition, the Segment results include $159,000 in equity income in fiscal 2002 from its remaining two joint venture investments in China, compared to $1,170,000 equity income from all joint venture investments included in fiscal 2001 (including $1,116,000 related to Si Fang).

On July 30, 2002 the Company sold substantially all of its Power and Process segment for $6,550,000 in cash subject to certain closing adjustments. The Company will recognize a pretax gain on the sale of approximately $1,800,000, subject to settlement of the closing adjustments. The remaining assets of the Power and Process Segment relate to the calibration equipment product line. Subsequent to June 30, 2002, the Company committed to a plan to dispose of the calibrator business within one year.

Fiscal year 2001 compared to fiscal year 2000

Consolidated Results

The Company achieved a 67% increase in net income before a restructuring charge for its fiscal year ended June 30, 2001 compared to fiscal year ended June 30, 2000. Net income before the restructuring charge was $2,465,000 in fiscal year 2001, compared to net income of $1,475,000 in fiscal 2000. Net income for fiscal 2001 after the restructuring charge was $1,996,000, a 35% increase over fiscal 2000. As a result of changing business conditions in the process instrumentation business, the Company restructured the process instrumentation portion of its Power and Process segment. The restructuring, which was successfully completed during fiscal 2001, consisted of retaining a portion of the business in Dallas, moving manufacturing of two product lines from Dallas to the Company's power instrumentation manufacturing facility in Seattle and selling the remaining two product lines. A pretax charge of $587,000 was recorded related to this restructuring. Revenues increased 7% to $48,386,000 in fiscal 2001 from $45,133,000 in fiscal 2000, representing increases in both the Motion Control and the Power and Process segments.

Selling expenses decreased 4% to $6,174,000 in fiscal 2001 from $6,433,000 in fiscal 2000 resulting from savings from continued cost reduction efforts by the Company. General and administrative expenses increased 7% to $5,551,000 in fiscal 2001 from $5,194,000 in fiscal 2000 primarily due to increased employee and insurance costs.

Engineering and development expenses increased 12% to $4,806,000 in fiscal 2001 from $4,274,000 in fiscal 2000, primarily due to one-time costs incurred to develop a configuration tool kit for the Company's remote terminal units (RTUs) used by the power industry.

Sales to international customers increased 32% to $15,282,000, or 32% of sales, in fiscal 2001, from $11,577,000 or 26% of sales, in fiscal 2000 due to an increase in sales of motion control products in foreign markets.

Sales order backlog decreased 9% to $21,713,000 at June 30, 2001 from $23,827,000 at June 30, 2000. Gross margin for fiscal 2001 increased to 39% from 38% in fiscal 2000 due to increased sales volume and changes in the mix of products sold.

In fiscal year 2001, the Company recognized a provision for income taxes of $576,000 compared to $129,000 in fiscal year 2000. The effective tax rate as a percentage of the income before income taxes was 22% in fiscal 2001 and 8% in fiscal 2000. The difference in the effective tax rate between periods is primarily due to changes in the valuation allowance recorded against the deferred tax assets as well as adjustments related to the resolution of various income tax related issues. The reduction in the valuation allowance decreased in 2001 compared to 2000 due to larger utilization of net operating loss carryforwards in 2000. The impact of changes in the Company's recorded valuation allowance has different impacts on the Company's effective tax rate due to differing amounts of pretax income in each respective period.

Motion Control Segment Results

Revenues from the Motion Control segment for the year ended June 30, 2001 increased 14% to $21,188,000 from $18,591,000 for the year ended June 30, 2000. Pretax profit for Motion Control for fiscal 2001 was $3,584,000 compared to $3,139,000 for fiscal 2000, a 14% increase. The increase in revenues and pretax profits is primarily due to the segment's success in providing products for specialty applications in OEM programs in numerous industry sectors including the telecommunications, semiconductor and industrial automation industries.

Power and Process Segment Results

The Power and Process segment reported revenues for fiscal 2001 of $27,198,000 compared to revenues of $26,542,000 in fiscal 2000, a 2% increase. The segment recorded a $952,000 pretax loss before the restructuring charge compared to a pretax loss of $1,643,000 in fiscal 2000, a 42% improvement. The reported pretax loss for fiscal 2001 was $1,539,000. Sales order backlog for Power and Process orders was $8,669,000 at June 30, 2001 which is down 25% from June 30, 2000—primarily reflecting a decline in backlog of large process systems projects partially offset by an increase in power instrumentation and systems backlog reflecting the Company's shift of focus to automation and communications products for the power industry and away from large process system projects.

Equity income from investments in joint ventures increased to $1,170,000 in fiscal 2001 from $698,000 in fiscal 2000. This increase was due to the continued success of the Si Fang joint venture which supplies digital relays in China. During fiscal years 2001 and 2000, the Company recognized equity income from Si Fang of $1,116,000 and $670,000 respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity position as measured by cash and cash equivalents (excluding restricted cash) increased $2,367,000 during the year to a balance of $4,278,000 at June 30, 2002. Operating activities generated $552,000, $815,000 and $440,000 of cash in fiscal years 2002, 2001 and 2000, respectively primarily reflecting net loss or income adjusted for non-cash charges and working capital changes.

Cash of $2,117,000 was generated by investing activities in fiscal year 2002 while $908,000 and $1,109,000 was used by investing activities in fiscal 2001 and 2000, respectively. The 2002 cash generated includes $3,020,000 cash received from the sale of Si Fang. Cash uses primarily reflect the purchases of property and equipment.

Financing activities used cash of $411,000 and $864,000 in fiscal years 2002 and 2001, respectively, and generated cash of $1,186,000 in fiscal year 2000. During fiscal year 2002, $553,000 of cash was used to pay off the line of credit. This was offset by proceeds from repayments on loans receivable from the Employee Stock Ownership Plan of $27,000 and proceeds from employee stock purchases of $235,000. In fiscal year 2001, the Company made net repayments of $993,000 to the line of credit, offset by $75,000 of cash received from the Employee Stock Ownership Plan loan and $149,000 received for employee stock purchases. In fiscal year 2000, cash was generated by proceeds from the exercise of employee stock options, as well as increased net borrowings on the line-of-credit.

At June 30, 2002, the Company had no bank debt, compared with $553,000 and $1,546,000 at the end of fiscal 2001 and 2000, respectively. The debt represents borrowings on the Company's current long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon). The Agreement is subject to automatic and continuous annual renewal for successive additional terms of one year each unless either party notifies the other of its intention to terminate the Agreement at least sixty days before the next maturity date. The Agreement was renewed on May 7, 2002. Borrowings on the loan were restricted to the lesser of $3,000,000 or 85% of the Company's eligible receivables (Maximum Credit Limit). As of June 30, 2002, 85% of the Company's eligible receivables exceeded the maximum loan amount, therefore, the Company could borrow up to the Maximum Credit Limit of $3,000,000.

The line-of-credit bears interest at Silicon's prime borrowing rate (prime rate, 4.75% at June 30, 2002) plus 1.5%. The interest rate is adjustable on a quarterly basis to prime rate plus 2% if the Company incurs a net loss greater than $750,000 in each previous twelve-month rolling period. In addition to interest, the loan bears a monthly unused line fee at 0.0625% of the Maximum Credit Limit less the average daily balance of the outstanding loan during a month. The unused line fee is also

adjustable on a quarterly basis to 0.125% if the Company incurs a net loss greater than $750,000 in each previous twelve-month rolling period.

The line-of-credit is secured by all assets of the Company. The Agreement prohibits the Company from paying dividends without prior approval and requires that the Company maintain compliance with certain covenants related to tangible net worth. At June 30, 2002, the Company was in compliance with such covenants.

Subsequent to year-end, the Company and Silicon amended the Agreement to increase the Maximum Credit Limit on the line-of-credit to $4,000,000 and to add an additional $1,750,000 term loan to the Agreement.

Under the amended Agreement, borrowing on the line-of-credit is restricted to the Maximum Credit Limit which is calculated as the lesser of $4,000,000 or 80% of the Company's eligible receivables plus the lesser of 1) 25% of the Company's eligible inventory, or 2) 30% of the Company's eligible receivables, or 3) $750,000. The Agreement matures on September 10, 2003. The interest rate on the line-of-credit is equal to the prime rate plus 1.5%. The interest rate is adjustable on a quarterly basis to prime rate plus 1% if the Company achieves a Quick Ratio (cash and cash equivalents to current liabilities) for two consecutive fiscal quarters of greater than or equal to 1.20 to 1.00 but less than 1.50 to 1.00. If the Company achieves a Quick Ratio for two consecutive fiscal quarters of greater than or equal to 1.50 to 1.00, the interest rate will be adjusted to prime rate plus 0.75%. If the interest rate is so reduced and the Company's Quick Ratio deteriorates, the interest rate will be increased in accordance with the above parameters on a quarterly basis. In addition to interest, the line bears a monthly unused line fee at 0.375% on the difference between the amount of the Maximum Credit Limit and the average daily principal balance of the line-of-credit outstanding during the month. The Company borrowed $2,250,000 on July 30, 2002 under this line-of-credit to fund the purchase of Motor Products.

Also under the amended Agreement, the Company obtained a term loan of $1,750,000. The loan matures the earlier of February 1, 2006 or the date the line-of-credit terminates. The loan bears interest at 8.38%, but may be reduced on a quarterly basis. If the Company achieves a Quick Ratio for two consecutive fiscal quarters of greater than or equal to 1.20 to 1.00 but less than 1.50 to 1.00, the rate will be reduced to 7.88%. If the Company achieves a Quick Ratio for two consecutive fiscal quarters of greater than or equal to 1.50 to 1.00, the interest rate will be adjusted to 7.63%. If the interest rate is so reduced and the Company's Quick Ratio deteriorates, the interest rate will be increased in accordance with the above parameters on a quarterly basis. The Company borrowed $1,750,000 under this term loan on July 30, 2002 to fund the purchase of Motor Products. The term loan is being repaid in forty-two equal monthly payments of principal beginning September 1, 2002.

Both loan facilities are secured by all of the assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth, profitability and debt service coverage.

On July 29, 2002 the Company sold substantially all of its Power and Process segment for $6,550,000 in cash, subject to certain closing adjustments. The Company used the proceeds from this sale, plus the $4,000,000 in new bank debt, plus cash on hand to acquire Motors Products for $11,800,000 on July 30, 2002. The Motor Product operations acquired have historically and are currently generating positive cash flows. The Company believes the acquisition will have a positive effect on the Company's liquidity and capital resources although there can be no guarantee thereof.

Subsequent to June 30, 2002, the Company agreed to settle an environmental contamination lawsuit pursuant to which Hathaway, with other parties, was named as a defendant. The settlement, exclusive of estimated legal costs, will be paid as follows: $500,000 within 30 days after the settlement is approved by the court, $350,000 one year after the court approval and the remaining $250,000 two

years after court approval. The related legal fees are expected to be paid by December 31, 2002. The settlement is subject to court approval, and therefore, the amount of the settlement will be fixed only upon such approval, and is subject to change prior to that time.

The Company's fiscal 2003 working capital, capital expenditure and debt service requirements (including payment of the settlement discussed above) are expected to be funded from cash provided by operations, the Company's existing cash balance and amounts available under the line of credit facility. The

Company believes the capital currently available to it is sufficient for its currently anticipated needs, but if additional capital is needed in the future, the Company would pursue additional capital via debt or equity financing. A key component of the Company's liquidity relates to the availability of amounts under the line of credit with Silicon Valley Bank. Any lack of availability of this facility could have a material adverse impact on the Company's liquidity position.

PRICE LEVELS AND THE IMPACT OF INFLATION

Prices of the Company's products have not increased significantly as a result of inflation during the past several years, primarily due to competition. The effect of inflation on the Company's costs of production has been minimized through production efficiencies and lower costs of materials. The Company anticipates that these factors will continue to minimize the effects of any foreseeable inflation and other price pressures from the industries in which it operates. As the Company's manufacturing activities mainly utilize semi-skilled labor, which is relatively plentiful in the areas surrounding the Company's production facilities, the Company does not anticipate substantial inflation-related increases in the wages of the majority of its employees.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of the Company due to adverse changes in financial and commodity market prices and rates. The Company is exposed to market risk in the areas of changes in United States interest rates and changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to its normal operating and funding activities. Historically, and as of June 30, 2002, the Company has not used derivative instruments or engaged in hedging activities.

Interest Rate Risk

The interest payable on the Company's line-of-credit is variable based on the prime rate, and, therefore, affected by changes in market interest rates. The line-of-credit matures in September 2003. The Company manages interest rate risk by investing excess funds in cash equivalents bearing variable interest rates that are tied to various market indices. As a result, the Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company. A change in the interest rate of 1% on the Company's variable rate debt would have the impact of changing interest expense by approximately $22,000 annually.

Foreign Currency Risk

After July 29, 2002, upon the sale of the Power and Process Business, the Company had a wholly-owned subsidiary located in England. Sales from this operation are typically denominated in British Pounds, thereby creating exposures to changes in exchange rates. The changes in the British/U.S. exchange rate may positively or negatively affect the Company's sales, gross margins, net income and retained earnings. The Company does not believe that reasonably possible near-term changes in exchange rates will result in a material effect on future earnings, fair values or cash flows of the Company, and therefore, has chosen not to enter into foreign currency hedging instruments. There can be no assurance that such an approach will be successful, especially in the event of a significant and sudden decline in the value of the British Pound.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting. The use of the pooling-of-interest method of accounting for business combinations is prohibited. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. The Company will account for any future business combinations in accordance with SFAS No. 141, including the Company's acquisition of Motor Products.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets and requires that goodwill no longer be amortized but be tested for impairment at least annually at the reporting unit level in accordance with SFAS No. 142. Goodwill must also be reviewed for impairment when certain events indicate that the goodwill may be impaired. Recognized intangible assets should, generally, be amortized over their useful life and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Because the Company has been a noncalendar year-end company, the FASB has allowed adoption of SFAS No. 142 either in fiscal year 2002 or fiscal year 2003, except for provisions related to the nonamortization and amortization of goodwill and intangible assets acquired after June 30, 2001, which will be subject immediately to the provisions of SFAS No. 142. The Company adopted SFAS No. 142 on July 1, 2002. SFAS No. 142 will impact the Company's results of operations and financial position in future periods as goodwill resulting from its July 2002 acquisition (see Note 10 to the accompanying financial statements) will not be amortized.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001 (effective for the Company on July 1, 2002). This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and replaces the provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of Segments of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of segments of a business. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. Under SFAS No. 144, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell The adoption of SFAS No. 144 on July 1, 2002 did not have a material impact on the Company's financial position or results of operations. Because of the sale of the Power and Process Business was subject to shareholder approval (which approval was obtained on July 25, 2002), and in accordance with the provisions of SFAS No. 144 related to the presentation of discontinued operations, the assets, liabilities and operations of the Power and Process Business were not reflected as a discontinued operations as of June 30, 2002, but will be so in future reporting periods. See the information provided in Note 10 to the consolidated financial statements for further discussion.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," (effective January 1, 2003) which replaces Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and states that an entity's commitment to an exit plan, by itself, does not create a present obligation that meets the

definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The Company does not expect the adoption of SFAS No. 146 to have a material impact upon the Company's financial position or results of operations.

CRITICAL ACCOUNTING POLICIES

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company's significant accounting policies are discussed in Note 1 to the consolidated financial statements. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance is based on historical experience and judgment based on current economic and customer-specific factors. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The Company provides for the estimated cost of product warranties at the time revenue is recognized. The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers. The Company's warranty obligation is based upon historical experience and is also affected by estimates of product failure rates and material usage incurred in correcting product failures. Should actual product failure rates or material usage costs differ from the Company's estimates, revisions to the estimated warranty liability would be required.

The Company establishes inventory valuation allowances for estimated obsolescence or lack of marketability for the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions and future demand are less favorable than those projected by management, additional inventory write-downs may be required.

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts recorded in the consolidated financial statements, and for operating loss and tax credit carryforwards. Realization of the recorded deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdiction in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and operating loss carryforwards. A valuation allowance is provided to the extent that management deems it more likely than not that the net deferred tax assets will not be realized. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed.

The Company reviews the carrying values of its long-lived assets, including goodwill and identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be fully recoverable. Under standards applicable at June 30, 2002, the assets must be carried at historical cost if the projected undiscounted cash flows from their use will recover their carrying amounts. However, if such projected cash flows are less than their carrying value, even by one dollar, the long-lived assets must be reduced to their estimated fair value. Considerable judgment is required to project such cash flows and, if required, estimate the fair value of the impaired long-lived asset. Effective July 1, 2002, the Company adopted SFAS No. 142. SFAS No. 142 provides a more restrictive fair value test to evaluate goodwill. Upon adoption of SFAS No. 142, the carrying value of goodwill will be evaluated based upon its current fair values which can involve highly subjective estimates of fair value. Depending upon future assessments of fair value, there could be impairment recorded related to goodwill.

Some projects undertaken by the Company's wholly-owned subsidiary, Hathaway Industrial Automation, involve significant production, modification and/or customization of the software being licensed and integrated into customer processes. As a result, revenues related to these software arrangements are recognized over the course of these arrangements under the percentage-of-completion method of accounting in conformity with ARB No. 45, SOP 81-1 and SOP 97-2. Under the percentage-of-completion method of accounting, revenues are recognized as work is performed. The Company typically uses costs incurred on the arrangement as the basis to determine the percentage of work completed. The use of the percentage-of-completion method of revenue recognition requires estimates of percentage of project completion and total estimated project costs upon completion. The judgments made in this area could: (i) have a significant effect on revenue recognized in any period by changing the amount and/or the timing of the revenue recognized; and (ii) determine whether an overall loss on an arrangement is required to be recorded.

CONTRACTUAL COMMITMENTS

For more information on the Company's contractual obligations on operating leases and contractual commitments, see Notes 3 and 7 to the consolidated financial statements. At June 30, 2002, the Company's commitments under these obligations were as follows (in thousands):

Fiscal Period(1)	Operating Leases(2)	Term Loan(3)	Total
Six months ended Dec 31, 2002	$ 272	$ 167	$ 439
Year ended Dec 31, 2003	495	500	995
Year ended Dec 31, 2004	427	500	927
Year ended Dec 31, 2005	321	500	821
Year ended Dec 31, 2006	118	83	201
	$ 1,633	$ 1,750	$ 3,383

(1) On August 15, 2002, the Board of Directors approved the change of the Company's fiscal year end from June 30 to December 31. The change will be effective December 31, 2002.

(2) Adjusted to reflect the sale of the Power and Process business and the acquisition of Motor Products.

(3) Amounts under the term loan were borrowed subsequent to June 30, 2002. In addition, this table assumes the Company's line of credit will be renewed annually which allows for the term loan to be repaid over a forty two month period.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Hathaway Corporation:

We have audited the accompanying consolidated balance sheet of HATHAWAY CORPORATION (a Colorado corporation) AND SUBSIDIARIES as of June 30, 2002, and the related consolidated statements of operations, cash flows and stockholders' investment for the year then ended. In connection with our audit of the consolidated financial statements, we also have audited the consolidated financial statement schedule for the year ended June 30, 2002 of Schedule II-Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit. The accompanying consolidated balance sheet as of June 30, 2001 and the related consolidated statements of operations, cash flows and stockholders' investment and financial statement schedule of valuation and qualifying accounts for each of the two fiscal years in the period ended June 30, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and financial statement schedules in their report dated July 27, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hathaway Corporation and subsidiaries as of June 30, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule for the year ended June 30, 2002, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Denver, Colorado,
August 6, 2002, except as to Note 6, which is as of September 16, 2002.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Hathaway Corporation:

We have audited the accompanying consolidated balance sheets of HATHAWAY CORPORATION (a Colorado corporation) AND SUBSIDIARIES as of June 30, 2001 and 2000, and the related consolidated statements of operations, cash flows and stockholders' investment for each of the three fiscal years in the period ended June 30, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 financial position of Hathaway Corporation and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended June30, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule II is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Denver, Colorado,
July 27, 2001.

The report of Arthur Andersen LLP (Andersen) is a copy of a report previously issued by Andersen on July 27, 2001. We have not been able to obtain a re-issued report from Andersen. Andersen has not consented to the inclusion of its report in this Annual Report on Form 10-K. The report of Andersen refers to certain financial statements which are not included herein. Because Andersen has not consented to the inclusion of its report in this Annual Report, stockholders

and other readers may not be able to commence an action against Andersen under Section 11 of the Securities Act of 1933, or at least their ability to seek relief against Andersen may be impaired.

HATHAWAY CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 2002	June 30, 2001
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,278	$ 1,911
Restricted cash	501	346
Trade receivables, net of allowance for doubtful accounts of $494 and $496 at June 30, 2002 and 2001, respectively	7,901	7,708
Inventories, net	5,119	4,931
Deferred income taxes	1,364	229
Prepaid expenses and other	903	486
Total Current Assets	20,066	15,611
Property and equipment, net	1,934	1,781
Investment in joint ventures, net (Note 2)	288	2,459
Other	341	352
Total Assets	$ 22,629	$ 20,203
Liabilities and Stockholders' Investment		
Current Liabilities:		
Line-of-credit (Note 3)	$ —	$ 553
Accounts payable	1,767	1,583
Accrued liabilities and other (Note 1)	4,570	3,345
Income taxes payable	702	380
Product warranty reserve	486	514
Total Current Liabilities	7,525	6,375
Litigation settlement, net of current portion	600	—
Total Liabilities	8,125	6,375
Commitments and Contingencies		
Stockholders' Investment:		
Preferred stock, par value $1.00 per share, authorized 5,000 shares; no shares outstanding	—	—
Common stock, at aggregate stated value, authorized 50,000 shares; 5,812 and 5,719 shares issued at June 30, 2002 and 2001, respectively	100	100
Additional paid-in capital	11,688	11,230
Loans receivable for stock (Note 6)	—	(160)
Retained earnings	6,521	6,787
Accumulated comprehensive income	172	(152)
Treasury stock, at cost; 1,122 shares	(3,977)	(3,977)
Total Stockholders' Investment	14,504	13,828
Total Liabilities and Stockholders' Investment	$ 22,629	$ 20,203

The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	For the fiscal years ended June 30,

	2002	2001	2000
Revenues	$ 42,059	$ 48,386	$ 45,133
Cost of products sold	25,550	29,734	28,175
Gross margin	16,509	18,652	16,958
Operating costs and expenses:			
Selling, general and administrative	11,897	11,725	11,627
Engineering and development	4,490	4,806	4,274
Litigation expense (Note 7)	1,429	—	—
Restructuring charge (Note 8)	—	587	—
Amortization and other	5	57	83
Total operating costs and expenses	17,821	17,175	15,984
Operating income (loss)	(1,312)	1,477	974
Other income (expense), net:			
Equity income from investments in joint ventures (Note 2)	159	1,170	698
Gain on sale of investment in joint ventures (Note 2)	674	—	126
Interest and dividend income	77	90	69
Interest expense	—	(82)	(154)
Other (expense) income, net	(184)	(83)	(109)
Total other income, net	726	1,095	630
(Loss) income before income taxes	(586)	2,572	1,604
Benefit (provision) for income taxes (Note 4)	320	(576)	(129)
Net (loss) income	$ (266)	$ 1,996	$ 1,475
Basic net (loss) income per share (Note 1)	$ (0.06)	$ 0.44	$ 0.34
Diluted net (loss) income per share (Note 1)	$ (0.06)	$ 0.41	$ 0.31
Basic weighted average shares outstanding (Note 1)	4,644	4,493	4,341
Diluted weighted average shares outstanding (Note 1)	4,644	4,834	4,785

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the fiscal years ended June 30,		
	2002	2001	2000
Cash Flows From Operating Activities:			
Net (loss) income	$ (266)	$ 1,996	$ 1,475
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	754	831	890
Provision for doubtful accounts	84	150	150
Provision for obsolete inventory	674	79	—
Accrued litigation settlement and legal fees	1,300	—	—
Equity income from investments in joint ventures, net of dividends (Note 2)	(159)	(977)	(559)
Gain on sale of investment in joint venture	(674)	—	—
Deferred income tax (benefit) provision	(1,135)	372	31
Other	247	176	(144)
Changes in assets and liabilities:			
(Increase) decrease in—			
Trade receivables	(76)	12	(1,661)
Inventories	(747)	(530)	(1,234)

Prepaid expenses and other	(290)	(130)	182
Increase (decrease) in—			
Accounts payable	134	(340)	309
Accrued liabilities and other	454	(384)	899
Income taxes payable	290	(147)	(22)
Product warranty reserve	(38)	(293)	124
Net cash provided by operating activities	552	815	440
Cash Flows From Investing Activities:			
Purchase of property and equipment	(903)	(908)	(827)
Activities related to joint venture investments, net (Note 2)	3,020	—	(282)
Net cash provided by (used in) investing activities	2,117	(908)	(1,109)
Cash Flows From Financing Activities:			
Changes in restricted cash	(120)	(95)	377
Repayments on line-of-credit	(553)	(1,117)	(65)
Borrowings on line-of-credit	—	124	303
Payment on loan to employee stock ownership plan	27	75	—
Sale of stock to employees through employee stock ownership plan	106	—	—
Sale of stock to employees through stock purchase plan	104	94	—
Proceeds from exercise of employee stock options	25	55	575
Purchase of treasury stock	—	—	(4)
Net cash (used in) provided by financing activities	(411)	(864)	1,186
Effect of foreign exchange rate changes on cash	109	(60)	(5)
Net increase (decrease) in cash and cash equivalents	2,367	(1,017)	512
Cash and cash equivalents at beginning of year	1,911	2,928	2,416
Cash and cash equivalents at end of year	$ 4,278	$ 1,911	$ 2,928
Supplemental disclosure of cash flow information:			
Net cash paid during the year for:			
Interest	$ 6	$ 94	$ 152
Income taxes	90	179	53

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

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Common Stock		Additional Paid-in Capital	Loans Receivable For Stock (Note 6)	Retained Earnings	Accumulated Comprehensive Income	Comprehensive Income	Treasury Stock	
	Shares	Amount						Shares	Amount
Balances, June 30, 1999	5,405	$ 100	$ 9,954	$ (235)	$ 3,316	$ 154		1,122	$ (3,973)
Purchase of treasury stock									(4)
Exercise of stock options	177		575						
Tax benefit from disqualifying stock dispositions			65						
Foreign currency translation adjustment						(120)	$ (120)		
Net income					1,475		1,475		
Comprehensive income							$ 1,355		
Balances, June 30, 2000	5,582	100	10,594	(235)	4,791	34		1,122	(3,977)
Exercise of stock options	29		55						
Tax benefit from disqualifying stock dispositions			178						
Shares issued to repurchase subsidiary stock (Note 5)	76		309						
Employee stock purchase plan	32		94						
Employee stock ownership plan				75					

Foreign currency translation adjustment						(186)	$ (186)			
Net income					1,996		1,996			
Comprehensive income							$ 1,810			
Balances, June 30, 2001	5,719	100	11,230	(160)	6,787	(152)		1,122	$	(3,977)
Exercise of stock options	15		25							
Tax benefit from disqualifying stock dispositions			223							
Reclassifcation of loan to officer (Note 6)				133						
Employee stock purchase plan	45		104							
Employee stock ownership plan	33		106	27						
Foreign currency translation adjustment						324	$ 324			
Net loss					(266)		(266)			
Comprehensive income							$ 58			
Balances, June 30, 2002	5,812	$ 100	$ 11,688	$ —	$ 6,521	$ 172		1,122	$	(3,977)

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Hathaway Corporation (the Company) is engaged in the business of designing, manufacturing and selling advanced systems and instrumentation to the worldwide power and process industries, as well as motion control products to a broad spectrum of customers throughout the world. The Company operates primarily in the United States and Europe and had joint venture investments in China(Note 2).

On July 29, 2002, the Company sold substantially all of its power and process business, and operations subsequently will primarily be related to motion control product markets. Because the sale of the Power and Process Business was subject to shareholder approval (which approval was obtained on July 25, 2002), and in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," related to the presentation of discontinued operations, the assets, liabilities and operations of the Power and Process Business were not reflected as a discontinued operation as of June 30, 2002, but will be so reflected in future reporting periods. See the information provided in Note 10.

On July 30, 2002, the Company purchased 100% of the stock of Motor Products—Owosso Corporation and Motor Products—Ohio Corporation ("Motor Products"). See further information provided in Note 10.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation.

Investments in joint ventures, in which the ownership is less than 50% but where the Company has the ability to exercise significant influence, are accounted for using the equity method (Note 2).

Cash and Cash Equivalents

Cash and cash equivalents include instruments which are readily convertible into cash (original maturities of three months or less) and which are not subject to significant risk of changes in interest rates. Cash flows in foreign currencies are translated using an average rate.

Restricted Cash

Restricted cash consists of certificates of deposit that serve as collateral for letters of credit issued on behalf of the Company.

Inventories

Inventories include costs of materials, direct labor and manufacturing overhead, and are valued at the lower of cost (first-in, first-out basis) or market, as follows (in thousands):

	June 30, 2002	June 30, 2001
Parts and raw materials, net	$ 2,758	$ 3,251
Finished goods and work-in-process, net	2,361	1,680

$ 5,119	$ 4,931

Reserves established for anticipated losses on excess or obsolete inventories were approximately $2,042,000 and $1,844,000 at June 30, 2002 and 2001, respectively.

Property and Equipment

Property and equipment is classified as follows (in thousands):

	Useful lives	June 30, 2002	June 30, 2001
Machinery, equipment, tools and dies	2-8 years	$ 6,307	$ 5,987
Furniture, fixtures and other	3-10 years	3,183	2,839
		9,490	8,826
Less accumulated depreciation and amortization		(7,556)	(7,045)
		$ 1,934	$ 1,781

Depreciation and amortization expense is provided using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements and leased equipment is provided, using the straight-line method over the life of the lease term or the life of the assets, whichever is shorter. Maintenance and repair costs are charged to operations as incurred. Major additions and improvements are capitalized. The cost and related accumulated depreciation of retired or sold property are removed from the accounts and any resulting gain or loss, if any, is reflected in earnings.

Depreciation expense was approximately $754,000, $774,000 and $807,000 in fiscal years 2002, 2001 and 2000, respectively.

Impairment of Long-Lived Assets and Intangibles

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For assets that are held and used in operations, the asset would be considered to be impaired if the undiscounted estimated future cash flows related to the asset did not exceed its net book value. The amount of the impairment is assessed using the asset's fair market value, which is estimated using discounted cash flows. Effective July 1, 2002, the Company adopted SFAS No. 142, which changes the manner in which goodwill impairments are determined, as discussed below.

Warranty

The Company offers warranty coverage for its products for periods ranging from 12 to 36 months after shipment, with the majority of its products for 12 months. The Company estimates the costs of repairing products under warranty based on the historical average cost of the repairs. The assumptions used to estimate warranty accruals are reevaluated periodically in light of actual experience and, when appropriate, the accruals are adjusted. Estimated warranty costs are recorded at the time of sale of the related product, and are considered a cost of sale.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2002	June 30, 2001
Compensation and fringe benefits	$ 1,957	$ 1,617
Deferred revenue	612	621
Commissions	477	552
Litigation and legal fees (Note 7)	829	84
Other accrued expenses	695	471
	$ 4,570	$ 3,345

Foreign Currency Translation

In accordance with SFAS No. 52, "Foreign Currency Translation," the assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates. Revenues and expenses are translated at average rates prevailing during the period. The resulting translation adjustments are recorded in the other comprehensive income component of stockholders' investment in the accompanying consolidated balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Revenue Recognition

Hathaway Industrial Automation (HIA), a wholly-owned subsidiary of the Company, undertakes contracts for the installation of integrated process control systems which are based upon its proprietary software. These contracts typically require substantial customization of this proprietary software. Accordingly, in accordance with Statement of Position (SOP) 97-2, "Software Revenue Recognition," the Company recognizes contract revenues by applying the percentage of

completion achieved to the total contract sales price. The Company determines the percentage of completion for all contracts using the "cost-to-cost" method of measuring contract progress. Under this method, actual contract costs incurred to date are compared to total estimated contract costs to determine the estimated percentage of revenues to be recognized. To the extent these estimates prove to be inaccurate, the revenues and gross margins, if any, reported for the period during which work on the contract is ongoing may not accurately reflect the final results of the contract, which can only be determined upon contract completion. Provisions for estimated losses on uncompleted contracts, to the full extent of the

estimated loss, are made during the period in which the Company first becomes aware that a loss on a contract is probable.

The Company's other businesses generally recognize revenue when products are delivered or shipped (shipping terms may be either FOB shipping point or destination) and title has passed to the customer, persuasive evidence of an arrangement exists, the selling price is fixed or determinable, and collectibility is reasonably assured.

Basic and Diluted Income per Share

Basic income (loss) per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding. Diluted income or loss per share is determined by dividing the net income or loss by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock options determined utilizing the treasury stock method. In fiscal year 2002, stock options to purchase 141,910 shares of common stock (without regard to the treasury stock method), were excluded from the calculation of diluted loss per share since the results would have been anti-dilutive. Outstanding options totaling 341,962 and 444,316 had a dilutive effect for fiscal years 2001 and 2000, respectively.

Basic (loss) income per share has been computed as follows (in thousands, except per share data):

	For the fiscal years ended June 30,		
	2002	2001	2000
Numerator:			
Net (loss) income	$ (266)	$ 1,996	$ 1,475
Denominator:			
Weighted average outstanding shares	4,644	4,493	4,341
Basic net (loss) income per share	$ (0.06)	$ 0.44	$ 0.34

Diluted (loss) income per share has been computed as follows (in thousands, except per share data):

	For the fiscal years ended June 30,		
	2002	2001	2000
Numerator:			
Net (loss) income	$ (266)	$ 1,996	$ 1,475
Denominator:			
Weighted average outstanding shares	4,644	4,834	4,785
Diluted net (loss) income per share	$ (0.06)	$ 0.41	$ 0.31

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to shareholders.

Items of comprehensive income for all years presented are limited to cumulative translation adjustments from the translation of the financial statements of the Company's foreign subsidiaries.

Stock-Based Compensation

The Company accounts for its employee stock option plans and other employee stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The Company adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which allows entities to continue to apply the provisions of APB Opinion No. 25 for transactions with employees and provide pro-forma disclosures for employee stock awards made in 1997 and future years as if the fair value-based method of accounting in SFAS No. 123 had been applied to these transactions. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and related interpretations.

Fair Values of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, trade receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of the line-of-

credit approximates its fair value because the underlying instrument is a variable rate note that reprices frequently.

Income Taxes

The current provision for income taxes represents actual or estimated amounts payable or refundable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, and for operating loss and tax credit carryforwards. A valuation allowance may be provided to the extent deemed more likely than not that deferred tax assets will not be realized. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to the tax provision or benefit in the period of enactment. The ultimate realization of net deferred tax assets is dependent upon the generation of future taxable income, in the appropriate taxing jurisdictions, during the periods in which temporary differences become deductible. Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences and operating loss and tax credit carryforwards, net of valuation allowances, as of June 30, 2002.

Concentration of Credit Risk

During fiscal 2002, 2001 and 2000, no single customer accounted for more than 10% of the Company's consolidated revenue or its trade receivables balance. Trade receivables subject the Company to the potential for credit risk. To reduce this risk, the Company performs evaluations of its customers' financial condition and creditworthiness at the time of sale, and updates those evaluations when necessary.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as 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.

Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting. The use of the pooling-of-interest method of accounting for business combinations is prohibited. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. The Company will account for any future business combinations in accordance with SFAS No. 141, including the Company's purchase of the Motor Products business in July 2002.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets and requires that goodwill no longer be amortized but be tested for impairment at least annually at the reporting unit level in accordance with SFAS No. 142. Goodwill must also be reviewed for impairment when certain events indicate that the goodwill may be impaired. Recognized intangible assets should, generally, be amortized over their useful life and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment of long-Lived Assets and for Long-Lived Assets to Be Disposed Of.". Because the Company has been a non-calendar year-end company, the FASB has allowed adoption of SFAS No. 142 either in fiscal year 2002 or fiscal year 2003, except for provisions related to the non-amortization and amortization of goodwill and intangible assets acquired after June 30, 2001, which will be subject immediately to the provisions of SFAS No. 142. The Company adopted SFAS No. 142 on July 1, 2002. SFAS No. 142 will impact the Company's results of operations and financial position in future periods as goodwill resulting from its July 2002 acquisition (see Note 10) will not be amortized.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001 (effective for the Company on July 1, 2002). This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and replaces the provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of Segments of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of segments of a business. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. Under SFAS No. 144, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell. The adoption of SFAS No. 144 on July 1, 2002 did not have a material impact on the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," (effective January 1, 2003) which replaces Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to

Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and states that an entity's commitment to an exit plan, by itself, does not create a present obligation that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The Company does not expect the adoption of SFAS No. 146 to have a material impact upon the Company's financial position or results of operations.

Reclassifications

Certain prior year balances were reclassified to conform to the current year presentation. Those reclassifications had no impact on net income or stockholders' investment as previously reported.

2. INVESTMENTS IN JOINT VENTURES

The Company had three joint venture investments in China—a 20% interest in Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), a 25% interest in Zibo Kehui Electric Company Ltd. (Kehui) and a 40% interest Hathaway Power Monitoring Systems Company, Ltd. (HPMS). The Company sold its investment in Si Fang on July 5, 2001 and its investments in Kehui and HPMS on July 29, 2002. Si Fang designs, manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems in China and is now the largest Chinese supplier of digital relays in China. Kehui designs, manufactures and sells cable and overhead fault location products, Supervisory Control and Data Acquisition (SCADA) systems and other test instruments within the China market. HPMS manufactures and sells, instrumentation products designed by the Company to electric power companies in China.

The Company accounted for its investments in the Chinese joint ventures using the equity method of accounting. At the time of the original investments in the Chinese joint ventures and through fiscal 1997, the Company determined that due to the start-up nature of the entities, their untested products and political uncertainty in China, the realization of the initial investments and subsequent earnings (which were not significant) was uncertain; and, therefore, the Company wrote down its investments in these joint ventures to their then-estimated fair value.

The operations of these joint ventures have continued to mature, their products have gained significant acceptance, and they have achieved profitability. Because of sustained positive operating results, offset by the Company's concerns of political and business uncertainty in China, the Company recognized 100% of its share of equity in income from these joint ventures in fiscal 2002 and a portion of its share of equity income in fiscal 2001 and 2000. The total equity income recognized was $159,000, $1,170,000 and $698,000 in fiscal years 2002, 2001 and 2000, respectively. These amounts are included in equity income from investments in joint ventures in the accompanying consolidated statements of operations and reflect the Company's share of earnings, net of write-downs, from the joint ventures' operating results for the years ended December 31.

At June 30, 2002, the Company's investments and ownership interests in these joint ventures are as follows (in thousands):

	Ownership Interest	Investment	Cumulative Share of Income (Through Dec. 31, 2001)	Cumulative Dividends Received	Cumulative Write-downs	Balance at June 30, 2002
Kehui	25%	$ 100	$ 436	$ (28)	$ (298)	$ 210
HPMS	40%	140	155	—	(217)	78
		$ 240	$ 591	$ (28)	$ (515)	$ 288

The Company has no future commitments relating to its investments in these joint ventures.

During fiscal 2000, the Company sold a portion of its investment in Si Fang to another partner in the joint venture, reducing its ownership from 23% to 20%. The Company received $143,000 and recognized a $126,000 gain on the sale. The gain is included in other income in the accompanying consolidated statement of operations. The Company reinvested the proceeds from the sale plus an additional $282,000 in cash to maintain its 20% ownership interest due to a capital call by the joint venture.

On July 5, 2001, the Company sold its 20% equity interest in Si Fang for $3,020,000 in cash. The sale became effective upon receipt of the net proceeds in U.S. dollars and the required approvals from the State Administration of Foreign Exchange in China. The Company sold its interest to Beijing Si Fang Tongchuang Protection and Control Co., Ltd. (Tongchuang), a Chinese company. Prior to the sale, Tongchuang held a 22% interest in Si Fang. The Company recorded a pretax gain on the sale, net of selling costs, of $674,000. The gain is included in other income in the accompanying consolidated 2002 statement of operations.

Prior to the sale, the Company's net cash investment in Si Fang was $39,000. This consisted of the original acquisition of a 25% interest in Si Fang in 1994 for $175,000, subsequent capital contributions made and proceeds received in two partial sale transactions, netting to an additional $317,000 investment and dividends received of $453,000. Through the date of sale, the Company had recognized equity income of $2,291,000 and gain on sales of $175,000. During fiscal years ended June 30, 2001 and 2000, the Company recognized equity income of $1,116,000 and $670,000, respectively, related to Si Fang.

Summarized financial information for Si Fang as of and for the years ended December 31, 2000 and 1999 (Si Fang is on a calendar fiscal year) is presented as follows (in thousands):

	As of and For the Year Ended December 31, 2000	As of and For the Year Ended December 31, 1999
Current assets	$ 34,722	$ 25,539
Non-current assets	14,869	4,785
Current liabilities	27,596	20,239
Non-current liabilities	6,024	—
Revenues	48,363	32,959
Gross profit	12,736	6,834
Net income before income taxes	6,291	3,940
Net income	5,580	3,352

Summarized financial information for Kehui and for HPMS is not presented because it is not significant relative to the Company's consolidated financial statements. On July 29, 2002, the Company sold its investments in Kehui and HPMS as part of the sale of its Power and Process Business (Note 10).

3. DEBT

On May 7, 1998, the Company entered into a long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon) which was to mature on May 7, 2003. The Agreement was subject to automatic and continuous annual renewal for successive additional terms of one year each unless either party notified the other of its intention to terminate the Agreement at least sixty days before the next maturity date. Borrowings on this line-of-credit were restricted to the lesser of $3,000,000 or 85% of the Company's eligible receivables (Maximum Credit Limit). As of June 30, 2002, 85% of the Company's eligible receivables exceeded the maximum loan amount and there was no outstanding loan balance; therefore the $3,000,000 Maximum Credit Limit was available for borrowing at that date.

The line-of-credit bears interest at Silicon's prime borrowing rate (prime rate) (4.75% at June 30, 2002) plus 1.5%. The interest rate was adjustable on a quarterly basis to prime rate plus 2% if the Company incurred a net loss greater than $750,000 for each previous twelve-month rolling period. In addition to interest, the line bore a monthly unused line fee at 0.0625% of the Maximum Credit Limit less the average daily balance of the outstanding loan during a month. The unused line fee was also adjustable on a quarterly basis to 0.125% if the Company incurred a net loss greater than $750,000 for each previous twelve-month rolling period. The debt was secured by all of the assets of the Company. The Agreement requires that the Company maintain compliance with certain covenants related to tangible net worth and prohibits the Company from paying dividends without prior approval. At June 30, 2002, the Company was in compliance with such covenants.

Amendments to Long-Term Financing Agreement

On July 30, 2002, the Company and Silicon amended the Agreement to increase the Maximum Credit Limit on the line-of-credit to $4,000,000. An additional $1,750,000 term loan was also added to the Agreement.

Under the amended Agreement, borrowing on the line-of-credit is restricted to the Maximum Credit Limit which is calculated as the lesser of $4,000,000 or 80% of the Company's eligible receivables plus the lesser of 1) 25% of the Company's eligible inventory, or 2) 30% of the Company's eligible receivables, or 3) $750,000. The Agreement matures on September 10, 2003. The interest rate on the line-of-credit is equal to Silicon's prime borrowing rate (4.75% at July 30, 2002) plus 1.5%. The interest rate may be adjusted on a quarterly basis to prime rate plus 1% if the Company achieves a Quick Ratio (cash and cash equivalents to current liabilities) for two consecutive fiscal quarters of greater than or equal to 1.20 to 1.00 but less than 1.50 to 1.00. If the Company achieves a Quick Ratio for two consecutive fiscal quarters of greater than or equal to 1.50 to 1.00, the interest rate will be adjusted to prime rate plus 0.75%. If the interest rate is so reduced and the Company's Quick Ratio deteriorates, the interest rate will be increased in accordance with the above parameters on a quarterly basis. In addition to interest, the line bears a monthly unused line fee at 0.375% on the difference between the amount of the Maximum Credit Limit and the average daily principal balance of the line-of-credit outstanding during the month. The Company borrowed $2,250,000 on July 30, 2002 under this line-of-credit in connection with the purchase of Motor Products.

Also under the amended Agreement, the Company obtained a term loan of $1,750,000. The loan matures the earlier of February 1, 2006 or the date the line-of-credit terminates. The loan bears interest at 8.38%, but may be adjusted on a quarterly basis. If the Company achieves a Quick Ratio for two consecutive fiscal quarters of greater than or equal to 1.20 to 1.00 but less than 1.50 to 1.00, the interest rate will be reduced to 7.88%. If the Company achieves a Quick Ratio for two consecutive fiscal quarters of greater than or equal to 1.50 to 1.00, the interest rate will be adjusted to 7.63%. If the interest rate is so reduced and the Company's Quick Ratio deteriorates, the interest rate will be increased in accordance with the above parameters on a quarterly basis. The Company borrowed $1,750,000 under this term loan on July 30, 2002 in connection with the purchase of Motor Products.

The loans are secured by all of the assets of the Company. The Agreement prohibits the Company from paying dividends and requires that the Company maintain compliance with certain covenants related to tangible net worth, profitability and debt service coverage.

4. INCOME TAXES

The benefit (provision) for income taxes is based on income (loss) before income taxes as follows (in thousands):

	For the fiscal years ended June 30,		
	2002	2001	2000
Domestic	$ (1,782)	$ 2,231	$ 1,918
Foreign	1,196	341	(314)
(Loss) income before income taxes	$ (586)	$ 2,572	$ 1,604

Components of the benefit (provision) for income taxes are as follows (in thousands):

	For the fiscal years ended June 30,		
	2002	2001	2000
Current benefit (provision):			
Domestic	$ (310)	$ (204)	$ (117)
Foreign	(505)	—	19
Total current benefit (provision)	(815)	(204)	(98)

Deferred benefit (provision)—domestic	1,135	(372)	(31)
Benefit (provision) for income taxes	$ 320	$ (576)	$ (129)

The benefit (provision) for income taxes differs from the amount determined by applying the federal statutory rate as follows (in thousands):

	For the fiscal years ended June 30,		
	2002	2001	2000
Tax benefit (provision) computed at statutory rate	$ 199	$ (874)	$ (545)
State tax, net of federal benefit	33	(87)	(99)
Nondeductible expenses and goodwill amortization	(42)	(119)	(14)
Impact of foreign tax rates and credits	48	—	—
Adjustments to prior year accruals*	—	312	—
Change in valuation allowance	50	186	561
Other	32	6	(32)
Benefit (provision) for income taxes	$ 320	$ (576)	$ (129)

* Adjustments relate to the successful resolution of certain income tax related issues.

The tax effects of significant temporary differences and credit and operating loss carryforwards that give rise to the net deferred tax assets are as follows (in thousands):

	June 30, 2002	June 30, 2001
Allowances and other accrued liabilities	$ 1,389	$ 983
Investment in joint ventures	(26)	(530)
Tax credit carryforwards	338	236
Other	87	14
Valuation allowance	(424)	(474)
Net deferred tax asset	$ 1,364	$ 229

The Company was entitled to a deduction for tax purposes related to the exercise of employee stock options during fiscal 2000 that resulted in a domestic operating loss carryforward for tax purposes. The loss carryforward was fully utilized during 2002. A benefit for income taxes was not

recorded upon realization of the related loss carryforward. The Company has domestic tax credit carryforwards of $338,000 expiring in 2004 through 2008.

Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit carryforwards. The Company has recorded a valuation allowance due to the uncertainty related to the realization of certain deferred tax assets existing at June 30, 2002. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. Management believes that it is more likely than not that the Company will realize the benefits of the net deferred tax asset, net of valuation allowances as of June 30, 2002.

5. STOCK COMPENSATION

Hathaway Corporation Stock Option Plan

At June 30, 2002, there were no shares of common stock available for grant under the Company's stock option plans. As of June 30, 2002, 112,360 options were granted in excess of the shares authorized under the stock option plans. The Company accounts for the over-issued stock options using variable plan accounting. Variable plan accounting requires the Company to recognize the difference between the fair market value of the stock at June 30, 2002 and the exercise price of the excess options issued as compensation expense, to the extent that the fair market value exceeds the exercise price. Because the fair market value of the Company's stock at June 30, 2002 ($2.50) was less than exercise price of the options ($2.62), there was no compensation expense related to these options during fiscal year 2002. However, the Company is required to periodically re-measure the value of the outstanding options based upon the then-current fair market value of the underlying common stock. It is reasonably possible that the future changes in the fair value of the common stock could result in significant non-cash charges to earnings. The Company will request approval from its shareholders for an additional 400,000 options to become available for grant under the stock option plans at the Company's annual shareholder meeting on October 24, 2002. At that time, upon shareholder approval, the option grants would be considered "fixed," and compensation cost, if any, would be measured, fixed and recognized over the vesting period of the options.

Under the terms of the plans, options may not be granted at less than 85% of fair market value. However, all options granted to date have been granted at fair market value as of the date of grant. Options generally become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant.

In conjunction with the acquisition of HIA during fiscal 1997, the Company granted options for 125,000 shares of the Company's common stock to certain key management personnel of HIA with accelerated vesting schedules dependent on meeting certain performance criteria. At June 30, 2002, options to purchase

54,000 shares remain outstanding. The options vest during fiscal 2004.

In conjunction with the sale of the Power and Process Business, all options held by employees of the business sold became immediately exercisable and expired on the closing date of the sale or thirty days later. All unexercised options on the expiration dates were forfeited and became eligible for future grants by the Company. Subsequent to June 30, 2002, options to purchase 125,993 shares were exercised and options to purchase 342,174 shares were forfeited by employees of the business sold.

Option activity in fiscal years 2000, 2001 and 2002 was as follows:

	Number of Shares	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
Outstanding at June 30, 1999	819,004	$ 2.87	371,866	$ 3.36
Granted	164,000	$ 1.81		
Forfeited	(144,400)	$ 3.48		
Exercised	(177,101)	$ 3.25		
Outstanding at June 30, 2000	661,503	$ 2.37	410,800	$ 2.49
Granted	452,700	$ 5.43		
Forfeited	(32,936)	$ 3.75		
Exercised	(28,630)	$ 1.93		
Outstanding at June 30, 2001	1,052,637	$ 3.66	460,857	$ 2.36
Granted	415,960	$ 2.93		
Forfeited	(18,600)	$ 4.25		
Exercised	(15,000)	$ 1.62		
Outstanding at June 30, 2002	1,434,997	$ 3.46	680,814	$ 3.07

Exercise prices for options outstanding and exercisable at June 30, 2002 are as follows:

	Range of Exercise Prices			Total
	$1.13 - $2.13	$2.62 - $3.88	$4.31 - $6.72	$1.13 - $6.72
Options Outstanding:				
Number of options	331,467	655,630	447,900	1,434,997
Weighted average exercise price	$ 1.74	$ 3.01	$ 5.39	$ 3.46
Weighted average remaining contractual life	3.5 years	3.9 years	5.2 years	4.2 years
Options Exercisable:				
Number of options	287,234	235,280	158,300	680,814
Weighted average exercise price	$ 1.75	$ 3.16	$ 5.33	$ 3.07

Pro forma information regarding net income (loss) and income (loss) per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its stock-based compensation plans using the fair value method prescribed by that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the fiscal years ended June 30,		
	2002	2001	2000
Risk-free interest rate	3.9%	5.9%	6.7%
Expected dividend yield	0.0%	0.0%	0.0%
Expected life	6 years	6 years	6 years
Expected volatility	120.7%	89.5%	81.9%

Using the fair value method of SFAS No. 123, the net income (loss) and net income (loss) per share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share data):

	For the fiscal years ended June 30,		
	2002	2001	2000
Actual net (loss) income	$ (266)	$ 1,996	$ 1,475
Pro forma net (loss) income	$ (1,005)	$ 1,364	$ 1,444

Actual basic net income (loss) per share	$ (0.06)	$ 0.44	$ 0.34
Pro forma basic net income (loss) per share	$ (0.21)	$ 0.30	$ 0.33
Actual diluted net income (loss) per share	$ (0.06)	$ 0.41	$ 0.31
Pro forma diluted net income (loss) per share	$ (0.21)	$ 0.28	$ 0.30

The weighted average fair value of options granted during fiscal years 2002, 2001 and 2000 was $2.57, $4.19 and $0.79, respectively. The total fair value of options granted was $1,069,000, $1,897,000 and $130,000 in fiscal years 2002, 2001 and 2000, respectively. These amounts are being amortized ratably over the vesting periods of the options for purposes of this disclosure.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different than those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Emoteq Corporation Stock Option Plan

Prior to fiscal year 2001, the Company had granted options for shares of common stock of Emoteq Corporation (Emoteq, a wholly-owned subsidiary) to officers and key employees of Emoteq. The options were granted with exercise prices equal to the fair value of the underlying common stock on the date of grant, and consisted of time vesting options and performance vesting options. During fiscal year 2001 all of the outstanding (and also fully vested) stock options were exercised and 223,636 shares of Emoteq common stock, representing 12% ownership of Emoteq, were issued. Proceeds to the Company from the exercises totaled $498,000. Under the terms of the Emoteq stock option plan and the related stockholders' agreements, the stockholders had a liquidity put option that they could exercise only after owning the stock for at least six months. If the holder of the shares elected this put option, the Company would be required to purchase the shares of Emoteq at their then current fair market value. After holding the shares for at least six months, all such holders of Emoteq common stock exercised their put options and consequently, the Company purchased the shares for $1,006,000, the fair value of the shares, for consideration consisting of Hathaway common stock, notes payable and cash. The Company recorded $352,000 of cost in excess of net assets acquired related to the purchase of these Emoteq shares. The Emoteq stock option plan and stockholders' agreements were terminated in August 2001.

Option activity for the Emoteq plan during fiscal years 2001 and 2000 was as follows:

	Number of Shares		Weighted Average Exercise Price	
	Time Vested	Performance Vested	Time Vested	Performance Vested
Outstanding at June 30, 1999	91,000	187,917	$ 1.51	$ 1.54
Granted	83,118	—	3.43	—
Forfeited	(6,000)	(132,399)	1.37	1.55
Outstanding at June 30, 2000	168,118	55,518	2.46	1.51
Exercised	(168,118)	(55,518)	2.46	1.51
Outstanding at June 30, 2001	—	—	—	—

Prior to the exercise of the Emoteq stock options, the Company accounted for the performance vested options under variable plan accounting. The Company recognized $21,000 in compensation expense for the fiscal year ended June 30, 2000 related to the 55,518 performance options.

6. LOANS RECEIVABLE FOR STOCK

The Company's loans receivable balance at June 30, 2002 was $133,000 from an Officer of the Company. The loan relates to the purchase of Company common stock and is included in Prepaid Expenses and Other on the accompanying consolidated balance sheet at June 30, 2002 as the note was repaid in full on September 16, 2002, with cash. The Company's loans receivable balance of $160,000 at June 30, 2001 is comprised of a loan receivable for $27,000 from the Leveraged Employee Stock Ownership Plan and Trust (the Plan) and $133,000 from an Officer of the Company.

The loans relate to the purchase of Company common stock and are reflected in the accompanying consolidated balance sheet at June 30, 2001 as an offset to stockholders' investment.

The Plan allows eligible Company employees to participate in ownership of the Company. The June 30, 2001 $27,000 receivable represented the unpaid balance of the original $500,000 that the Company loaned to the Plan in fiscal year 1989 so that the Plan could acquire from the Company 114,285 newly issued shares of the Company's common stock. The note bears interest at an annual rate of 9.23% and matured May 31, 2004. The terms of the Plan require the Company to make an annual contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in fiscal years 2002, 2001, and 2000*)* or ii) the annual interest payable on the note. Company contributions to the Plan were $37,000 in 2002, $133,000 in 2001 and $84,000 in 2000. The Company's contribution for 2001 was made on August 16, 2001 and was used to pay off the entire principal and interest due on the loan and purchase 33,095 newly issued shares of common stock of the Company.

The loan from an Officer of the Company represented the principal balance of a loan made in fiscal year 1994 to the Chief Executive Officer of the Company in connection with his purchase of the Company's common stock, pursuant to the Officer and Director Loan Plan approved by stockholders on October 26, 1989. The loan was full-recourse and bears interest at a current interest rate. The loan was repaid in full in cash on September 16, 2002, and therefore, was reclassified from a reduction to

stockholders' investment to other current assets in the accompanying consolidated balance sheet as of June 30, 2002.

7. COMMITMENTS AND CONTINGENCIES

Leases

At June 30, 2002, the Company maintains leases for certain facilities and equipment. Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

Fiscal Period(1)	Total	Excluding Power and Process Business(2)
Six months ended Dec 31, 2002	$ 576	$ 272
Year ended Dec 31, 2003	1,105	495
Year ended Dec 31, 2004	1,060	427
Year ended Dec 31, 2005	855	321
Year ended Dec 31, 2006	537	118
Thereafter	1,337	—
	$ 5,470	$ 1,633

(1) On August 15, 2002, the Board of Directors approved the change of the Company's fiscal year end from June 30 to December 31. The change will be effective December 31, 2002.

(2) Adjusted to reflect the sale of the Power and Process business.

Rental expense was $1,144,000, $1,027,000 and $1,126,000 in fiscal years 2002, 2001 and 2000, respectively. Excluding rent expense related to the Power and Process business, rent expense was $531,427, $557,427 and $459,680 in fiscal years 2002, 2001 and 2000, respectively.

Severance Benefit Agreements

The Company has entered into annually renewable severance benefit agreements with certain key employees which, among other things, provide inducement to the employees to continue to work for the Company during and after any period of threatened takeover. The agreements provide the employees with specified benefits upon the subsequent severance of employment in the event of change in control of the Company and are effective for 24 months thereafter. The maximum amount of salary that could be required to be paid under these contracts, if such events occur, totaled approximately $2,285,000 as of June 30, 2002. In addition to salary, severance benefits include the cost of life, disability, accident and health insurance for 24 months, a pro-rata calculation of bonus for the current year and a gross-up payment for all federal, state and excise taxes due on the severance payment.

Consulting Agreement

Effective September 1, 1998, the Company entered into a consulting agreement (Consulting Agreement) with the Chairman of the Board of Directors who is a major shareholder. Under the Consulting Agreement, he will be compensated for providing consulting services to the Company as requested by the Chief Executive Officer. During fiscal years 2002 and 2001 there was no compensation

paid to the Chairman of the Board under the Consulting Agreement and the amount paid for fiscal year 2000 was $66,000.

Stock Repurchase Program

Under an employee stock repurchase program approved by the Board of Directors, the Company may repurchase its common stock from its employees at the current market value. The Company's Agreement with Silicon limits employee stock repurchases to $125,000 per fiscal year. Under Colorado law enacted in July 1994, repurchased shares of capital stock are considered authorized and unissued shares and have the same status as shares that have never been issued. The number of shares repurchased under the program was zero, zero and 263 shares for fiscal years 2002, 2001 and 2000, respectively.

Litigation

In 2001, the Company was named, with other parties, as a defendant in an environmental contamination lawsuit. Subsequent to June 30, 2002, the Company agreed to settle this lawsuit. Accordingly, as of June 30, 2002, an estimated charge for the settlement and related legal fees of $1,429,000 ($961,000, net of tax) was recorded. The lawsuit relates to property that was occupied by the Company's Power business over thirty-seven years ago. While the Company believes the suit was without merit, it agreed to the settlement to eliminate the future costs of defending itself and the uncertainty and risks associated with litigation. The settlement, exclusive of legal costs, will be paid as follows: $500,000 within 30 days after the settlement is approved by the court, $350,000 one year after the court approval and the remaining $250,000 two years after court approval. The current portion of the estimated liability (829,000) is included in Accrued Liabilities and Other while the non-current portion ($600,000) is include in Litigation Settlement, net of current portion in the accompanying consolidated balance sheet as of June 30, 2002. The settlement is subject to approval by the court, and accordingly, may change based upon the ultimate outcome. Revisions to the amount and/or classification of this liability will be made as subsequent circumstances warrant.

The Company is also involved in certain actions that have arisen out of the ordinary course of business. Management believes that resolution of the actions will not have a significant adverse affect on the Company's consolidated financial position or results of operations.

8. RESTRUCTURING CHARGE

As a result of changing business conditions in the process instrumentation business, the Company restructured its process instrumentation operations in Dallas. The restructuring consisted of retaining a portion of the business in Dallas, moving the manufacturing of two products lines to its power instrumentation manufacturing facility in Seattle and selling the remaining two product lines. The costs associated with the restructuring were $587,000 for the fiscal year 2001, which includes $282,000 of employee termination expenses related to 15 employees, and closure and moving costs of $305,000. All restructuring costs were incurred and paid as of June 30, 2001.

9. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires disclosure of operating segments, which as defined, are components of an enterprise about which

separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company operates in two different segments: Power and Process Business (Power and Process) and Motion Control Business (Motion Control). Management has chosen to organize the Company around these segments based on differences in markets, products and services.

Motion Control Business

Motion Control offers quality, cost-effective products that suit a wide range of applications in the industrial, medical, military and aerospace sectors, as well as in manufacturing of analytical instruments and computer peripherals. The end products using Hathaway technology include special industrial and technical products such as satellite tracking systems, MRI scanners, and high definition printers.

The group designs, manufactures and markets direct current brush and brushless motors, related components, and drive and control electronics as well as precision direct-current fractional horsepower motors and certain motor components. Industrial equipment and military products are the major application for the motors.

The group also manufactures optical encoders that are used to measure rotational and linear movements of parts as well as fiber optic-based encoders with special characteristics, such as immunity to radio frequency interference and high temperature tolerance.

On July 30, 2002, the Company purchased Motor Products, which will be a component of the motion control business (see Note 10).

Power and Process Business

Hathaway's complete line of power instrumentation products helps ensure that electric utilities provide high quality service to consumers of electricity. The power products group produces a range of products designed exclusively for the power industry worldwide. Hathaway's equipment assists the electric power system operators in operating and maintaining proper system performance. The products, which are used to monitor and control the power generation, transmission and distribution processes, include fault recording products, fault location products, condition monitoring (circuit breaker) products and remote terminal units for SCADA systems.

Hathaway's state-of-the-art software system for SCADA has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, the system is being marketed to the power utility industry.

The process instrumentation products group manufactures and markets products for the process and power industries including monitoring systems and calibration equipment. The monitoring systems, called visual annunciators and sequential event recorders, provide both visual and audible alarms and are used to control processes in various plants including, chemical, petroleum, food and beverage, pulp and paper, and textiles. Calibration equipment is used to test and adjust instrumentation for proper and accurate operation in measuring electricity, temperatures and pressure within the process industry.

On July 29, 2002, the Company sold substantially all of its Power and Process Business (Note 10).

The following provides information on the Company's segments (in thousands):

	For the fiscal years ended June 30,					
	2002		2001		2000	
	Power and Process	Motion Control	Power and Process	Motion Control	Power and Process	Motion Control
Revenue from external customers	$ 26,336	$ 15,723	$ 27,198	$ 21,188	$ 26,542	$ 18,591
Equity income and gain on sale from investments in joint ventures	833	—	1,170	—	824	—
(Loss) income before income taxes	(1,833)	842	(1,539)	3,584	(1,643)	3,139
Identifiable assets	11,390	6,127	12,142	6,532	10,620	7,134

The following is a reconciliation of segment information to consolidated information (in thousands):

	For the fiscal years ended and as of June 30,		
	2002	2001	2000
Segments' income (loss) before income taxes	$ (991)	$ 2,045	$ 1,496
Corporate activities	405	527	108
Consolidated (loss) income before income taxes	$ (586)	$ 2,572	$ 1,604
Segments' identifiable assets	$ 17,517	$ 18,674	$ 17,754
Corporate assets and eliminations	5,112	1,529	2,183
Consolidated total assets	$ 22,629	$ 20,203	$ 19,937

The Company's wholly-owned foreign subsidiaries in the United Kingdom are included in the accompanying consolidated financial statements. Financial information for the foreign subsidiaries is summarized below (in thousands):

	For the fiscal years ended and as of June 30,		
	2001	2000	1999
Revenues derived from foreign subsidiaries	$ 8,587	$ 7,223	$ 5,632
Identifiable assets	5,819	3,927	3,078

Sales to international customers were $13,496,000, $15,282,000 and $11,577,000 in fiscal years 2002, 2001 and 2000, respectively.

10. SUBSEQUENT EVENTS

Sale of Power and Process Business

On July 29, 2002, the Company sold substantially all the assets of its Power and Process Business to Qualitrol Power Products, LLC (Qualitrol Power) and its affiliate Danaher UK Industries, Limited (DUKI) for $6,550,000 in cash, subject to certain closing adjustments, plus the assumption of certain related liabilities. Both Qualitrol Power and DUKI are direct or indirect subsidiaries of Danaher Corporation, a publicly traded corporation under the symbol DHR. The Company will recognize a

pretax gain on the sale of approximately $1,800,000 (subject to settlement of the closing adjustments) during the quarter ended September 30, 2002. The power and process business was comprised of power instrumentation products, systems and automation products, and process instrumentation products. It also included investments in two China joint ventures; a 25% interest in Kehui and a 40% interest in HPMS. Because the sale of the Power and Process Business was subject to shareholder approval (which approval was obtained on July 25, 2002), and in accordance with the provisions of SFAS No. 144 related to the presentation of discontinued operations, the assets, liabilities and operations of the Power and Process Business were not reflected as a discontinued operation as of June 30, 2002, but will be so reflected in future reporting periods.

The remaining assets of the Power and Process Segment relate to the calibration equipment product line. Subsequent to June 30, 2002, the Company committed to a plan to dispose of the calibrator business within one year.

Motor Products Acquisition

On July 30, 2002, the Company purchased 100% of the stock of Motor Products—Owosso Corporation and Motor Products—Ohio Corporation ("Motor Products") from Owosso Corporation, a publicly held corporation, for $11,800,000. The Company paid $11,500,000 in cash at closing and $300,000 is payable six months after closing. Motor Products, located in Owosso, Michigan has been a motor producer for more than fifty years and is a vertically integrated manufacturer of customized, highly engineered sub-fractional horsepower permanent magnet DC motors serving a wide range of original equipment applications. The motors are used in HVAC and actuation systems in a variety of markets including trucks, buses, RV's, off-road vehicles, health, fitness, medical and industrial equipment.

The acquisition was accounted for using the purchase method of accounting, and, accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition. The preliminary net purchase price allocation, which is subject to adjustment after further evaluation of the fair value of the assets acquired and liabilities assumed, was as follows (in thousands):

Trade receivables	$ 2,947
Inventories	2,375
Property, plant and equipment, intangibles, goodwill and other non-current assets	11,518
Accrued liabilities and other current liabilities	(2,200)
Other liabilities	(2,840)
Net purchase price	$ 11,800

The Company is currently in the process of determining the fair value of assets purchased and liabilities assumed and allocating the total purchase price to the tangible and intangible assets acquired. The results of operations from Motor Products subsequent to July 31, 2002 will be included in the Company's results

of operations. Included in non-current assets above is an estimated amount of $4,400,000 for goodwill (subject to adjustment after further evaluation), all of which will be deductible

for tax purposes. The remaining non-current assets will be amortized over an average life of approximately five years.

Unaudited Pro Forma Information

The following presents the Company's unaudited pro forma financial information for the fiscal years ended June 30, 2002, 2001 and 2000. The pro forma statements of operations give effect to the sale of the Company's Power and Process Business and the acquisition of Motor Products as if they had occurred at the beginning of each fiscal year.

The pro forma financial information is for informational purposes only and does not purport to present what the Company's results would actually have been had these transactions actually occurred on the dates presented or to project the Company's results of operations or financial position for any future period. The gain on the sale of the Power and Process Business is not reflected in the pro forma financial information as it is a non-recurring item.

	For the fiscal years ended June 30,		
	2002	2001	2000
Revenues	$ 39,368	$ 50,291	$ 48,188
Gross margin	8,160	13,032	12,830
Operating (loss) income	(1,732)	4,081	4,224
Net (loss) income	$ (1,693)	$ 2,333	$ 2,321

	As of June 30,	
	2002	2001
Cash and cash equivalents	$ 6,290	$ 4,380
Accounts receivable, net	5,861	6,205
Inventories, net	4,509	5,240
Other current assets	1,911	540
Property, plant and equipment, intangibles, goodwill and other non-current assets	13,168	13,230
Total assets	$ 31,739	$ 29,595
Current liabilities	$ 8,609	$ 7,613
Note payable	4,000	4,000
Other long term liabilities	3,440	2,840
Total liabilities	16,049	14,453
Stockholders' investment	15,690	15,142
Total liabilities and stockholders' investment	$ 31,739	$ 29,595

Change in Fiscal Year End

On August 15, 2002, the Board of Directors approved the change of the Company's fiscal year end from June 30 to December 31. The change will be effective December 31, 2002. The Company will report the six-month transition period on its Form 10-K dated December 31, 2002.

11. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for each of the four quarters in fiscal years 2002 and 2001 is as follows (in thousands, except per share data):

2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 9,105	$ 10,659	$ 11,388	$ 10,907
Operating (loss) income	(883)	109	298	(836)
Net (loss) income	(238)	75	307	(410)
Basic net (loss) income per share	(0.05)	0.02	0.07	(0.09)
Diluted net (loss) income per share	(0.05)	0.02	0.06	(0.09)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 11,333	$ 13,166	$ 11,313	$ 12,574

Operating income (loss)	(54)	754	(16)	793
Net income (loss)	9	771	260	956
Basic net income (loss) per share	0.00	0.17	0.06	0.21
Diluted net income (loss) per share	0.00	0.16	0.05	0.20

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

There were no disagreements with either KPMG, LLP or Arthur Andersen, LLP on accounting and financial disclosure matters.

On July 17, 2002, the Company replaced Arthur Andersen LLP ("Arthur Andersen") as the principal accountant for the Company and its affiliates. For the past two fiscal years, the reports of Arthur Andersen on the Company's consolidated financial statements did not contain an adverse opinion nor a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to replace Arthur Andersen was approved by the Company's Board of Directors.

In connection with the audits of the Company's financial statements for each of the two most recent fiscal years ending June 30, 2000 and June 30, 2001 and in the subsequent interim period preceding Arthur Andersen's replacement, there were no disagreements on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Arthur Andersen, would have caused Arthur Andersen to make references to the matter in its reports. For a complete discussion, refer to the Form 8-K filed by the Company on July 18, 2002.

On July 17, 2002, the Company engaged as its new principal accountant KPMG LLP ("KPMG") for the fiscal year ending June 30, 2002. The decision to retain KPMG LLP was approved by the Company's Board of Directors upon the recommendation of its Audit Committee. During the two most recent fiscal years and through the date of their appointment, the Company has not consulted with KPMG on matters of the type contemplated by Item 304 (a) (2) (i) and (ii) of Regulation S-K.

PART III

The information required by Part III is included in the Company's Proxy Statement, and is incorporated herein by reference.

Item 10. Directors and Executive Officers of the Registrant.

Information required by this item is set forth in the sections entitled "Election of Directors" (page 2), "Executive Officer" (page 3) and "Section 16(a) Beneficial Ownership Reporting Compliance" (page 9) in the Company's Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item is set forth in the section entitled "Executive Compensation" (pages 5 through 9) in the Company's Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" (pages 4 through 5) in the Company's Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Effective September 1, 1998, the Company entered into a Consulting Agreement with Eugene E. Prince, who resigned from the offices of President and Chief Executive Officer on August 13, 1998 and retired from employment with the Company effective August 31, 1998. Mr. Prince is the Chairman of the Board of Directors and a major shareholder of the Company. Under the Consulting Agreement, he will be compensated for providing consulting services to the Company as requested by the Chief Executive Officer. During fiscal year 2002, the Company made no payments to Mr. Prince under the Consulting Agreement.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

a) The following documents are filed as part of this Report:

1. Financial Statements

a) Consolidated Balance Sheets as of June 30, 2002 and June 30, 2001.

b) Consolidated Statements of Operations for each of the fiscal years in the three-year period ended June 30, 2002.

c) Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended June 30, 2002.

d) Consolidated Statements of Stockholders' Investment for each of the fiscal years in the three-year period ended June 30, 2002.

e) Notes to Consolidated Financial Statements.

f) Reports of Independent Auditors and Public Accountants.

2. Financial Statement Schedules

II. Valuation and Qualifying Accounts.

3. Exhibits

Exhibit No.	Subject	Page
3.1	Restated Articles of Incorporation.	*
3.2	Amendment to Articles of Incorporation dated September 24, 1993.	*
3.3	By-laws of the Company adopted August 11, 1994.	*
10.1	Severance Agreement dated June 15, 1989 between Hathaway Corporation and Richard D. Smith. Incorporated by reference to Exhibit 10n(ii) to the Company's 1989 annual Report and Form 10-K for the fiscal year ended June 30, 1989.	*
10.2	The 1989 Incentive and Non-Qualified Stock Option Plan dated January 4, 1989. Incorporated by reference to the Company's Form S-8 filed October 25, 1990.	*
10.3	Joint Venture Agreement between Zibo Kehui Electric Company and Hathaway Instruments Limited, for the establishment of Zibo Kehui Electric Company Ltd., dated July 25, 1993. Incorporated by reference to Exhibit 10.15 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.4	Promissory Note from Richard D. Smith to Hathaway Corporation dated October 26, 1993. Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.5	Joint Venture Contract between Si Fang Protection and Control Company Limited and Hathaway Corporation for the establishment of Beijing Hathaway Si Fang Protection and Control Company, Ltd., dated March 2, 1994. Incorporated by reference to Exhibit 10.26 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.6	Joint Venture Contract between Wuhan Electric Power Instrument Factory, Beijing Huadian Electric Power Automation Corporation and Hathaway Corporation for the establishment of Hathaway Power Monitoring Systems Company, Ltd., dated June 12, 1995. Incorporated by reference to Exhibit 10.29 to the Company's Form 10-K for the fiscal year ended June 30, 1995.	*
10.7	Technology License Contract between Wuhan Electric Power Instrument Factory and Beijing Huadian Electric Power Automation Corporation on behalf of Hathaway Power Monitoring Systems Company, Ltd. and Hathaway Corporation dated June 12, 1995. Incorporated by reference to Exhibit 10.30 to the Company's Form 10-K for the fiscal year ended June 30, 1995.	*

10.8	Supplementary Agreement between Wuhan Electric Power Instrument Factory, Beijing Huadian Electric Power Automation Corporation and Hathaway Corporation	*

	dated August 30, 1995. Incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the fiscal year ended June 30, 1995.	
10.9	Management Incentive Bonus Plan for the fiscal year ending June 30, 1996. Incorporated by reference to Exhibit 10.28 to the Company's Form 10-K for the fiscal year ended June 30, 1995.**	*
10.10	Purchase Agreement between Hathaway Corporation and Tate Engineering Services Corporation dated October 10, 1996, for the Company's purchase of all the issued and outstanding stock of Tate Integrated Systems, Inc. Incorporated by reference to the Company's Form 8-K dated October 25, 1996.	*
10.11	Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank. Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the fiscal year ended June 30, 1998.	*
10.12	Schedule to Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank. Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended June 30, 1998.	*
10.13	Amendment Number One dated August 1, 1998 to the 1989 Incentive and Non-Qualified Stock Option Plan. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended June 30, 1998.	*
10.14	The Amended 1991 Incentive and Nonstatutory Stock Option Plan dated August 1, 1998. Incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the fiscal year ended June 30, 1998.	*
10.15	Employment Agreement between Hathaway Corporation and Richard D. Smith, effective August 13, 1998.	*
10.16	Consulting Agreement between Hathaway Corporation and Eugene E. Prince dated September 1, 1998.	*
10.17	Year 2000 Stock Incentive Plan. Incorporated by reference to Exhibit A to the Company's Proxy Statement dated September 21, 2000.	*
10.18	2001 Employee Stock Purchase Plan. Incorporated by reference to Exhibit B to the Company's Proxy Statement dated September 21, 2000.	*
10.19	Agreement for Assignment of Equity Interest in Hathaway Si Fang Protection and Control Co. Ltd. Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K dated July 20, 2001.	*

10.20	Asset Purchase Agreement By and Among Qualitrol Power Products, LLC, Danaher UK Industries Limited, Hathaway Systems Corporation, Hathaway Industrial Automation, Inc., Hathaway Process Instrumentation Corporation, Hathaway Systems, Ltd. and Hathaway Corporation. Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement dated June 24, 2002.	*
10.21	Stock Purchase Agreement among Motor Products—Owosso Corporation, Motor Products—Ohio Corporation, Owosso Corporation and Hathaway Motion Control Corporation.	
10.22	Amendment dated July 10, 2002 to Loan Documents for Silicon Valley Bank.	
10.23	Amendment dated July 30, 2002 to Loan Documents for Silicon Valley Bank.	
21	List of Subsidiaries	
22	Definitive Proxy Statement dated September 24, 2002 for the Registrant's 2002 Annual Meeting of Shareholders.	*
23	Consent of KPMG LLP.	
99.1	Certification of Periodic Financial Reports by the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350	

* These documents have been filed with the Securities and Exchange Commission and are incorporated herein by reference.

** The Management Incentive Bonus Plans for the fiscal years ending June 30, 1997, 1998, 1999, 2000, 2001 and 2002 are omitted because they are substantially identical in all material respects to the Management Incentive Bonus Plan for the fiscal year ending June 30, 1996 previously filed with the Commission, except for the fiscal years to which they apply.

(b) Reports on Form 8-K.

The following reports on Form 8-K were filed during the fourth quarter of fiscal 2002:

1) Form 8-K dated May 20, 2002 reporting the sale of the Company's Power and Process business and the appointment of a new President.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-37473) of the 1989 Incentive and Non-Qualified Stock Option Plan of Hathaway Corporation dated October 25, 1990, in the Registration Statements on Form S-8 (Nos. 33-44997 and 333-21337) of the 1991 Incentive and Non-Statutory Stock Option Plan of Hathaway Corporation dated January 8, 1992 and February 7, 1997, respectively, and in the Registration Statement on Form S-8 (No. 333-55344) of the Hathaway Corporation 2001 Employee Stock Purchase Plan, the Hathaway Corporation Year 2000 Stock Incentive Plan and the Emoteq Corporation Restated and Amended 1997 Incentive and Nonstatutory Stock Option Plan dated February 6, 2001, of our report dated August 6, 2002, except as to Note 6, which is as of September 16, 2002, with respect to the consolidated balance sheet of Hathaway Corporation as of June 30, 2002, and the related consolidated statements of operations, stockholders' investment and cash flows for the year then ended, and the related financial statement schedule, which report appears in the June 30, 2002 annual report on Form 10-K of Hathaway Corporation.

KPMG LLP

Denver, Colorado,
September 26, 2002.

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.

HATHAWAY CORPORATION

By /s/ RICHARD D. SMITH

Richard D. Smith
Chief Executive Officer and Chief Financial Officer

Date: September 26, 2002

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 in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ RICHARD D. SMITH Richard D. Smith	Chief Executive Officer, Chief Financial Officer and Director	September 26, 2002
/s/ EUGENE E. PRINCE Eugene E. Prince	Chairman of the Board of Directors	September 26, 2002
/s/ GEORGE J. PILMANIS George J. Pilmanis	Director	September 26, 2002
/s/ DELWIN D. HOCK Delwin D. Hock	Director	September 26, 2002
/s/ GRAYDON D. HUBBARD Graydon D. Hubbard	Director	September 26, 2002

CERTIFICATION

I, Richard D. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Hathaway Corporation (the "registrant");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: September 26, 2002

/s/ Richard D. Smith

Richard D. Smith
Chief Executive Officer and
Chief Financial Officer

HATHAWAY CORPORATION
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions from Reserves	Balance at End of Period
Year Ended June 30, 2002:				
Reserve for bad debts	$ 496	$ 84	$ (86)	$ 494
Year Ended June 30, 2001:				
Reserve for bad debts	$ 530	$ 150	$ (184)	$ 496
Year Ended June 30, 2000:				
Reserve for bad debts	$ 479	$ 150	$ (99)	$ 530

Board of Directors
Eugene E. Prince
Chairman of the Board

Richard D. Smith
Chief Executive Officer
and Chief Financial Officer

Delwin D. Hock
Former Chairman of the Board of Directors, President
and CEO of Public Service Company of Colorado

Graydon D. Hubbard
Retired Partner, Arthur Andersen LLP

George J. Pilmanis
President of Balriga International Corporation,
Business Development in the Far East and Eastern Europe

Transfer Agent
American Stock Transfer & Trust
40 Wall Street
New York, NY 10005
(800) 937-5449
www.amstock.com

Independent Auditors
KPMG LLP

Denver, Colorado

Investor Information Requests
Copies of the Company's reports on Form 10-K and Form 10-Q may be obtained from the Company without charge upon written request to:
Hathaway Corporation
8228 Park Meadows Drive
Littleton, Colorado 80124.
www.hathawaycorp.com

Annual Meeting
The Annual Meeting of Shareholders will be held at the Lone Tree Country Club, 9808 Sunningdale Boulevard, Littleton, Colorado on Thursday, October 24, 2002 at 2:00 p.m.

Corporate Officers
Richard D. Smith
Chief Executive Officer
and Chief Financial Officer

Richard S. Warzala
President and Chief Operating Officer

Susan M. Chiarmonte
Secretary and Treasurer

Subsidiaries and Divisions
Domestic Subsidiaries and Divisions
Hathaway Systems Corporation(1)
Littleton, Colorado

Hathaway Automation Technology, a division of Hathaway Systems Corporation(1)
Auburn, Washington

Hathaway Industrial Automation, Inc.(1)
Hunt Valley, Maryland

Hathaway Process Instrumentation Corporation
Carrolton, Texas

Hathaway Motors and Instruments, a division of Hathaway Motion Control Corporation
Tulsa, Oklahoma

Computer Optical Products, Inc.
Chatsworth, California

Emoteq Corporation
Tulsa, Oklahoma
Evergreen, Colorado

Motor Products Owosso Corporation(2)
Owosso, Michigan

International Subsidiaries and Divisions
Hathaway Systems Limited(1)
Belfast, Northern Ireland

Hathaway Instruments, a division of Hathaway Systems Limited(1)
Hoddesdon, England

Emoteq UK Limited
Bournemouth, England

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(1) Substantially all the assets of this subsidiary were sold in connection with the sale of the Power and Process Business

(2) Acquired July 30, 2002

QuickLinks

Exhibit 10.21

STOCK PURCHASE AGREEMENT

Dated July 8, 2002

Among

MOTOR PRODUCTS—OWOSSO CORPORATION,
MOTOR PRODUCTS—OHIO CORPORATION,
OWOSSO CORPORATION,

and

HATHAWAY MOTION CONTROL CORPORATION

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STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "*Agreement*") is dated July 8, 2002, by and among Hathaway Motion Control Corporation, a Colorado corporation ("*Buyer*")**,** Motor Products—Owosso Corporation, a Delaware corporation ("*MP Owosso*"), Motor Products—Ohio Corporation, a Delaware corporation ("*MP Ohio,*" and together with MP Owosso, the "*Company*"), and Owosso Corporation, a Pennsylvania corporation, and the sole stockholder of the Company ("*Seller*").

BACKGROUND

Seller owns all of the issued and outstanding shares of capital stock of the Company (the "*Company Stock*"). Buyer desires to purchase, and Seller desires to sell, the Company Stock on the terms and subject to the conditions set forth in this Agreement.

TERMS

In consideration of the mutual representations, warranties and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I
THE TRANSACTION

1.1. *Sale and Purchase of Stock.* At the Closing referred to in Section 1.3 below, Seller will sell to Buyer, and Buyer will purchase from Seller, all his or its shares of the Company Stock for the consideration set forth in Section 1.2.

1.2. *Consideration and Payment.* In consideration of the sale and transfer of the Company Stock pursuant to Section 1.1 above, Buyer shall pay to Seller an aggregate amount in cash equal to $11,800,000.00 (the "*Consideration*"). Upon the execution of this Agreement, Buyer shall deliver $2,000,000.00 of the Consideration (the "*Deposit*") to Bank One, NA (with its main office in Chicago, Illinois, hereinafter "Bank One, NA"), as "*Escrow Agent*," to be held in escrow pursuant to the Escrow Agreement attached hereto as *Exhibit A*. In accordance with Section 1.4(b), at the Closing, the Consideration shall be delivered by Buyer to Seller as follows: (a) $9,500,000.00 in U.S. currency via wire transfer of immediately available funds to the accounts designated in writing by Seller (the "*Cash Consideration*"); and (b) $300,000.00 payable through delivery of Buyer's promissory note (the "*Note*") in said principal amount in the form attached as *Exhibit B*, guaranteed by Hathaway Corporation, parent of Buyer, and payable on the six month anniversary of the Closing Date, and which shall be a source for the payment and discharge of any indemnification obligation of Seller set forth in Article VIII; provided, that the Note shall not be an exclusive source of recovery for such obligations. In addition, in accordance with Section 1.4(d), at the Closing, the Deposit shall be released from escrow and paid over to Seller.

1.3. *Closing Time and Place.* The consummation and closing of the transactions contemplated under this Agreement (the "Closing") will take place on the earlier of (a) the first Business Day following the date on which the Hathaway Power Sale occurs or (b) November 1, 2002 (unless earlier terminated pursuant to Article V) at the offices of Pepper Hamilton LLP, counsel for the Company and Seller, 3000 Two Logan Square, 18th & Arch Streets, Philadelphia, Pennsylvania, at 10:00 a.m., or at such other time, date or place as Buyer and Seller shall mutually agree in writing. The date on which the Closing occurs is sometimes referred to herein as the "Closing Date." "Business Day" means any calendar day which is not a Saturday, Sunday or other day on which banks are authorized to close in the Commonwealth of Pennsylvania. "Hathaway Power Sale" means the date of the Closing under and as defined in that certain Asset Purchase Agreement dated May 17, 2002 (the "*Hathaway/Qualitrol Agreement*") among Qualitrol Power Products, LLC, ("*Qualitrol Power*"), Danaher UK Industries,

Limited ("*Danaher*"), (Qualitrol Power and Danaher are referred to individually and collectively as "*Qualitrol*"), Hathaway Corporation and certain of its Affiliates (Hathaway Corporation and such Affiliates are referred to individually and collectively as "*Hathaway*").

1.4. *Deliveries and Proceedings at the Closing.* At the Closing:

(a) *Deliveries by Seller.* Seller will deliver or cause to be delivered to Buyer, (1) free and clear of all Liens (as defined below) (other than restrictions on transfer imposed by federal and state securities laws), certificates for the Company Stock, together with duly executed share transfer forms relating to such Company Stock, and (2) the documents and certificates required to be delivered by Seller under Section 4.1.

(b) *Deliveries by Buyer.* Buyer will deliver to Seller the documents and certificates required to be delivered by it under Section 4.2 and the Consideration, including the Cash Consideration and Note.

(c) *Deliveries by the Company.* The Company will deliver to Buyer the documents and certificates required to be delivered by it under Section 4.1.

(d) *Release by Escrow Agent.* Buyer and Seller shall direct the Escrow Agent to release the Deposit to Seller.

(e) *Other Deliveries.* The closing certificates, opinions of counsel and other documents required to be delivered at the Closing pursuant to this Agreement will be exchanged.

As used in this Agreement, the term "*Lien*" means (a) any lien (including any lien relating to Taxes (as that term is defined in Section 2.10 hereof)), pledge or negative pledge, (b) any mortgage, deed of trust, security interest, charge in the nature of a lien or security interest, (c) any title retention agreement, right of first refusal, right of first purchase or other similar option, (d) any conditional sale agreement, easement, right of way, variance or other real estate declaration, or (e) any other transfer or other restriction, servitude or other encumbrance or interest of another Person.

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND SELLER

The Company and Seller hereby, jointly and severally, represent and warrant to Buyer as of the date of this Agreement (which representations and warranties are to be repeated as a condition of Closing as of the Closing Date (as though the Closing Date were then substituted for "the date of this Agreement," "the date hereof" or similar terms throughout this Article II)), subject in both instances to the disclosures set forth in the disclosure schedules attached hereto (the "*Disclosure Schedules*"), as follows:

2.1. *Corporate Existence and Power.*

(a) MP Owosso and MP Ohio are corporations duly organized, validly existing and in good standing under the laws of Delaware. The Company has all requisite corporate power and authority to own, lease and operate its properties and assets as now owned, leased and operated, and to carry on its business as now being conducted. The Company is duly qualified to do business and is in good standing as a foreign corporation in each of the states set forth on *Schedule 2.1(a)* hereto, which are the only jurisdictions where the character of the property owned, leased or operated by it or the nature of its activities makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect on the Company. To the Knowledge of the Company and Seller, the Company has all governmental licenses, permits, authorizations, consents and approvals required to carry on its business as currently conducted, except for such governmental licenses, permits, authorizations, consents and approvals which the failure to have obtained would not have a Material Adverse Effect on the Company.

As used in this Agreement, "*Material Adverse Effect*," with respect to any Person, means a material adverse effect or impact on the condition (financial or otherwise), business, properties, assets, Liabilities (as that term is defined in Section 2.8) (including contingent Liabilities), prospects, operations or results of operations of such Person taken as a whole; *provided, however,* that a Material Adverse Effect, as applied to the Company, shall not be deemed to have occurred if such changes involve only (i) adverse changes in general economic conditions or general changes in any of the principal markets served by the Company, (ii) shortages or price changes relating to materials used or processed by the Company or (iii) changes in applicable laws or in GAAP (as that term is defined in Section 2.7). As used in this Agreement, the term "*Knowledge*" means, with respect to the Company and Seller, the actual knowledge after due and reasonable inquiry of James Jury, George B. Lemmon, Jr. and Bill Stout. As used in this Agreement, the term "*Person*" means any individual, corporation, partnership, firm, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization or Governmental Body (as that term is defined in Section 2.4).

(b) The copies of the Company's certificates of incorporation and by-laws, as amended to date, which have been delivered to Buyer, in each case certified by the Company's respective Secretary, are true, correct and complete and are in full force and effect, and the Company is not in default under or in violation of any provision of its certificate of incorporation or bylaws. The (i) minute books (which contain the records of all meetings of or actions by the shareholders, the board of directors, and any committees of the board of directors), copies of which have been delivered to Buyer by Seller, are correct and complete in all material respects and (ii) the stock certificate books and stock records of the Company, copies of which have been delivered to Buyer by Seller, are correct and complete. Set forth on *Schedule 2.1(b)* is a list of the directors and officers of each Company.

(c) Seller is a corporation incorporated under the laws of the Commonwealth of Pennsylvania and remains a subsisting corporation. Seller has all requisite corporate power and authority to own or lease its properties and assets now owned or leased.

2.2. *Capitalization.* The authorized capital stock of MP Owosso consists of 1,000 shares of common stock, $.01 par value per share (the "*MP Owosso Common Stock*"). The authorized capital stock of MP Ohio consists of 1,000 shares of common stock, $.01 par value per share (the "*MP Ohio Common Stock*," and together with the MP Owosso Common Stock, the "*Common Stock*"). *Schedule 2.2* sets forth, as of the date hereof, all outstanding shares of each class of capital stock of the Company. All outstanding shares of Company Stock have been duly authorized and validly issued and are fully paid and nonassessable and are owned by Seller. Except for the Company Stock, there are no outstanding (i) shares of capital stock, other securities or phantom or other equity interests of the Company, (ii) securities of the Company convertible into or exchangeable for shares of capital stock or other securities of the Company or (iii) options, warrants or other rights to acquire from the Company any capital stock, other securities or phantom or other equity interests of the Company (the items in clauses (i), (ii) and (iii) being referred to collectively as the "*Company Securities*"). There are no outstanding obligations of the Company, actual or contingent, to issue or deliver or to repurchase, redeem or otherwise acquire any Company Securities. Except for a pledge of the Company Stock to in favor of Bank One, NA, as agent for the benefit of itself and PNC Bank, National Association, which is to be released as a condition of Closing, there are no existing rights of first refusal, buy-sell arrangements, options, warrants, rights, calls, or other commitments or restrictions of any character relating to any of the Company Stock, other than restrictions on transfer imposed by the federal and state securities laws.

2.3. *Subsidiaries.* The Company does not have any Subsidiaries or own any capital stock, securities convertible into capital stock, or any other equity security in any other corporation, partnership, limited partnership, limited liability company, association, joint venture or other Person. For the purposes of this Agreement, a "*Subsidiary*" of an entity shall mean a corporation, limited

liability company or other entity (i) more than 50% of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or (ii) which does not have outstanding shares or securities (as may be the case in a partnership, limited liability company, joint venture or unincorporated association), but more than 50% of whose ownership interest representing the right to make decisions for such other entity is, now or hereafter owned or controlled, directly or indirectly, by such entity.

2.4. *Consents and Governmental Authorization.* The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by the Company and Seller require no consent, approval or action by or in respect of, or filing with, any third party or governmental department, commission, board, body, agency, official or authority having jurisdiction over the Company or its business as currently conducted or Seller (each a "Governmental Body") other than:

(a) compliance with any applicable requirements of the Securities Act of 1933, as amended (the "*Securities Act*"), and the rules and regulations promulgated thereunder;

(b) compliance with any applicable foreign or state securities ("*blue sky*") laws; and

(c) as set forth on *Schedule 2.4* (which *Schedule 2.4* sets forth, with respect to leases, contracts, agreements and commitments required to be set forth in *Schedule 2.12*, without limitation, such as are required pursuant to the terms thereof).

2.5. *Authorization and Enforceability.* This Agreement and all other agreements and instruments deliverable by Seller or the Company pursuant hereto (collectively, the "Additional Transaction Documents") have been duly executed and delivered by the Company and Seller and constitute the legal, valid and binding obligations of them, enforceable against the Company and Seller in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting the rights and remedies of creditors generally, provided that no representation or warranty is made as to the availability of any equitable or other specific remedy upon any breach of this Agreement. Upon delivery to Buyer at the Closing of certificates representing Seller's Company Stock in accordance herewith, Buyer will acquire good and valid title to such Company Stock, free and clear of all Liens (except for restrictions on transfer imposed by federal or state securities laws).

2.6. *Non-Contravention.* The execution and delivery of this Agreement and the Additional Transaction Documents do not, and the consummation of the transactions contemplated by this Agreement and the Additional Transaction Documents and the compliance with the terms, conditions and provisions of this Agreement and the Additional Transaction Documents the Company and Seller, will not (a) contravene any provision of the Company's or Seller's certificate of incorporation or by-laws, as amended to date; (b) conflict with or result in a breach of or constitute a default (or an event which might, with the passage of time or the giving of notice or both, constitute a breach or default) under any of the terms, conditions or provisions of any indenture, mortgage, deed of trust, loan or credit agreement or any other agreement, instrument, license or permit to which the Company or Seller is a party or by which any of them or any of their assets may be bound or affected, or any judgment or order of any court or Governmental Body, domestic or foreign, or any applicable law, rule or regulation; (c) result in the creation or imposition of any Lien upon any of the Company's assets or the Company Stock or give to others any interests or rights therein; (d) result in a breach, termination maturation or acceleration of any Liability or obligation of the Company or Seller (or give others the right to cause such a breach, termination, maturation or acceleration); or (e) assuming compliance with the matters referred to on *Schedule 2.4*, contravene or conflict with or constitute a violation of any provision of any lease, contract, agreement or commitment required to be set forth on *Schedule 2.12* or any permit, law, regulation, judgment, injunction, order or decree binding upon or applicable to the Company or Seller, except for such contraventions, conflicts, defaults, breaches, Liens, interests, rights,

Liabilities or obligations which are set forth on *Schedule 2.6*, none of which are material to the Company.

2.7. *Financial Statements.* The Company or Seller has delivered to Buyer the following financial statements (the "*Financial Statements*"):

(a) The Company's Audited Year End Financial Statements, which are attached hereto as part of *Exhibit C*.

(b) The Company's unaudited internal consolidated statement of operations and balance sheet prepared for the six (6) month period ended April 30, 2002 (the "*Interim Financials*"), which are attached hereto as part of *Exhibit C*.

The Financial Statements now or when delivered, as the case may be: (i) present fairly in all material respects the financial position of the Company as of the dates thereof, and the results of its operations for the periods covered thereby, after the elimination of all intercompany accounts and activities between Seller and the Company, (ii) are in accordance with the books and records of the Company (which books and records are complete and accurate in all material respects) and (iii) have been prepared in accordance with generally accepted accounting principles, as defined by the Financial Accounting Standards Board ("*GAAP*") consistently applied, except as otherwise specified therein and except that the Interim Financials do not have the necessary notes and other disclosures and the Interim Financials are subject to normal year end adjustments, which individually or in the aggregate will not be material. Since the dates of the Financial Statements, there have been no material changes in the accounting policies of the Company (including any changes in depreciation or amortization policies or rates) and no revaluation of any of the assets by the Company. Seller has delivered to Buyer true and complete copies of all management letters, if any, relating to any audit or review of the financial statements or books of the Company in respect of the fiscal years covered by the Financial Statements, and all other letters or documentation, if any, relating to the internal controls and/or other accounting practices of the Company. All references in this Agreement to the "*Balance Sheet*" shall mean the balance sheet of the Company as of April 30, 2002 included in the Interim Financials and all references to the "*Balance Sheet Date*" shall mean April 30, 2002.

2.8. *No Undisclosed Material Liabilities.* To the Company's and Seller's Knowledge, the Company has no material Liability of any nature, whether accrued, absolute, or contingent, except for Liabilities that are (a) reflected or reserved against on the Balance Sheet, (b) incurred in the ordinary course of business since the Balance Sheet Date, (c) incurred in connection with or as a result of the transactions contemplated by this Agreement (all of which shall be paid by Seller as provided in Section 9.3) or (d) disclosed on *Schedule 2.8* hereto. "*Liabilities*" means (a) all indebtedness (whether for borrowed money or otherwise), Damages (as defined in Section 8.2(a) of this Agreement), Liens, penalties, fines, costs, expenses and other liabilities or obligations, whether direct or indirect, fixed or contingent (including any loss contingency), accrued or unaccrued, liquidated or unliquidated, asserted or unasserted or known or unknown, and (b) any guarantees, surety arrangements or endorsements (other than endorsements for deposits or collection of checks in the ordinary course of business) with respect to any of the Liabilities described in *clause (a)* of any other Person, in any case whether or not the amount thereof is currently ascertainable.

2.9. *No Material Adverse Changes.* Since the Balance Sheet Date, the Company has conducted its business in the ordinary course consistent with past practice. Since the Balance Sheet Date, except as set forth on *Schedule 2.9*, there has not been:

(a) any adverse change in the financial condition, assets, Liabilities, operations, business or prospects of the Company as currently conducted, except changes in the ordinary course of business which have not had and, to the Company's and Seller's Knowledge, will not have a Material Adverse Effect on the Company;

(b) any damage, destruction or loss, whether or not covered by insurance, adversely affecting the properties or business of the Company as currently conducted, which has had and, to the Company's and Seller's Knowledge, will not have a Material Adverse Effect on the Company;

(c) any declaration, setting aside or payment of a dividend or other distribution in respect of any of the capital stock of the Company, or any direct or indirect redemption, purchase or other acquisition of any capital stock of the Company or of any rights to purchase such capital stock or securities convertible into or exchangeable for such capital stock;

(d) any increase in the salaries, bonuses, sales commissions, fee arrangements or other compensation payable or to become payable to, or any advance (excluding advances for business expenses in the ordinary course consistent with past practices) or loan to, any officer, director, employee, agent or stockholder of the Company (except normal annual merit increases made in the ordinary course to non-officer employees), or any increase in, or any addition to, other benefits (including without limitation any bonus, profit sharing, severance, pension or other plan) to which any of its officers, directors, employees, agents or stockholders may be entitled, or any payments to any pension, retirement, profit-sharing, bonus, severance or similar plan except payments made pursuant to the compensation arrangements disclosed on *Schedule 2.18* hereto or the employee benefit plans disclosed on *Schedule 2.22* hereto, or any other payment of any kind to or on behalf of any such officer, director, employee, agents or stockholder other than payment of base compensation and reimbursement for reasonable business expenses in the ordinary course consistent with past practices;

(e) any making or authorization of a capital expenditure in excess of $50,000 for any single project or $100,000 in the aggregate;

(f) any sale, transfer or other disposition of any assets of the Company (including to Seller), except sales or replacement of Inventory (as that term is defined in Section 2.24(c)) in the ordinary course and, with respect to Significant Customers (as defined below), at historical margins;

(g) any payment, discharge or satisfaction of any Liability by the Company, other than the payment, discharge or satisfaction, in the ordinary course of business, of Liabilities shown or reflected on the Balance Sheet or incurred in the ordinary course of business since the Balance Sheet Date;

(h) any change by the Company in any method of accounting or Tax practice, except for such changes as are required by reason of a concurrent change in GAAP;

(i) any creation, incurrence, assumption or guarantee by the Company of any Liabilities, except in the ordinary course of business consistent with past practice, the Previous Sales Efforts' Expenses (as defined below) or in conjunction with this Agreement and the transactions contemplated hereby or any creation, incurrence, assumption or guarantee by the Company of any indebtedness for money borrowed;

(j) any recapitalization or reorganization;

(k) any amendment or other change (or any authorization to make such an amendment or change) to either Company's certificates of incorporation or by-laws;

(l) any delay or postponement in the payment of accounts payable or other Liabilities beyond stated, normal terms;

(m) any cancellation, compromise, settlement, release, waiver, write-off or expensing any account or note receivable, right, debt or claim involving more than $5,000 in the aggregate or acceleration of the collection of any account or note receivable;

(n) any transaction by the Company outside the ordinary course of business or any change, in any significant manner, in the way in which it conducts its business;

(o) any contracts or agreements entered into, or any commitments made, involving more than $50,000 individually or $100,000 in the aggregate, or any acceleration, termination, delay, modification or cancellation of any agreement, contract, lease or license (or series of related agreements, contracts, leases and licenses) involving more than $50,000 individually or $100,000 in the aggregate;

(p) any work interruptions, labor grievances, charges, or claims filed or lodged with the Company or any court, Governmental Body or arbitrator, including without limitations any charges filed with the National Labor Relations Board, or any similar event or condition of any character;

(q) any purchase or acquisition of, or agreement, plan or arrangement to purchase or acquire, any material property, right or assets of, or securities or other interests in, any Person;

(r) any cancellation, or agreement to cancel, any indebtedness or other amount owing to the Company, including without limitation any indebtedness or obligation of Seller or any current or former officer, director, employee, agent or stockholder of the Company or Seller or any affiliate thereof.

(s) any breach, amendment, termination or non-renewal of any lease, contract, agreement or commitment required to be set forth on *Schedule 2.12*;

(t) any incurrence, creation, or placement of any Lien on all or any part of the Company's business or assets, or the allowance or permission of the same;

(u) any loan by the Company to any Person, incurring by the Company of any indebtedness, guaranteeing by the Company of any indebtedness, issuance or sale of any debt securities of the Company or guaranteeing of any debt securities of others;

(v) the commencement of or notice to or, to the Knowledge of the Company, the threat of commencement of, any lawsuit or proceeding against or investigation of the Company or its business or assets;

(w) any payment or transfer to or for the benefit of, or any withdrawal of any assets of the Company by, Seller or any officer, director, employee, agent or stockholder of the Company or Seller or any affiliate thereof, other than payments (i) to officers and employees of their respective normal salaries or wages payable in respect of such period, (ii) in respect of Previous Sales Effort Expenses as expressly permitted by Section 9.3 or (iii) Excluded Cash distributed to Seller; or

(x) any agreement or commitment to incur, take, enter into, make or permit any of the matters described in clauses (a) through (w).

2.10. *Taxes.*

(a) *Taxes Definitions.* The following terms, as used herein, have the following meanings:

"Affiliated Group" means the affiliated group of corporations (within the meaning of Section 1504(a) of the Code) of which Seller is the common parent, and of which the Company is and has been (since acquired by any member thereof) a member.

"Affiliation Year(s)" means each taxable year or period applicable to the Company ending on or before the Closing Date during which the Company was a member of the Affiliated Group.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"Consolidated Return(s)" means the consolidated United States Federal income return(s) of the Affiliated Group.

"Taxes" means all federal, state, local, foreign net income, alternative or add-on minimum tax, estimated, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, capital profits, lease, service, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit taxes, customs, and duties, together with all interest, penalties, additions to tax and additional amounts with respect thereto, and the term "*Tax*" means any one of the foregoing Taxes.

"Tax Returns" means all returns, declarations, reports, claims for refund, information statements and other documents required to be filed by the parties relating to Taxes, including all schedules and attachments thereto, and including all amendments thereof, and the term "*Tax Return*" means any one of the foregoing Tax Returns.

"Tax Authority" means any governmental authority responsible for the imposition of any Tax.

(b) Seller has timely filed all Consolidated Returns required to be filed for all Affiliation Years, as well as all state and local Tax Returns required to be filed on a consolidated basis for an Affiliation Year and has timely paid all taxes owed which relate to such Affiliation Periods (whether or not shown as due on such returns). Company has timely filed all other Tax Returns required to be filed and has timely paid all Taxes owed (whether or not shown as due on such returns), including, without limitation, all Taxes which the Company is obligated to withhold for amounts paid or owing to employees, creditors and third parties. All such Tax Returns were complete and correct in all material respects.

(c) Neither Seller nor the Company is currently the beneficiary of any extension of time within which to file any Tax Return, and neither Seller nor the Company has waived any statute of limitation with respect to any Tax or agreed to any extension of time with respect to a Tax assessment or deficiency.

(d) The Company has not been a member of a group filing a consolidated federal income Tax Return, other than a group the common parent of which was Seller, and the Company does not have any Liability for the Taxes of any Person, other than Seller, under Treasury Regulation Section 1.1502-6 (or any corresponding provision of state, local or foreign Tax law), as a transferee or successor, by contract, or otherwise.

(e) There are no Liens for Taxes upon any of the assets of the Company, other than for ad valorem Taxes that are not yet due and payable.

(f) The unpaid Taxes of the Company and Seller (to the extent such taxes relate to the Company) did not, as of the Balance Sheet Date, exceed the reserve for actual Taxes (as opposed to any reserve for deferred Taxes established to reflect timing differences between book and Tax income) as shown on the Balance Sheet as of the Balance Sheet Date, and will not exceed such reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of the Company and Seller in filing their Tax Returns.

(g) All Taxes which the Company has been required to collect or withhold have been duly withheld or collected and, to the extent required, have been paid to the proper Taxing Authority.

2.11. *No Pending Litigation or Proceedings.* Except as indicated on *Schedule 2.11*, there are no actions, suits or proceedings pending or, to the Company and Seller's Knowledge, threatened, at law or in equity, by or before any court, Governmental Body or arbitrator (a) against the Company or any of its assets or against the directors or officers of the Company with respect to their role as an officer or director of the Company, nor to Seller's and Company's Knowledge, is there any basis for any such

action, or (b) adversely affecting any Seller's Company Stock or Seller's rights thereto. There are presently no outstanding judgments, decrees, injunction or orders of any court, Governmental Body or arbitrator against or adversely affecting the Company or any of its assets or its business as currently conducted or adversely affecting Seller's Company Stock or Seller's rights thereto.

2.12. *Material Contracts.* Except as set forth on *Schedule 2.12*, the Company is not a party to, nor are it or its assets bound by, any written or verbal lease, contract, agreement or commitment of the following types:

(a) mortgages, indentures, security agreements or other agreements and instruments relating to the borrowing of money, the extension of credit or the granting of Liens;

(b) employment or consulting agreements;

(c) non-compete, confidentiality or non-notification agreements;

(d) union or other collective bargaining agreements;

(e) licenses of patent, trademark and other intellectual property rights with respect to which the Company is either licensee or licensor (other than "shrink-wrap" licenses for software generally available to the public);

(f) any agreement, order or commitment for the purchase of services, raw materials, supplies or finished products from any one supplier for an amount in excess of $100,000;

(g) any agreement, order or commitment for the sale of products or services for more than $100,000 to any single purchaser;

(h) any agreement, option or commitment relating to the sale by the Company of any material asset, other than sales of Inventory (as that term is defined in Section 2.24(c)) in the ordinary course of business at historical margins;

(i) any agreement or commitment for capital expenditures in excess of $50,000 for any single project or $100,000 in the aggregate for all projects;

(j) any sales agency, manufacturer's representative and distributorship agreement or other distribution or commission agreement with third parties;

(k) any joint venture or partnership agreements;

(l) any lease agreement for personal property under which it is either lessor or lessee where the aggregate payments during the term of the lease would exceed $5,000;

(m) any lease agreements for real property;

(n) any agreement with Seller or with any of the Company's or Seller's current or former shareholders, directors or officers or any relative or affiliate thereof;

(o) any profit sharing, stock option, stock purchase, phantom stock, stock appreciation, profit participation, deferred compensation, severance or other plan or arrangement;

(p) any agreement under which the Company has advanced or loaned any amount to any of its current or former shareholders, directors, officers and employees, except for travel advances in the ordinary course of business consistent with past practice;

(q) any agreement or commitment obligating the Company to meet another party's unspecified requirements for goods or services or obligating it to purchase an unspecified amount of goods or services based on another party's ability to supply them;

(r) any agreement under which the consequences of a default or termination could have a Material Adverse Effect on the Company;

(s) any agreement, commitment or order for the cleanup, abatement or other actions in connection with any Hazardous Substance, the remediation of any existing Environmental Liabilities, violation of any Environmental Laws or relating to the performance of any Environmental audit or study;

(t) any other lease, contract, agreement or commitment (or group of related leases, contracts, agreements or commitments) the performance of which involves consideration or Liabilities in excess of $10,000; or

(u) any other lease, contract, agreement or commitment material to either Company or its financial condition, assets, Liabilities, operations, prospects or business.

2.13. *Contract Compliance.* All leases, contracts, agreements and other commitments referred to in subsection (a) through subsection (u) of Section 2.12 above are in full force and effect. True and complete copies of each such written lease, contract, agreement or commitment, and written summaries setting forth all material terms of each such oral lease, contract agreement or commitment, have been delivered by Seller to Buyer. Except as disclosed on *Schedule 2.13*, neither the Company nor, to the Company and Seller's Knowledge, any other party thereto is in material default under any of the terms thereof and no event has occurred that with the passage of time or the giving of notice or both would constitute such a default by the Company, or to the Knowledge of the Company and Seller, any other party under any provision thereof.

2.14. *Compliance with Laws.* Except as indicated on *Schedule 2.14* and set forth in Section 2.15:

(a) To the Company and Seller's Knowledge, the Company has all material governmental licenses, permits, franchises, orders, approvals, accreditations, written waivers and other authorizations (including, without limitation, Environmental Permits (as herein defined)) as are necessary in order to enable it to own its assets and conduct its business as currently owned and conducted and to occupy and use its real and personal properties

without incurring any material Liability. To the Company and Seller's Knowledge, no licenses, registration, filing, application, notice, transfer, consent, approval, order, qualification, waiver or other action of any kind is required by virtue of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby to avoid the loss of any rights pertaining to any such license, permit, franchise, order, approval, accreditation, waiver or authorization. To the Company and Seller's Knowledge, the Company is in compliance in all material respects with the terms and conditions of all such licenses, permits, franchises, orders, approvals, accreditations, waivers and authorizations; and

(b) To the Company and Seller's Knowledge, the Company has conducted and is conducting its business in compliance in all material respects with applicable federal, state, local or foreign laws, statutes, ordinances, regulations, rules or orders or other material requirements of any Governmental Body or court or other tribunal relating to it (including, but not limited to, any law (including but not limited to any Environmental Law), statute, ordinance, regulation, rule, order or requirement relating to securities, properties, business, products, advertising, sales, employment practices, discrimination, immigration, terms and conditions of employment, wages and hours, safety, occupational health and safety, health or welfare conditions relating to premises occupied, employee benefits, plans and programs, product safety and liability or civil rights). The Company is not now charged with, and, to the Company and Seller's Knowledge, not now under investigation with respect to any possible violation of any applicable law, statute, ordinance, regulation, rule, order or material requirement relating to any of the foregoing in this subsection (b) and, to the Company and Seller's Knowledge, the Company has filed all material reports required to be filed with any Governmental Body.

2.15. *Environmental Compliance.*

(a) *Environmental Definitions.* The following terms, as used herein, have the following meanings:

"CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. §9601 et seq., as amended, and the regulations promulgated thereunder, and court decisions in respect thereof, all as shall be in effect at the time of this Agreement.

"Environment" means any and all environmental media, including, without limitation, ambient air, surface water, ground water, drinking water supply, land surface or subsurface strata.

"Environmental Laws" means any and all applicable federal, state and local statutes, laws, regulations, ordinances, rules, orders, decrees, codes, plans, permits, licenses, agreements, or governmental restrictions (including common law), relating to public health, welfare, the Environment or to emissions, discharges or the Release of any Hazardous Substance into the Environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances or the assessment, clean-up or other remediation thereof in effect at the time of this Agreement with respect to the Owned Real Property and Leased Real Property.

"Environmental Permits" means any and all governmental permits, licenses, grants, agreements, authorizations, registrations or other governmental approvals or restrictions issued or required under any Environmental Laws.

"Hazardous Substance" means any material, chemical, compound, mixture, solution, substance, waste, pollutant, or contaminant defined, listed, classified or regulated under any Environmental Law.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing as defined under and in violation of any Environmental Laws into the Environment (including, without limitation, the abandonment or discarding of barrels, containers or other closed receptacles containing any Hazardous Substance).

(b) *Environmental Representations.* Except as indicated on *Schedule 2.15* or disclosed in those certain environmental related documents attached to such schedule, with respect to the Owned Real Property or Leased Real Property:

(i) No pending or overtly threatened notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed, and no investigation and/or review has been initiated, conducted or overtly threatened, by any Governmental Body or any other Person, with respect to: (A) any alleged violation by the Company of any Environmental Law; (B) any alleged failure by the Company to have any Environmental Permit required under any Environmental Law; or (C) any condition or circumstance arising from or relating to the Owned Real Property or Leased Property, including without limitation, the presence or release of Hazardous Substances on, to or from the Owned Real Property or the Leased Real Property.

(ii) (A) To the Company and Seller's Knowledge, there are not and have not been any underground storage tanks, active or abandoned, located on the Owned Real Property or Leased Real Property; and (B) no Hazardous Substance has been Released by the Company.

(iii) To the Company and Seller's Knowledge, the Company has not transported or arranged for the transportation (directly or indirectly) of any Hazardous Substance to any location which is listed or proposed for listing on the National Priorities List promulgated pursuant to CERCLA, or on any similar state list, or which is the subject of Federal, state or

local enforcement actions or other investigations which are reasonably likely to lead to claims against Buyer, including, without limitation, claims for clean-up costs, remedial work, damages to natural resources or for personal injury claims, including, but not limited to, claims under CERCLA.

(iv) No oral or written notification of a Release or threat of a Release of a Hazardous Substance has been filed by or on behalf of the Company and no Owned Real Property or Leased Real Property is listed or, to the Company and Seller's Knowledge, proposed for listing, on the National Priorities List promulgated pursuant to CERCLA or on any similar state list of sites requiring investigation or clean-up.

(v) There are no environmental Liens, and no governmental actions have been taken or, to the Company and Seller's Knowledge, are in process that could subject any of such assets to such liens.

(vi) There have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted by or for the Company, or which are in the possession or control of the Company, that are not attached to Schedule 2.15 as of the date hereof.

(vii) There are no asbestos, asbestos-containing materials or presumed asbestos-containing materials in the Owned Real Property or, to Seller's and the Company's Knowledge, the Leased Real Property.

2.17. *Transactions with Related Parties.* A "*Related Party*" means Seller, any of the officers or directors of the Company or of Seller, any affiliate, associate or relative of Seller or of the Company, or any of their respective officers or directors, or any business or entity in which Seller, the Company or any affiliate, associate or relative of any such persons has any direct or material indirect interest. Since January 1, 2002 and except as disclosed on *Schedule 2.17*, no Related Party has or has had:

(a) borrowed money from, or loaned money to, the Company;

(b) any interest in any property or assets used by the Company in its business as currently conducted; or

(c) engaged in any other transaction with the Company (other than director or employment relationships).

Since January 1, 2002, no Liability of any Related Party to the Company has been terminated, settled, compromised, reduced or forgiven. As of immediately prior to the Closing, (a) all Liabilities of any Related Party to the Company shall be paid in full in accordance with their terms and (b) effective as of immediately prior to the Closing, the Company shall have no Liability to any Related Party.

2.18. *Compensation Arrangements; Bank Accounts.* *Schedule 2.18* hereto sets forth the following information:

(a) the names and current salaries and commissions, including any bonuses, if applicable, of all present managers and employees of the Company whose salary and commissions, including any bonuses, equal or exceed $50,000 per annum, together with a statement of the remuneration paid by the Company to each such person and to any director of the Company, during fiscal 2001; and

(b) the names and locations of all banks, trust companies, savings and loan associations and other financial institutions at which Seller maintains a lockbox account for the Company or the Company maintains safe deposit boxes or accounts of any nature, the names of all persons authorized to draw thereon, make withdrawals therefrom or have access thereto and the numbers of all such safe deposit boxes or accounts.

2.19. *Labor Relations.*

(a) *Schedule 2.19(a)* sets forth a true and complete list of (i) all directors of the Company, (ii) all officers (with offices held) of the Company, (iii) all consultants and independent contractors retained by the Company currently or during the last fiscal year who received during the last fiscal year more than $50,000 in fees or payments and (iv) all employees of the Company not set forth on *Schedule 2.18*, including each such employee's weekly remuneration. Except as disclosed on *Schedule 2.19(a)*, the Company is not a party to any written or oral severance, employment or consulting agreement, or any service agreement which required fees or payments during the prior or current fiscal year of more than $50,000.

(b) Except as disclosed on *Schedule 2.19(b)*, the Company is not (and has not been) a party to, and none of its employees are (and have not been) subject to, any collective bargaining agreement or other union contract, and no other union organization efforts have been threatened, initiated or are in progress with respect to any employees of the Company. The Company is not engaged in, and has not been engaged during the four (4) years prior to the date hereof in, any unfair labor practice, and there is not now, nor within the past four (4) years has there been, any unfair labor practice complaint against the Company pending or, to the Knowledge of Seller, threatened, before the National Labor Relations Board or any other comparable foreign or domestic authority or any workers' council. The Company is in compliance, and has complied during the four (4) years prior to the date hereof, in all material respects with all employment contracts, individual labor contracts, collective labor contracts and similar agreements to the extent required by applicable domestic and foreign laws, and the Company has delivered to Buyer prior to the date hereof true and complete copies of all employment contracts, individual labor contracts, collective labor contracts and similar agreements, whether written or oral, to which the Company is a party. Except as set forth on *Schedule 2.19(b)*, no grievance or arbitration proceeding arising out of or under collective bargaining agreements or employment relationships is pending, and to the Knowledge of the Company and Seller, no claims therefore exist or have existed or have been threatened during the four (4) years prior to the date hereof. No labor strike, lock-out, slowdown, or work stoppage is or has been pending or, to the Knowledge of the Company and Seller, threatened against or directly affecting the Company. Except as set forth on *Schedule 2.19(b)*, during the four (4) years prior to the date hereof, the Company has not, to the Knowledge of the Company and Seller, experienced any labor problems or disputes or any strikes, claims of unfair labor practices or other collective bargaining disputes.

(c) The Company is not a party to any agreement that would prevent the Company or its employees from operating the Company's business. The Company has been during the four (4) years prior to the date of this Agreement, and is, in compliance in all material respects with applicable federal, state and local laws affecting employment and employment practices, including terms and conditions of employment and wages and hours, and, except as set forth on *Schedule 2.19(c)*, there are no, and have not been during the past four (4) years from the date hereof, any complaints against the Company pending or, to the Knowledge of the Company and Seller, threatened before any Governmental Body.

(d) To the Knowledge of the Company and Seller, all persons who are or were performing services for the Company during the four (4) years prior to the date hereof and are or were classified as independent contractors during the four (4) years prior to the date hereof do or did satisfy and have satisfied the requirements of law to be so classified. The Company has fully and accurately reported their compensation on IRS Forms 1099 or other applicable tax forms for independent contracts when required to do so. The Company has not received any notice, nor, to the Knowledge of the Company and Seller, is there any reason to believe that any key employee of the Company or any group of employees of the Company have any plans to terminate his, her or its employment with the Company.

2.20. *Insurance.* Attached hereto as *Schedule 2.20* is a complete list of all policies of insurance covering the Company including, without limitation, policies of life, fire, theft, workers' compensation, employee fidelity and other casualty and liability insurance, environmental liability insurance and business interruption insurance, and such policies are in full force and effect and enforceable in accordance with their terms. With respect to each such insurance policy: (a) none of the Company, Seller or, to the Company and Seller's Knowledge, any other party to the policy, is in material breach or default (including with respect to the payment of premiums or the giving of notices), and no event has occurred which, with notice or the lapse of time, would constitute such a material breach or material default by the Company, Seller or any other party to the policy, or permit termination, material modification, or acceleration under the policy; and (b) to the Company and Seller's Knowledge, no other party to the policy has repudiated any provision thereof. There are no claims, actions, proceedings or suits arising out of or based upon any of such policies nor, to the Company's and Seller's Knowledge, does any basis for any such claim, action, suit or proceeding exist. All premiums have been paid on such policies as of the date of this Agreement and shall be paid on such policies through the Closing Date. The Company has been covered during the five years prior to the date of this Agreement by insurance in scope and amount equivalent to the policies of insurance set forth on *Schedule 2.20*. All claims made during such five-year period with respect to any insurance coverage of the Company are set forth on *Schedule 2.20*.

2.21. *Intellectual Property.*

(a) *Schedule 2.21* sets forth a true and complete list and a brief description of (i) each patent and patent application and each registration or application for registration thereof and each trademark, service mark, domain name and copyright registration or application for trademark, service mark, domain name or copyright registration, of all intellectual property owned by the Company, and (ii) each pending or unregistered trademark or service mark in use by the Company ("*Owned Intellectual Property*"), and, except with respect to shrink wrap software and intellectual property available to the general public, a true and complete brief description, including a description of any license or sublicense thereof, of all intellectual property licensed or sublicensed by the Company from a third party and all intellectual property that a third party has authorized the Company to use ("*Licensed Intellectual Property*"). Except as otherwise described on *Schedule 2.21*, in each case where a registration or patent or application for registration or patent listed on *Schedule 2.21* is held by assignment, the assignment has been duly recorded with the state or national Trademark Office from which the original registration issued or before which the application for registration is pending. Except as disclosed on *Schedule 2.21*, to the Company and Seller's Knowledge, the rights of the Company in or to such Owned Intellectual Property or Licensed Intellectual Property do not conflict with or infringe on the rights of any other Person and the Company has not received any claim or written notice from any Person to such effect. To the Company and Seller's Knowledge, neither the existence nor the sale, license, lease, transfer, use, reproduction, distribution, modification or other exploitation by the Company of any Owned Intellectual Property, as the same is or was, or is currently contemplated to be, sold, licensed, leased, transferred, used or otherwise exploited by the Company, does, did or will (i) infringe on any intellectual property rights of any Person, (ii) constitute a misuse or misappropriation of any intellectual property rights of any other Person, or (iii) entitle any other Person to any interest therein, or right to compensation from the Company by reason thereof. To the Company and Seller's Knowledge, none of the operations of the Company (including any and all products and services of either Company) or their respective businesses, as now or presently contemplated to be conducted, or performance of any contract as it has been, or as is currently being, conducted, infringes or, will infringe, upon any third party intellectual property.

(b) Except as disclosed on *Schedule 2.21*: (i) the Company is the sole and exclusive owner of all the Owned Intellectual Property, free and clear of any Lien and (ii) no claim, action, suit or

inquiry, proceeding ("*Action*") has been made or, to the Company and Seller's Knowledge, asserted or is pending or threatened against the Company either (A) based upon or challenging the validity and/or enforceability of any of the Owned Intellectual Property, or seeking to deny or restrict the use by the Company of any of the Owned Intellectual Property or (B) alleging that any services provided, or products manufactured or sold by the Company are being provided, manufactured or sold in violation of any patents or trademarks, or any other rights of any Person, and (iii) to the Company and Seller's Knowledge, no third party is infringing any of the Owned Intellectual Property. The Company owns or possesses adequate licenses or other rights to use all Owned Intellectual Property necessary or desirable to the conduct of its business as currently conducted. Except as disclosed on *Schedule 2.21*, to the Company and Seller's Knowledge, no Person is using any patents, copyrights, trademarks, service marks, domain names, trade names, trade secrets or similar property that are confusingly similar to the Owned Intellectual Property or that infringe upon the Owned Intellectual Property or upon the rights of the Company therein. Except as disclosed on *Schedule 2.21*, the Company has not granted any license or other right to any other Person with respect to the Owned Intellectual Property.

Without limiting the generality of the foregoing paragraph: (i) Company has duly registered the domain name of its site on the World Wide Web (the "*Company Domain Name*") located at www.motorproducts.net (the "*Company Website*"), and is the sole and exclusive owner of and possesses all rights necessary to use the Company Domain Name; (ii) Company has the right to operate the Company Website and to use, market, develop, sell, license, display, distribute, publish and transmit all information, content, software and other materials available at the Company Website; and (iii) to the Company and Seller's Knowledge, none of the Company Website, Company's operation thereof, the Company Domain Name or any of the information, content, software or other materials available at any Company Website infringes upon, violates or constitutes a misappropriation of any Company's Proprietary Rights or other right of any other person or entity or of any applicable law or regulation.

(c) The Company has made available to Buyer correct and complete copies of all licenses and sublicenses for Licensed Intellectual Property set forth on *Schedule 2.21* and any and all ancillary documents pertaining thereto (including, without limitation, all amendments, consents and evidence of commencement dates and expiration dates). With respect to each of such licenses and sublicenses:

(i) such license or sublicense, together with all ancillary documents delivered pursuant to the first sentence of this Section 2.21(c), is, to the Company and Seller's Knowledge, is in full force and effect with respect to the Company and, to the Company and Seller's Knowledge, with respect to every other party thereto;

(ii) except as otherwise disclosed on *Schedule 2.21*, with respect to each such license or sublicense: (A) the Company has not received any notice of termination or cancellation under such license, (B) the Company has not received any notice of a material breach or default under such

license or sublicense, which breach or default has not been cured, and (C) the Company has not granted to any other Person any rights, adverse or otherwise, under such license or sublicense;

(iii) except as otherwise disclosed on *Schedule 2.21*, neither the Company, nor, to the Company and Seller's Knowledge, any other party to such license or sublicense, is in breach or default in any material respect, and no event has occurred that, with notice or lapse of time would constitute such a breach or default or permit termination, modification or acceleration under such license or sublicense; and

2.16. *Assets.* Except for the Liens set forth on *Schedule 2.16* (all of which Liens other than Permitted Liens shall be terminated by Seller as of the Closing), the Company has good and marketable title to, or the valid right to use, all of its properties and assets, including the properties and assets reflected in the Balance Sheet (except Inventory disposed of in the ordinary course of business consistent with past practice at historical margins since the Balance Sheet Date), free and clear of any Lien, except liens for Permitted Liens. The assets owned or held under a right to use by the Company constitute all of the real, personal and mixed assets and property, both tangible and intangible, including intellectual property, which are being used or held for use by the Company in the conduct of the business and operations of the Company, consistent with historical and current practices. Each tangible asset material to the Company's business has been maintained in accordance with historical practice and is in good operating condition and repair (subject to normal wear and tear).

"Permitted Liens" means (a) statutory Liens for current taxes, assessments or other governmental charges not yet due and payable or the amount or validity of which is being contested in good faith by appropriate proceedings, to the extent such Liens in the aggregate do not exceed the reserves therefore set forth on the Balance Sheet; (b) mechanics', carriers', workers', repairers' and similar Liens arising or incurred in the ordinary course of business, to the extent such Liens do not in the aggregate exceed $50,000; (c) zoning, variances, easements, rights of way, entitlement and other land use laws by Governmental Bodies, which individually or in the aggregate when taken together with all other such items do not and will not materially interfere with the ownership, use, value, operation or marketability of the affected property; (d) deposits under workers compensation, unemployment insurance, social security or similar laws**,** to the extent such deposits are fully funded in accordance with applicable law; or (e) such other imperfections of title or Liens which do not individually or in the aggregate when taken together with all other such imperfections of title or Liens do not materially interfere with the ownership, use, value, operation or marketability of the affected property.

(iv) except as set forth on *Schedule 2.21*, no actions have been made or asserted or are pending or, to the Company and Seller's Knowledge, threatened against the Company either (A) based upon or challenging the validity and/or enforceability of any of the Licensed Intellectual Property, or seeking to deny or restrict the use by the Company in any material respect of any of the Licensed Intellectual Property or (B) alleging that any Licensed Intellectual Property is being licensed, sublicensed or used in violation of any patents or trademarks, or any other rights of any Person.

2.22. *Employee Benefit Plans.* The following terms, as used herein, having the following meanings:

"Benefit Arrangement" means each employment, severance or other similar contract, arrangement or policy (written or oral) and each plan or arrangement (written or oral) providing for severance benefits, insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or for deferred compensation, profit-sharing, bonuses, stock options, stock appreciation rights or other forms of incentive compensation or post-retirement insurance, compensation or benefits that (i) is not an Employee Plan, (ii) is entered into, maintained or contributed to, as the case may be, by the Company or any of its ERISA Affiliates and (iii) covers any employee or former employee of the Company.

"Employee Plan" means each "employee benefit plan," as such term is defined in Section 3(3) of ERISA, that (i) is subject to any provision of ERISA and (ii) is maintained or contributed to by the Company or any of its ERISA Affiliates, as the case may be.

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

"ERISA Affiliate" of any entity means any other entity that, together with such entity, would be treated as a single employer under Section 414 of the Code.

"Multiemployer Plan" means each Employee Plan that is a multiemployer plan, as defined in Section 3(37) of ERISA.

(b) *Schedule 2.22(b)* lists each separate Employee Plan that covers any employee of the Company, copies or descriptions of all of which have previously been made available or furnished to Buyer. With respect to each Employee Plan, the Company has provided the most recently filed Form 5500 and an accurate summary description of such plan.

(c) *Schedule 2.22(c)* also includes a list of each Benefit Arrangement of the Company, copies or descriptions of which have been made available or furnished previously to Buyer.

(d) Except as set forth on *Schedule 2.22(d)*, none of the Employee Plans or other arrangements listed on *Schedule 2.22(d)* covers any non-United States employee or former employee of the Company.

(e) No "prohibited transaction", as defined in Section 406 of ERISA or Section 4975 of the Code, has occurred with respect to any Employee Plan. No "Fiduciary" (as defined in ERISA Section 3(21)) has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any Employee Plan. No action, suit, proceeding, hearing or investigation with respect to the administration or the investment of the assets of any Employee Plan (other than routine claims for benefits) is pending or, to the knowledge of the Company is threatened. To the Company and Seller's Knowledge, there is no basis for any such action, suit, proceeding, hearing or investigation.

(f) Neither the Company nor any ERISA Affiliate maintains or contributes to a Multiemployer Plan or a "multiple employer plan" as defined in Section 210 of ERISA and neither the Company nor any ERISA Affiliate has any unsatisfied obligation to contribute or pay any withdrawal liability to any such plan..

(g) Each Employee Plan that is subject to the provisions of Title IV of ERISA is identified in *Schedule 2.22(g)* as the "Pension Plans." As of the most recent valuation date for each Pension Plan, the fair market value of the assets of each Pension Plan (including for these purposes any accrued but unpaid contributions) exceeded the present value of all benefit liabilities, as defined in ERISA Section 4001(a)(16), under each Pension Plan determined on a termination basis using the assumptions that would be applied by the PBGC for a plan terminating as of the date of this Agreement. No "accumulated funding deficiency" (as defined in Code Section 412), has been incurred with respect to any Pension Plan whether or not waived. Quarterly contributions under Code Section 412(m) have been made as required for each Pension Plan and no notice to the PBGC has been required under Code Section 412(n). No "reportable event" (as defined in ERISA Section 4043), and no event described in ERISA Section 4062, 4063 or 4041 has occurred in connection with any Pension Plan, other than a "reportable event" for which the 30-day advance notice requirement has been waived under regulations published by the PBGC. No condition exists and no event has occurred that could constitute grounds for the termination of any Pension Plan under ERISA Section 4042. Neither the Company nor any ERISA Affiliate has incurred any Liability under Title IV of ERISA arising in connection with the termination of any plan covered or previously covered by Title IV of ERISA.

(h) No Employee Plan is maintained in connection with any trust described in Code Section 501(c)(9).

(i) Except as set forth on Schedule 2.22(i), no Employee Plan permits the investment of plan assets in qualifying employer securities, as defined in ERISA Section 407(d)(5).

(j) Each Employee Plan which is a defined contribution plan has complied in all material respects with the requirements of ERISA Section 404(c).

(k) Each Employee Plan which is intended to be qualified under Section 401(a) of the Code meets the requirements of Section 401(a) of the Code as to form and, to the Knowledge of the Company and Seller, as to the operation of the Employee Plan, and each trust forming a part thereof is exempt from tax pursuant to Section 501(a) of the Code. The Company has furnished to Buyer copies of the most recent Internal Revenue Service determination letters with respect to each such Employee Plan. Each Employee Plan has been maintained in compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations, including but not limited to ERISA and the Code, which are applicable to such Employee Plan.

(l) Each Benefit Arrangement has been maintained in material compliance with its terms and, to the Company's and Seller's Knowledge, with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Benefit Arrangement.

(m) Except for the sole retiree medical plan listed in *Schedule 2.22(m)* (the "Retiree Medical Plan"), there are no employee post-retirement medical or health plans covering employees or former employees (or the beneficiaries of employees or former employees) of the Company. The Retiree Medical Plan can be terminated at any time. None of the Company, Seller, nor any ERISA Affiliate of either has made any written or oral representation to the Person that the Retiree Medical Plan will continue for any period of time or that such Retiree Medical Plan will not be terminated during the lifetime of any employee or former employee.

(n) No Tax under Section 4980B or Section 4980D of the Code has been incurred with respect to any Employee Plan that is a group health plan, as defined in Section 5000(b)(1) of the Code.

(o) There has been no amendment to, written interpretation of or announcement (whether or not written) by the Company or any of its ERISA Affiliates relating to, or change in employee participation or coverage under, any Employee Plan or Benefit Arrangement that would increase materially the expense of maintaining such Employee Plan or Benefit Arrangement above the level of the expense incurred in respect thereof for the fiscal year ended prior to the date hereof.

(p) Except as disclosed on *Schedule 2.22(p)*, no employee of the Company will become entitled to any material bonus, retirement, severance or similar benefit or enhanced benefit solely as a result of the transactions contemplated hereby.

(q) The Owosso Corporation 401(k) Savings Plan (the "*Owosso 401(k) Plan*") is sponsored by Seller and will continue to be sponsored by Seller after the Closing. The Owosso 401(k) Plan will not be assumed or adopted by Buyer, nor will Buyer accept any transfer of assets from the Owosso 401(k) Plan in a trustee to trustee transfer (but direct rollovers of cash from the Owosso 401(k) Plan will be accepted by the Hathaway Corporation 401(k) Tax Advantaged Investment Plan). The participation of MP Owosso and MP Ohio in the Owosso 401(k) Plan will cease as of the Closing.

2.23. *Finders' Fees.* Except as set forth on *Schedule 2.23*, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Seller or the Company which might be entitled to any fee or commission from Buyer, Seller or the Company upon consummation of the transactions contemplated by this Agreement. Such fee or commission shall be paid by Seller as of the Closing, and the Company shall have no Liability (and no cash or other assets of the Company shall be used for) the payment of such fee or commission.

2.24. *Other Representations Regarding the Company's Assets and Liabilities.*

(a) *Accounts Receivable.* All of the trade accounts receivable and any other similar right to receive payments arising out of sales made in the ordinary course with respect to the Company's business (the "*Accounts Receivable*") as of the Balance Sheet Date are reflected on

the Balance Sheet. The Accounts Receivable of the Company reflected on the Balance Sheet, and the Accounts Receivable which are reflected in the books and records of the Company and which have arisen from the period from the Balance Sheet Date to and including the Closing Date (and such books and records accurately reflect in all material respects all Accounts Receivable which have arisen during such period), (i) have arisen or will arise solely in bona fide transactions by the Company in the ordinary course of the operation of the business, (ii) represent or will represent upon their creation, valid obligations due and owing to the Company, except for (A) the reserves for doubtful accounts reflected in the Balance Sheet (which reserves have been established in accordance with GAAP and consistent with past practice of the Company) and (B) with respect to Accounts Receivable arising after the Balance Sheet Date, the reserves for doubtful accounts established on the Company's books and records in accordance with GAAP and in the ordinary course of the Company's business consistent with past practice, (iii) are or will be on the Closing Date

enforceable in accordance with their terms, and (iv) are not or will not be subject to any deduction, defense, set-off or counterclaim, and further subject to normal allowances, deductions and customary discounts consistent with past practices of the Company. Except as set forth on *Schedule 2.24(a)*, to the Knowledge of the Company and Seller, there are no disputes between the Company and any account debtor with respect to any Accounts Receivable and neither the Company nor Seller is aware of any such account debtor's status or condition which could impair its ability to pay its Accounts Receivable in accordance with their respective terms. Since October 28, 2001 the Company has not cancelled, compromised, settled, released, waived, written-off or expensed any Accounts Receivable or accelerated the collection of any Account Receivable.

(b) *Accounts Payable.* All of the accounts payable of the Company (the "*Accounts Payable*") as of the Balance Sheet Date are reflected on the Balance Sheet. The accounts payable of the Company reflected on the Balance Sheet, and the accounts payable which are reflected in the books and records of the Company and which have arisen from the period from the Balance Sheet Date to the Closing Date (and such books and records accurately reflect in all material respects all Accounts Payable which have arisen during such period), (i) have arisen or will arise solely in bona fide transactions by the Company in the ordinary course of the operation of the Company's business, (ii) represent upon their creation, valid obligations due and owing by the Company and (iii) as of the Balance Sheet Date were, and as of the Closing Date shall be, current in accordance with their normal, stated terms except as provided on Schedule 2.24(b).

(c) *Inventory.* All of the finished goods, spare parts, work in process, stock room inventory and raw material of whatever nature held for sale (collectively, the "*Inventory*") of the Company as of the Balance Sheet Date is reflected on its Balance Sheet, and all of such items of Inventory are, and all items of Inventory owned by the Company as of the Closing Date will be, (i) of a merchantable quality, subject to (A) reserves reflected in the Balance Sheet (which reserves have been established in accordance with GAAP and consistent with past practices of the Company) and (B), with respect to Inventory acquired after the Balance Sheet Date, reserves established on the Company's books and records in accordance with GAAP and in the ordinary course of the Company's business consistent with past practices, and (ii) salable in the ordinary course of the operation of the business at historical mark-ups, except for damaged, defective or obsolete Inventory, a reserve for which is set forth on the Balance Sheet. The Company's Inventory is, and has been, consistently valued on the books and records of the Company in accordance with GAAP, and such value reflects write-downs for damaged, defective or obsolete Inventory to the extent GAAP would so provide. Except as set forth on *Schedule 2.24(c)*, the Company does not hold any items of Inventory on consignment. All Inventory is located at the Company's Owned Real Property or Leased Real

Property (as those terms are defined below in Section 2.24(i)(i) and 2.24(i)(ii), except for Inventory in transit to or from the Company.

(d) *Leasehold Improvements.* Set forth on *Schedule 2.24(d)* is a list of all leasehold improvements for each Leased Real Property. All leasehold improvements are, and from the date hereof until the Closing Date will be, in all material respects in reasonably good working order, repair and condition, ordinary wear and tear excepted, and include all leasehold improvements, fixtures and appurtenances necessary for the Company to operate the Company's business as currently conducted. Except as set forth on *Schedule 2.24(d)*, all of the leasehold improvements are owned by the Company, and all of the movable trade fixtures constituting part of the leasehold improvements may be removed at any time by the Company from the Leased Real Property to which they are attached without giving rise to a default by the Company, or an obligation on the part of the Company to compensate the applicable landlord for any material diminution in value of the Leased Real Property, other than the obligation to repair any damage to the Leased Real Property caused by such removal.

(e) *Product Warranties.* Except as set forth in *Schedule 2.24(e)*, the Company has not given or made any warranties to third parties with respect to any products sold or services performed by it, except for warranties arising by operation of law. Each of the products sold or services performed by the Company conforms to all contractual agreements, all warranties made and all warranties arising by operation of law; provided, however, that Seller's Liability with respect to such representation shall be limited as set forth in Section 8.2(a)(vii). There are no pending or, to the Knowledge of the Company and Seller, threatened warranty claims, or legal proceedings relating to warranty claims, whether on the basis of warranties offered by the Company, warranties offered by any manufacturer of items of Inventory or otherwise (collectively "Warranty Claims"), or any facts, events or circumstances which have occurred, in either case which would result in a material claim, material legal proceeding or material Liability on the part of the Company. Except as set forth on *Schedule 2.24(e)*, within the three (3) years preceding the date hereof, no Warranty Claims have been made or, to the Knowledge of the Company and Seller, threatened. To the Knowledge of the Company and Seller, there are no design defects in any model or type of product or product specification of the Company ("Design Defects"). There have been no mandatory or voluntary product recalls with respect to any products of the Company, and there is no basis for any such recall. The warranty reserves reflected on the Financial Statements have been computed in accordance with GAAP, consistent with the Company's past practices, and such reserves are adequate for all warranty claims relating to products manufactured by the Company prior to the Closing Date.

(f) *Product Liabilities. Schedule 2.24(f)* attached hereto is a true and complete summary of claims as of the date hereof under all product warranty plans and product liability insurance policies relating to the Company since October 29, 2000, other than claims that are or have been fully covered by insurance (subject to policy deductibles). The Company is insured under policies of insurance relating to product liability listed in *Schedule 2.24(f)* attached hereto for and against any claim for damage to person or property based upon defects in any product to the extent a claim is made during the policy period subject to deductibles and other terms summarized therein. The Company or Seller has provided notice of all such claims to its insurance carriers and, except as set forth on *Schedule 2.24(f)* attached hereto, no insurance carrier has denied coverage, reserved rights against the Company or otherwise interposed any defense to coverage with respect to any such claims which is reasonably likely to result in a material Liability or material loss to the Company.

(g) *Certain Payments and Practices.* Neither the Company nor any of its shareholders, officers or directors, or to the Knowledge of the Company and Seller, any of the Company's

employees, has (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of what form, whether in money, property, or services, (i) to obtain favorable treatment for the Company, its business or

contracts secured, (ii) to pay for favorable treatment for business or contracts secured, (iii) to obtain special concessions or for special concessions already obtained, or (iv) in violation of any legal requirement, or (b) established or maintained any unrecorded fund or asset for any of the foregoing or for any illegal or improper purpose or made any false or artificial entries on its books which would be illegal or improper.

(h) *Real Property.*

(i) Schedule 2.24(h)(i) sets forth an accurate and complete list and a brief description of all real property owned by the Company (the "Owned Real Property") indicating whether MP Owosso or MP Ohio is the sole owner thereof, and such Owned Real Property, including the buildings and improvements thereon, is in good repair and operating condition, ordinary wear and tear excepted. The Company has free and complete access to and over public streets for ingress and egress to and from the Owned Real Property. Except for the Mortgage (as defined on Schedule 2.12(a), which Mortgage will be released on or prior to the Closing, the Company has, and on the Closing Date the Company will have good, marketable, insurable and indefeasible fee simple title to the Owned Real Property, free and clear of all Liens, conditions, exceptions or reservations, except easements for utilities and for conditions, exceptions and reservations which do not adversely affect the Company's operations. There are no adverse rights of third parties or other parties in possession of all or any part of the Owned Real Property. Except for the option granted in Section 9.18 of this Agreement, no party has been granted any license, lease, option to purchase or other right relating to the use or possession of all or part of the Owned Real Property. The Company and Seller have not received notice of, and have no other Knowledge of information of, any pending or contemplated change in any regulation or prior restriction applicable to the Owned Real Property, of any pending or threatened judicial or administrative action, of any action pending or threatened by adjacent landowners or other persons, or any pending or contemplated condemnation or together governmental action, any of which could result any material change in the condition of all or a part of the Owned Real Property. All utilities that are required for the full and complete use of and operation of the Owned Real Property, including without limitation, electricity, natural gas, sanitary sewers, storm sewers and drainage, water, telephones and similar systems, are at the Owned Real Property and in operating condition and in a state of maintenance and repair appropriate for the use there of in the ordinary and usual course of business by the Company, all easements or license encumbering the Owned Real Property which will be required in connection with such utilities have been granted. The use made of the Owned Real Property and the Leased Real Property by the Company in the ordinary course of business (the "*Use*") is a use allowed by right, without the requirement of a variance under applicable zoning, building and fire laws and ordinances, and any other agreements affecting such properties, including without limitation any restrictive covenants (other than that restrictive covenant referred to in Section 9.17 of this Agreement, and all consents, licenses, permits, approval and certificates required for the Use have been issued to and paid for by the Company and are in full force and effect. There are no improvements that encroach on to the Owned Real Property or that protrude from the Owned Real Property on to adjacent property.

(ii) *Schedule 2.24(h)(ii)* sets forth an accurate and complete list and a brief description of all real property currently leased by the Company (the "Leased Real Property") and the Company has made available to Buyer accurate and complete copies of the leases and

subleases for all such Leased Real Property, all of which are listed on *Schedule 2.24(h)(ii)*. With respect to each such lease and sublease:

(A) it is a legal, valid, binding and enforceable obligation of the Company and, to the Knowledge of the Company and Seller, the other party thereto, and is in full force and effect, and will continue in full force and effect on identical terms immediately following the Closing;

(B) the Company has not violated in any material respects the terms thereof and is not in default thereunder;

(C) to the Knowledge of the Company and Seller, no other party thereto is in default under any such lease or sublease;

(D) no party has repudiated any provision thereof in a writing delivered to the Company; and

(E) there are no material disputes, oral agreements, or forbearance programs in effect with respect thereto.

(iii) Except as set forth in *Schedule 2.24(h)(iii)*, the Company has not received any notice of (A) any requirements by any insurance company that has issued a policy covering any part of the Company's Owned Real Property and/or Leased Real Property by any board of fire underwriters or other body exercising similar functions, requiring any material repairs or work to be done on any part of any of such Owned Real Property and/or Leased Real Property, or (B) any defects or inadequacies in, on or about any part of the Company's Owned Real Property and/or Leased Real Property that would, if not corrected, result in the termination of insurance coverage or a material increase in the cost thereof, and which, in either case, remains outstanding, except for any requirement, defect or inadequacy, the existence of which is not reasonably likely to have a Material Adverse Effect on the Company. To the Knowledge of the Company and Seller, all public utilities, including water, electric sewage or subsurface disposal systems, required for the normal operation of the business of the Company as currently conducted, connect into the Company's Owned Real Property and/or Leased Real Property through adjoining public highways or, if they pass through adjoining private land, do so in all material respects in accordance with valid permits and licenses, all installation and connection charges due and payable with respect thereto have been paid in full or provided for and all such utilities are sufficient in all material respects for the operation of the Company's business as currently conducted and for the use and enjoyment of the Owned Real Property and the Leased Real Property.

(iv) There are no pending or, to the Knowledge of the Company and Seller, threatened condemnation, compulsory acquisition, expropriation, or similar proceedings that would affect all or any portion of the Company's Owned Real Property or Leased Real Property, except for any such condemnation, acquisition, expropriation or other proceeding which is not reasonably likely to have a Material Adverse Effect on the Company, or the use, operation and enjoyment of the Owned Real Property and the Leased Real Property. As of the Closing Date, no material assessments for public improvements will have been made against any of the Company's Owned Real Property or Leased Real Property which will not have been paid in full, except for any such assessments the validity of which are contested in good faith by means of appropriate proceedings. To the Knowledge of the Company and Seller, all utilities necessary or desirable for the full and complete occupancy and Use of the Owned Real Property and the Leased Real Property have been connected and are in good operating order, and all charges therefore, including "tie in" charges have been fully paid. To the Knowledge of the Company and Seller, no ordinance authorizing the improvements, the cost of which would

be assessed against any of the Company's Owned Real Property or Leased Real Property is pending or proposed, except for any such ordinance the existence of which would not result in a Material Adverse Effect on the Company.

2.25. *Significant Customers and Vendors.*

(a) *Schedule 2.25(a)* is a true and correct list showing (i) the twenty largest customers based on gross purchases from the Company during (A) the twelve-month period ending on October 28, 2001 (the "*Significant Customers*"), (B) the twelve-month period ending on October 29, 2000 and (C) the five-month period ending on March 31, 2002, (ii) the location of each of the Significant Customers, (iii) all vendors and suppliers of either of the Company who are the sole source of such supply where the parts supplied are not readily available from another source (collectively, the "*Sole Source Vendors*") and (iv) the location of each of the Sole Source Vendors.

(b) Except as set forth on Schedule 2.25(b), since October 28, 2001, no Significant Customer or Sole Source Vendor has: (i) stopped or indicated to the Company an intention to stop trading with or supplying the Company consistent with Significant Customer's or Sole Source Vendor's past practices, (ii) reduced, or indicated to the Company an intention to reduce, its trading with or provision of goods or services to the Company from that consistent with such Significant Customer's or Sole Source Vendor's past practices or (iii) changed, or indicated to the Company an intention to change, materially the terms and conditions on which it is prepared to trade with or supply the Company from that consistent with such Significant Customer's or Sole Source Vendor's past practices. To the Knowledge of the Company and Seller, no Significant Customer or Sole Source Vendor is reasonably likely, as a result of the transactions contemplated by this Agreement, to: (x) not trade with or supply the Company, (y) reduce substantially its trading with or provision of goods or services to the Company, or (z) change the terms and conditions on which it is prepared to trade with or supply the Company. Neither the Company nor Seller has any Knowledge of any facts, conditions or events which might give rise to a claim by the Company against any Significant Customer or Sole Source Vendor or any claim by a Significant Customer or Sole Source Vendor against the Company.

2.26. *Backlog.* *Schedule 2.26* lists all pending customer orders and contracts as of June 17, 2002 (and such Schedule shall be updated for Closing to a date within three (3) days of Closing). All such customer orders and contracts were entered into in the ordinary course of business, consistent with past practice.

2.27. *Disclosure.* Neither this Agreement, the Schedules hereto, any document delivered pursuant to this Agreement, nor any document or information provided to Buyer by the Company or Seller or any employee or agent thereof in the course of Buyer's due diligence investigation and the negotiation of this Agreement contain any untrue statement of any material fact or omit to state a material fact necessary in order to make the statements contained herein or therein not misleading. There is no fact known to the Company or Seller (other than general economic or industry conditions or eventual technological obsolescence of Company products) that is reasonably likely to have a Material Adverse Effect, which has not been set forth in this Agreement or such Schedules.

The identification of an item on one Schedule to this Agreement shall apply only to such Schedule and the correspondingly numbered representation and warranty and not to any other Schedule or representation and warranty. Seller acknowledges that the fact that it has made disclosures pursuant to Article II or the Schedules thereto of matters which result in Damages to Buyer shall only apply to qualify the representation or warranty in respect of which each Schedule disclosure is made and shall not otherwise relieve Seller of its obligation pursuant to Article VIII of this Agreement to indemnify and hold harmless Buyer from Damages as required by Article VIII.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

3.1. *Organization and Good Standing.* Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Colorado.

3.2. *Corporate Power and Authority.* Buyer has full corporate power and authority to make, execute, deliver and perform this Agreement and the transactions contemplated hereby.

3.3. *Due Authorization.* The execution, delivery and performance of this Agreement by Buyer have been duly authorized by all necessary corporate action on the part of Buyer, and this Agreement constitutes the legal, valid and binding obligation of Buyer, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting the rights and remedies of creditors generally, provided that no representation or warranty is made as to the availability of any equitable or other specific remedy upon any breach of this Agreement.

3.4. *Finders' Fees.* Except for fees payable to Blitzer, Ricketson & Company, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Buyer which might be entitled to any fee or commission from Seller or the Company upon consummation of the transactions contemplated by this Agreement. Such fee or commission shall be paid by Buyer as of the Closing, and Seller shall have no Liability for the payment of such fee or commission.

3.5. *Investment Intent.*

(a) The Company Stock being purchased by Buyer is being acquired for Buyer's own account for the purpose of investment and not with a view to or for sale in connection with any distribution thereof; and

(b) Buyer understands and agrees that (i) the Company Stock has not been registered under the Securities Act, by reason of its issuance in a transaction exempt from registration requirements of the Securities Act pursuant to Section 4(2) thereof and (ii) the Company Stock must be held indefinitely unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration.

3.6. *Consents and Governmental Authorization.* Except as set forth on *Schedule 3.6*, the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by Buyer require no consent, approval or action by or in respect of, or filing with, any third party or Governmental Body for which Buyer is responsible.

3.7. *Non-Contravention.* The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement and the compliance with the terms, conditions and provisions of this Agreement by Buyer, will not (a) contravene any provision of Buyer's charter or bylaws, as amended or (b) assuming compliance with the matters referred to in Section 3.6, contravene or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to Buyer.

ARTICLE IV
CONDITIONS TO CLOSING

4.1. *Conditions Precedent to Obligations of Buyer.* The obligations of Buyer to proceed with the Closing under this Agreement are subject to the fulfillment prior to or at the Closing of the following

conditions (any one or more of which may be waived in whole or in part in writing by Buyer at Buyer's option):

(a) *Representations and Warranties.* The representations and warranties of the Company and Seller contained in Article II shall be true and accurate in all material respects on and as of the Closing Date (except to the extent a representation or warranty speaks specifically as of an earlier date which representation and/or warranty shall have been true and accurate in all material respects as of such earlier date) and the Company and Seller shall have provided Buyer with a certificate executed by the Company and Seller, dated as of the Closing Date, to such effect.

(b) *Covenants.* The Company and Seller shall have performed and complied with all of their respective covenants contained herein on or before the Closing Date (to the extent required to be performed on or prior to the Closing Date), and Buyer shall receive a certificate to such effect signed by an officer of the Company and Seller.

(c) *Opinion of Company and Seller's Counsel.* Buyer shall have received from Pepper Hamilton LLP, counsel for the Company and Seller an opinion dated the date of the Closing in form and substance reasonably satisfactory to Buyer.

(d) *Required Consents.* The Seller shall have obtained all consents and approvals of third parties to the transactions contemplated hereby on the part of the Company and Seller which are identified in *Schedule 4.1(d)* required for the consummation of the transactions contemplated hereby.

(e) *Litigation.* No order of any court or Governmental Body shall be in effect which restrains or prohibits the transactions contemplated hereby or which would limit or adversely affect Buyer's ownership or control of the Company or the business of the Company as currently conducted, and there shall not have been threatened, nor shall there be pending, any such action or proceeding, or any action or proceeding by or before any court or Governmental Body (i) challenging any of the transactions contemplated by this Agreement or seeking monetary relief by reason of the consummation of such transactions or (ii) by any present or former owner of any capital stock or equity interest in the Company (whether through a derivative action or otherwise) against the Company or any officer, director or stockholder of the Company in his capacity as such or (iii) which might have an adverse effect on the right of Buyer to own the Company and conduct the business of the Company, and Buyer shall receive a certificate to such effect signed by the Company and Seller.

(f) *Governmental Approvals.* All authorizations, consents, orders or approvals of, or declarations or filings with, or expiration or termination without objection of waiting periods imposed by, any competent federal, state, local or foreign Governmental Body.

(g) *Certified Documents.* The Company shall have delivered to Buyer at Closing a copy of its certificates of incorporation and by-laws, as amended, as certified by the Secretary or an Assistant Secretary of Company, as appropriate. Seller shall have delivered to Buyer a copy of resolutions adopted by its board of directors authorizing the execution, delivery and performance of this Agreement and the transactions contemplated hereby, as certified by a Secretary or Assistant Secretary of Seller.

(h) *Resignation of Officers and Directors.* Seller shall have delivered to Buyer copies of resignations delivered to the Company prior to the Closing, but effective as of Closing, of the officers and directors of the Company specified on *Schedule 4.1(h).*

(i) *Prepayment of Cognovit Promissory Note.* Seller shall have delivered evidence to Buyer of the satisfaction in full, on behalf of MP Ohio, all unpaid amounts outstanding under

that certain Cognovit Promissory Note, dated November 21, 1996 pursuant to the terms thereof and that certain related Loan Agreement by and between MP Ohio and Cascade CDSC, Inc. dated of even date.

(j) *Material Adverse Change.* There shall have been no material adverse change in the Company or its condition (financial or otherwise), business, properties, assets, Liabilities, prospects, operations or results of operations between the date of this Agreement and the Closing.

(k) *Search Results.* Buyer shall have received (i) UCC, Lien, litigation and judgment searches (which searches shall be paid for by Buyer) with respect to the Company, and (ii) evidence of termination by Seller and the Company of all Liens (and of all related UCC financing statements, mortgages and similar matters evidencing Liens) filed against the Company or any of its assets, or payoff letter(s) from secured parties with respect to such Liens.

(l) [Intentionally deleted.]

(m) *Employment Arrangements.* Buyer shall have entered into employment and noncompetition agreements with the persons identified on *Schedule 4.1(m)*, on terms and conditions satisfactory to the parties thereto.

(n) *Other Matters.* Seller shall have delivered, or cause the Company to deliver, to Buyer such other instruments, certificates and documents as are reasonably requested by Buyer in order to consummate the transactions contemplated by this Agreement, all in form and

substance reasonably satisfactory to Buyer.

4.2. *Conditions Precedent to Obligations of Seller.* The obligations of Seller to proceed with the Closing hereunder are subject to the fulfillment prior to or at the Closing of the following conditions (any one or more of which may be waived in whole or in part in writing by Seller at Seller's option):

(a) *Representations and Warranties.* The representations and warranties of Buyer contained in Article III shall be true and accurate on and as of the Closing Date (except to the extent a representation or warranty speaks specifically as of an earlier date, which representation and/or warranty shall have been true and accurate as of such earlier date) and Buyer shall have provided Seller with a certificate executed by Buyer, dated as of the Closing Date, to such effect.

(b) *Covenants.* Buyer shall have performed and complied with all of its covenants contained herein on or before the Closing Date (to the extent required to be performed on or prior to the Closing Date), and Seller shall receive a certificate to such effect signed by an officer of Buyer.

(c) *Opinion of Counsel for Buyer.* Seller shall have received from Sherman & Howard L.L.C., as counsel for Buyer, an opinion dated the date of the Closing in form and substance reasonably satisfactory to Seller.

(d) *Required Consents.* Buyer shall have obtained all consents and approvals of third parties to the transactions contemplated hereby on the part of Buyer (including, without limitation, those disclosed on *Schedule 3.6)* required for the consummation of the transactions contemplated hereby.

(e) *Litigation.* No order of any court or Governmental Body shall be in effect which restrains or prohibits the transactions contemplated hereby and there shall not have been threatened, nor shall there be pending, any action or proceeding by or before any court or

Governmental Body or arbitrator, challenging any of the transactions contemplated by this Agreement or seeking monetary relief by reason of the consummation of such transactions.

(f) *Governmental Approvals.* All authorizations, consents, orders or approvals of, or declarations or filings with, or expiration or termination without objection of waiting periods imposed by, any competent federal, state, local or foreign Governmental Body, necessary for the consummation of the transactions contemplated by this Agreement shall have been filed, occurred or been obtained.

ARTICLE V
TERMINATION OF AGREEMENT

5.1. *Grounds for Termination.* This Agreement may be terminated in writing at any time at or prior to the Closing, subject to Section 5.2, as follows:

(i) by mutual written agreement of the Company, Seller and Buyer;

(ii) by either (A) Seller or (B) Buyer, if there shall be any law or regulation that makes the consummation of the transactions contemplated hereby illegal or otherwise prohibited or if consummation of the transactions contemplated hereby would violate any nonappealable final order, decree or judgment of any court or Governmental Body having competent jurisdiction; or

(iii) if the Hathaway Power Sale occurs: (A) by Buyer, if the Closing has not occurred and any of the conditions precedent to Buyer's obligations to proceed with the Closing remain unfulfilled and not waived by Buyer five business days following notice by Buyer to Seller of such non-fulfillment and non-waiver given following consummation of the Hathaway Power Sale, provided that such non-fulfillment was not the direct result of Buyer's default of its obligations under this Agreement; or (B) by Seller, if all of the conditions precedent to Buyer's obligations to proceed with the Closing have been fulfilled or waived by Buyer and Seller is not in default of its obligations under this Agreement, and the Closing has not occurred within five business days of notice by Seller to Buyer to such effect given following consummation of the Hathaway Power Sale; or

(iv) by Seller (upon 24 hours written prior notice to Buyer) at any time from August 16, 2002 to November 1, 2002 if the affirmative vote of the shareholders of Hathaway Corporation necessary to approve the Hathaway Power Sale (the "Required Hathaway Vote") has not been obtained by 5:00 p.m., Denver, Colorado time, on August 15, 2002;

(v) by Seller or Buyer (upon 24 hours prior written notice to the other party) at any time on or after November 1, 2002 if the Required Hathaway Vote has not been obtained by 5:00 p.m., Denver, Colorado time, on August 15, 2002; or

(vi) If the Required Hathaway Vote has been obtained by 5:00 p.m., Denver, Colorado time, on August 15, 2002 and the Hathaway Power Sale has not occurred by 5:00 p.m., Denver, Colorado time by the fifth business day following the date of such vote:

(A) by Seller (upon 24 hours prior written notice to Buyer) at any time from August 22, 2002 to November 1, 2002, or

(B) by Buyer or Seller at any time on or after November 1, 2002.

5.2. *Effect of Termination.* If this Agreement is terminated as permitted by Section 5.1, such termination shall be without Liability of either party (or any stockholder, director, officer, employee, agent, consultant or representative of such party) to the other party to this Agreement; *provided* that if such termination shall result from a willful breach or default by such party of any of its representations

or warranties contained in this Agreement or from the willful failure of any party to fulfill a condition to the performance of the obligations of another party or to perform a covenant of this Agreement or from a willful breach by any party to this Agreement, such party shall be fully liable for any and all Damages (as hereinafter defined) incurred or suffered by the other parties as a result of such failure or breach. The provisions of Sections 5.2 and 5.3 and Articles VIII and IX (except those contained in Section 9.10 or Sections 9.14 through 9.18) shall survive any termination hereof pursuant to Section 5.1.

5.3. *Deposit.* If this Agreement is terminated, the Deposit will be distributed as follows, and Seller and Buyer shall so direct the Escrow Agent:

(i) paid to Buyer, if the Agreement was terminated pursuant to Sections 5.1(i), (ii), (iii)(A) or (vi)(A);

(ii) paid to Bank One, NA for the account of Seller, if the Agreement was terminated pursuant to Sections 5.1(iii)(B), (v), or (vi)(B) if the Hathaway Power Sale was not consummated due to Buyer's failure to fulfill the conditions precedent to closing in Section 7.3(a), (b), (e), (g), (i), (j) or (k) of the Hathaway / Qualitrol Agreement.

(iii) $300,000 (plus accrued interest) paid to Bank One, NA for the account of Seller and $1,700,000 (plus accrued interest) paid to Buyer, if the Agreement was terminated pursuant to Sections 5.1(iv) or (vi)(B) if the Hathaway Power Sale was not consummated due to Qualitrol's breach of the Hathaway/Qualitrol Agreement or due to the non-fulfillment of any of the conditions precedent to closing in Section 7.1 (a) or 7.3(c), (d), (f) and (h) of the Hathaway/Qualitrol Agreement.

ARTICLE VI
TAX MATTERS

6.1. *Additional Tax Definitions.* "*Adjustments*" means, with respect to Taxes, a change in the amount or character of any item of income, gain, loss, deduction or credit of the Company, including but not limited to changes thereto attributable to: (w) amendment of returns; (x) deficiencies asserted by any taxing authority; or (y) claims for refund, irrespective of whether such change arises out of a voluntary act, or any audit, examination, proceeding or litigation resulting from any of the foregoing events.

"IRS" means the Internal Revenue Service.

"Post-Affiliation Year" means any taxable year or period of the Company beginning after the Closing Date.

"Regulations" means the U.S. Treasury Department Income Tax Regulations in effect under the Code, as amended from time to time.

6.2. *Tax Returns and Payments.*

(a) [Intentionally deleted.]

(b) *Fiscal 2002 Short Year Federal Return.* Based upon the information provided to it by Buyer or the Company pursuant to this subparagraph (b), Seller shall prepare the pro forma federal income tax return of the Company for the short taxable period ending on the Closing Date, and shall include the taxable income or loss reflected in such pro forma return in the Consolidated Return, and shall provide a copy of such pro forma return to Buyer. Based upon the information so provided, such return shall be true and complete in all material respects and shall be prepared in accordance with Section 1.1502-76(b)(2) of the Regulations. If a Code Section 338(h)(10) Election is made pursuant to Section 6.7 below, such fiscal 2002 pro forma federal income tax return will be prepared based on the allocation of the payment

referred to in Section 1.2, Consideration and Payment, among the assets of the Company pursuant to subparagraph (b) of Section 6.7 below. No later than the one month anniversary of the Closing Date, Buyer or the Company shall prepare and deliver to Seller, a domestic tax package including such information and prepared in a manner and in such form consistent with those delivered to Seller by the Company in prior years.

(c) [Intentionally deleted.]

(d) *Fiscal 2002 Short Year State and Local Tax Returns.* Seller shall prepare all state and local income tax returns of the Company that are required to be filed for the short taxable period ended on the Closing Date. Buyer shall provide Seller a Power of Attorney solely for the purposes of obtaining an extension of time as may be needed for such returns. Seller shall provide Buyer with such return in proper form for filing no later than 30 days before such returns are due. Seller shall consult with Buyer with respect to the modifications to federal taxable income made by Seller in such state and local income tax returns. Such returns shall be signed and timely filed by or caused to be timely filed by Buyer.

(e) *Post Closing Returns.* Buyer shall prepare, sign and file all tax returns, for any type of Tax, which returns are required to be filed for all periods ending after the Closing Date, including state tax returns which include the period October 28, 2001 through the Closing Date ("*straddle returns*"), subject to Seller's review of such straddle returns. Buyer shall also prepare, sign and file all local tax returns (whether for periods ending before or after the Closing Date).

(f) *Tax Liability of Buyer and the Company.* As between the parties, Buyer and the Company shall have the sole liability to timely pay to the relevant taxing authority all Taxes which arise from: (x) any tax period which begins after the Closing Date; and (y) any tax returns which Buyer is required to file under subparagraph (e) of this Section 6.2.

6.3. *Adjustments.* (a) *Adjustments to Post-Affiliation Year Returns.* If with respect to Consolidated Returns: (x) there is an Adjustment to any item reported on a return filed with respect to the Company for a Post-Affiliation Year that results in an increase in Taxes payable by Buyer or the Company; and (y) such Adjustment results in a corresponding Adjustment to items reported on a return filed with respect to Seller or any affiliate of Seller (including the Company) for an Affiliation Year; and (z) the Taxes payable by or on behalf of Seller (or such affiliate) with respect to the Company for such period are reduced by such Adjustment (the "*Seller Decrease*"), then Seller shall pay to Buyer or the Company, an amount equal to such increase in Taxes of Buyer or the Company. The amount payable by Seller under this paragraph shall be limited to Seller Decrease, plus interest calculated as under Code Section 6621, or comparable interest

from state and local authorities, with respect to such Seller Decrease. Payment under this paragraph shall be made no later than five Business Days after Seller Decrease is refunded to Seller or such affiliate or is otherwise actually realized.

(b) *Adjustments to Affiliation Year Returns.* If, with respect to Consolidated Returns: (x) there is an Adjustment to any item reported on a return filed with respect to Seller or any affiliate of Seller (including the Company) for an Affiliation Year that results in an increase in the Taxes payable by Seller or an affiliate of Seller; and (y) such Adjustment results in a corresponding Adjustment to items reported on a tax return filed with respect to Buyer or any affiliate of Buyer (including the Company) for a Post-Affiliation Year; and (z) the Taxes payable by or on behalf of Buyer (or such affiliate) with respect to such Post-Affiliation period are reduced by such Adjustment (the "*Buyer Decrease*"), then Buyer shall pay to Seller an amount equal to such increase in Taxes of Seller or such affiliate. The amount payable by Buyer under this paragraph shall be limited to Buyer Decrease, plus interest calculated as under pursuant to Code Section 6621, or comparable interest from state or local authorities, with respect to such Buyer Decrease. Payment under this paragraph shall be made no later than five Business Days after Buyer Decrease is refunded to Buyer or such affiliate, or is otherwise actually realized.

(c) *Other Changes in Taxable Income.* If with respect to a Consolidated Return for an Affiliation Year: (x) the Company's taxable income is determined (by Buyer or Seller with the agreement of the other that the change is appropriate, or by the IRS) to be greater than its taxable income as originally reported on such Consolidated Return (other than as a result of an Adjustment described in subparagraph (a) or (b) above), the Company shall pay to Seller an amount equal to the product of the increase in taxable income times the maximum federal Tax rate for the applicable year (plus penalties and interest); (y) the Company's taxable income is determined (by Buyer or Seller with the agreement of the other that the change is appropriate, or by the IRS) to be less than its taxable income as originally reported on such Consolidated Return (other than as a result of an Adjustment described in subparagraphs (a) or (b) above) and Seller receives a cash refund for the Affiliated Group which Seller determines in its sole discretion to be attributable to the Company, Seller shall pay to Buyer an amount equal to the product of the reduction in taxable income and the maximum federal Tax rate for the applicable year (plus interest); (z) Payment pursuant to this subparagraph (iii) shall be made no later than five (5) Business Days after Seller receives or otherwise actually realizes a refund of or is assessed the additional tax.

(d) *Notice of Adjustments by Seller.* Seller shall promptly notify Buyer of any IRS notice or revenue agent's report or equivalent state or local tax authority notice received by Seller which could result in an Adjustment giving rise to a liability of Buyer or the Company under this Agreement. However, the failure to give such notice shall not relieve Buyer or the Company from any liability that it may have hereunder, except to the extent that such failure results in increased liability to Buyer or the Company arising out of its obligations to pay Seller as provided in this Article VI. Seller shall keep Buyer informed of developments regarding such notice or report and shall consult with the Company or Buyer concerning the appropriate actions or positions to be taken in such proceedings to the extent such developments: (x) relate to any liability of Buyer or the Company to Seller under this Agreement, or (y) could affect the liability of Buyer or the Company for Taxes in a Post-Affiliation Year.

(e) *Notice of Adjustments by Buyer and the Company.* Buyer shall promptly notify Seller of any IRS notice or revenue agent's report or equivalent state or local tax authority notice received by Buyer or the Company which could result in an Adjustment giving rise to a liability of Seller under this Agreement. However, the failure to give such notice shall not relieve Seller from any liability that it may have hereunder, except to the extent that such failure results in increased liability to Seller arising out of its obligations to pay Buyer. Buyer shall keep Seller informed of developments regarding such report or notice to the extent such developments relate to any liability of Seller to Buyer or the Company under this Agreement.

6.4. *Indemnification.* Seller agrees to pay and shall indemnify and hold harmless the Company and Buyer from and against all Taxes, and Seller shall be entitled to receive and retain all refunds of Taxes, in each case, only to the extent attributable to the operations or assets of any member of the Affiliated Group other than the Company and its subsidiaries.

6.5. *Cooperation; Furnishing of Information.* The parties agree to provide each other with such cooperation and information as may be reasonably requested in connection with:

(i) the preparation or filing of any Tax return, report, amended return or claim for refund with respect to Taxes;

(ii) the conduct of any audit; or

(iii) making any other computation or determination required hereunder.

6.6. *Record Retention.* Seller and the Company shall retain all relevant tax returns, schedules and workpapers, and all related material records or other documents until the expiration of the statute of limitations (including extensions) of the taxable years to which such returns and other documents relate, but in any event for a period of not less than seven (7) years, provided, however, that Seller is not required to retain any documents which have been furnished to the Company or Buyer.

6.7. *Code Section 338(h)(10) Election.*

(a) Subject to subparagraph (b) below, Buyer and Seller shall join in a Code Section 338(h)(10) Election with respect to the acquisition by Buyer of the Company Stock. Seller shall execute IRS Form 8023 (or any replacement form) allocating the Consideration in accordance with the methodology set forth on *Schedule 6.7(a)*, comply with all the requirements of Code Section 338(h)(10) and Regulations promulgated thereunder, and take any other action reasonably requested by Buyer in order to make and effectuate this election. Other than as set forth in this Article VI, all Taxes arising as a result of the Code Section 338(h)(10) Election are the responsibility of Seller.

(b) Notwithstanding the provisions of subparagraph (a) above, in the event of a failure to make a Code Section 338(h)(10) Election, other than a failure resulting from a breach by Seller of the provisions of this Section 6.7, Seller shall have no liability for any such Taxes resulting from any other election made by Buyer pursuant to Code Section 338. Seller and Buyer shall allocate the Consideration among the assets of the Company as of the

Closing Date as set forth on Schedule 6.7(a) for purposes of reporting the fair market value of the assets of the Company for purposes of Code Section 338. On or before the four month anniversary of the Closing Date, Buyer shall obtain and deliver to Seller an appraisal of the machinery, equipment and other fixed assets performed by an appraiser selected and paid by Buyer. Prior to fifth month anniversary of the Closing Date, Buyer shall prepare and deliver to Seller a schedule showing state apportionments of payroll, property and sales taxes for the period October 29, 2001 through the Closing Date in a form consistent with those schedules delivered to Seller by the Company in prior years.

ARTICLE VII
COVENANTS

7.1. *Conduct of Business.*

(a) *Interim Conduct of Business of Company.* From the date hereof until the Closing, the Company shall, and Seller shall cause the Company to, operate its business as a going concern consistent with prior practice and in the ordinary course of business. Without limiting the generality of the foregoing, from the date hereof until the Closing, except for transactions expressly approved in writing by Buyer, the Company shall not, and Seller shall cause the Company to not:

(i) enter into or amend any employment, bonus, severance or retirement contract or arrangement, or increase any salary or other form of compensation payable or to become payable to any executive or employee other than in the ordinary course of business consistent with prior practice;

(ii) purchase, lease, or otherwise acquire any real estate or any interest therein;

(iii) declare, set aside, or pay any dividend or make any other distribution with respect to any equity security;

(iv) merge or consolidate with or agree to merge or consolidate with, or purchase or agree to purchase all or substantially all of the assets of, acquire securities of, or otherwise acquire any Person;

(v) sell, lease, or otherwise dispose of or agree to sell, lease or otherwise dispose of any of its assets, properties, rights, or claims, whether tangible or intangible, except sales of Inventory in the ordinary course of business and, with respect to Significant Customers, at historical margins;

(vi) authorize for issuance, issue, sell, or deliver any Company securities;

(vii) split, combine, or reclassify any class of equity security or redeem or otherwise acquire, directly or indirectly, any of its equity securities;

(viii) incur any Liability other than in the ordinary course of business consistent with past practice;

(ix) place or permit to be placed any Lien on any of its assets or properties, other than Permitted Liens arising in the ordinary course of business;

(x) make or authorize any amendments or changes to its charter or by-laws;

(xi) accelerate Accounts Receivable or delay or postpone payment of any accounts payable or other Liability;

(xii) abandon any material part of its business;

(xiii) make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(xiv) commence a lawsuit or any other proceeding, other than for routine collection of bills; or

(xv) subject to Section 7.4, take or agree (in writing or otherwise) to take any action which would make any of the representations or warranties set forth in Section 2.9(c), (d), (e), (f), (g), (h), (i), (j), (k), (l), (m), (n), (o), (q), (r), (s), (t), (u) or (w) untrue without references to *Schedule 2.9* for matters not on such Schedule as of the date of this Agreement.

(b) *Interim Conduct of Business of Buyer.* From the date hereof until the Closing, Buyer shall operate its business as a going concern consistent with prior practice and in the ordinary course of business.

7.2. *No Solicitation, Confidentiality, Etc*. Seller and the Company agree that, prior to July 30, 2002, neither the Company nor the Seller will (i) solicit or negotiate with respect to any inquiries or proposals relating to (x) the possible direct or indirect acquisition of the Company Stock or any other equity security of the Company or of all or a portion of the assets or business of the Company or (y) any merger, consolidation, joint venture or business combination with the Company; or (ii) discuss or disclose either this Agreement or other confidential information pertaining to the Company with any person (except as may be required by law or except as may be required in connection with the transactions contemplated by this Agreement to affiliates, officers, directors, employees and agents of the Company or Seller) without the prior written approval of Buyer. After July 30, 2002, for so long as the Closing has not occurred, Seller may so solicit and negotiate with respect to any such inquiries and proposals such transactions and discuss and disclose such information.

7.3. *Necessary Consents.* Buyer, the Company and Seller shall use reasonable best efforts (i) to obtain the third party consents identified on Schedule 4.1(d) or as otherwise as may be necessary or

appropriate for the consummation of the transactions provided for herein and (ii) to accomplish the satisfaction of the conditions precedent to Closing contained in Section 4.1 (in the case of the Company and Seller) and Section 4.2 (in the case of Buyer) on or prior to the Closing Date.

7.4. *Settlement of Certain Intercompany Transactions.* Immediately prior to Closing, Seller shall, and shall cause the Company and any other affiliates of Seller to, forgive any and all intercompany indebtedness and terminate any intercompany transactions between Seller or any such affiliate other than the Company, on the one hand, and the Company, on the other hand; provided, however, that no cash or other assets of the Company shall be transferred to Seller in connection therewith.

7.5. *Noncompetition, Nonsolicitation and Confidentiality.*

(a) *Seller Noncompete.* As further consideration for the purchase and sale of the Company Stock and other transactions contemplated by this Agreement, Seller shall not, and Seller shall cause each of its Affiliates not to, until the first to occur of a Change of Control of Seller or a period of five (5) years following the Closing Date (the "*Term*"), for any reason whatsoever, directly or indirectly, for itself or on behalf of or in conjunction with any other Person:

(i) engage anywhere in the world (the "*Territory*") (A) in selling, manufacturing, distributing or marketing a stand-alone motor that could replace or is reasonably likely to replace any motor product of the Company existing on the Closing Date or any improvement thereto or replacement of such improved motor or (B) in serving as an independent contractor, consultant, adviser, sales representative or otherwise to any business engaged in any activities prohibited by clause (A);

(ii) call upon or solicit any Person who is, at that time, or that has been, within two (2) years prior to that time, a customer of the Company within the Territory for the purpose of soliciting or selling products or services in competition with the Company within the Territory; or

(iii) call upon, solicit, or hire away any Person who is, at that time, or has been, within six (6) months prior to that time, within the Territory, an employee, contractor, subcontractor, independent consultant, sales representative or vendor of the Company for the purpose or with the intent of enticing such employee, contractor, subcontractor, independent sales representative or vendor away from the Company.

(b) *Company Nonsolicitation.* As further consideration for the purchase and sale of the Company Stock and other transactions contemplated by this Agreement, from and after the Closing Date the Company shall not, nor shall any of its then Affiliates, for any reason whatsoever, directly or indirectly, for itself or theirselves or on behalf of or in conjunction with any other Person during the first to occur of the third anniversary of the Closing Date or a Change of Control of the Company:

(i) utilize the Stature Electric, Inc. customer list known to certain employees of the Company to call upon or solicit any Person who is, on the Closing Date, or that has been, within two (2) years prior to the Closing Date, a customer of Stature Electric, Inc. for the purpose of soliciting or selling products or services in competition with Stature Electric, Inc.; or

(ii) call upon, solicit, or hire away any Person who is, at that time, or has been, within six (6) months prior to that time, within the Territory, an employee, contractor, subcontractor, independent consultant, sales representative or vendor of Stature Electric, Inc. for the purpose or with the intent of enticing such employee, contractor, subcontractor, independent sales representative or vendor away from Stature Electric, Inc.

(c) For the purposes of this Section 7.5, "*Affiliate*" means (A) any Person, that directly or indirectly through one or more entities, controls or is controlled by or is under common control with, another Person or (B) any director, officer, director, partner, member, manager or trustee of such Person or (C) any Person who is an officer, director partner, member, manager or trustee of any Person described in Clauses (A) and (B) of this sentence. As used herein, "*controls*," "*control*" and "*controlled*" means the possession, direct or indirect, of the power to direct the management and policies of a Person, whether through the ownership of 50% or more of the voting interest of such Person or otherwise. The term "*Change of Control*" means (A) the merger of Seller with a non-Affiliate of Seller or the merger of the Company with a non-Affiliate of the Company, as the case may be or (B) the sale by the shareholders of Seller of all or substantially all of the outstanding capital stock of Seller in a single transaction or series of related transactions to a non-Affiliate of Seller, or the sale by the shareholders of the Company of all or substantially all of the outstanding capital stock of the Company in a single transaction or series of related transactions to a non-Affiliate of the Company, as the case may be.

(d) The parties agree that the covenants in this Section 7.5 impose a reasonable restraint on Seller and the Company in light of the activities and business of Buyer and the Company on the one hand, and Seller on the other hand, on the date of the execution of this Agreement and the current plans of Buyer, the Company and Seller.

(e) The covenants in this Section 7.5 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time, or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent to which the court deems reasonable, and the Agreement shall thereby be reformed.

(f) All of the covenants in this Section 7.5 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Seller against Buyer or the Company or Buyer against Seller, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Buyer or Seller of such covenants. The parties expressly acknowledge that the terms and conditions of this Section 7.5 are independent of the terms and conditions of any other agreements entered into in connection with this Agreement. It is specifically agreed that in the periods set forth in this Section 7.5 during which the agreements and covenants of Seller and Buyer made in this Section 7.5 shall be effective and shall be computed by excluding from such computation any such time during which Seller or Buyer

or any of their Affiliates is found by a court of competent jurisdiction to have been in violation of any provision of this Section 7.5. The covenants contained in Section 7.5 shall not be affected by any breach of any other provision hereof by any party hereto and shall have no effect if the transactions contemplated by this Agreement are not consummated.

(g) Each of the parties hereto hereby agree that the covenants set forth in this Section 7.5 are a material and substantial part of the transactions contemplated by this Agreement, supported by adequate consideration.

ARTICLE VIII
INDEMNIFICATION

8.1. *Survival.* The representations and warranties of the parties hereto contained in this Agreement or in any certificate, agreement or other writing delivered pursuant to this Agreement or in connection with this Agreement shall survive the Closing for a period of eighteen (18) months, except

that the representations and warranties set forth in Section 2.10 shall survive until expiration of the applicable statute of limitations, the representations and warranties set forth in Sections 2.1, 2.2, 2.5, 2.6(a), 2.6(c) (with respect to Liens on or other interests or rights in the Company's assets or the Company Stock), 2.16 (to the extent it relates to issues of title), 2.21 (to the extent it relates to issues of title), 3.1, 3.2, 3.3 and 3.7(a) shall survive without termination, and the representations and warranties set forth in Section 2.15 shall not survive Closing. The covenants and agreements of the parties hereto contained in this Agreement or in any certificate, agreement or other writing delivered pursuant hereto or in connection herewith (a) to be performed prior to Closing shall survive the Closing for a period of eighteen (18) months and (b) to be performed after the Closing shall survive without termination. Notwithstanding the preceding sentence, any representation, warranty, covenant or agreement in respect of which indemnity may be sought under Section 8.2 shall survive the time at which it would otherwise terminate pursuant to the preceding sentence, if notice of the inaccuracy or breach thereof giving rise to such right to indemnity shall have been given to the party against whom such indemnity may be sought prior to such time; provided, however that such representation, warranty, agreement or covenant shall survive until, but only for the purposes of, the resolution of such claim.

8.2. *Indemnification.*

(a) Seller shall indemnify the Company, the Buyer, and their respective employees, officers, directors and stockholders (other than Seller) (the "*Buyer Company Persons*") in respect of, and hold Buyer Company Persons harmless against, any and all Damages (as hereinafter defined) (the "*Buyer Company Damages*"):

(i) for the applicable survival period, resulting from, relating to or constituting any misrepresentation or breach of any representation or warranty of the Company or Seller contained in this Agreement, or in any certificate, agreement or other writing to which Seller is a party delivered pursuant to this Agreement;

(ii) for the applicable survival period, resulting from, relating to or constituting any failure to perform any covenant or agreement of the Company or Seller contained in this Agreement or in any certificate, agreement or other writing to which Seller is a party delivered pursuant to this Agreement;

(iii) resulting from, relating to or constituting any failure of Seller to have, and to convey to Buyer at Closing, good and valid title to all of the issued and outstanding Company Stock, free and clear of all Liens (except for restrictions on transfer imposed by federal and state securities laws);

(iv) resulting from, relating to or constituting any claim by a stockholder or former stockholder of the Company or any other Person seeking to assert, or based upon: (A) ownership or rights to ownership of any shares of Company Stock or of any other Company Securities; (B) any rights of a stockholder, including any option, dissenter's or preemptive rights or rights to notice or to vote; (C) any rights under the certificate of incorporation or by-laws of the Company, or (D) any claim that his, her or its shares were wrongfully repurchased by the Company;

(v) resulting from, relating to or constituting any claim by a former or current director, officer, employee, agent or fiduciary of the Company or Seller or of a right to indemnification or contribution from the Company with respect to actions, omissions or matters relating to the pre-Closing period as a result of rights under the certificate of incorporation or by-laws of the Company, any agreement between such Person and the Company or applicable legal requirement;

(vi) [Intentionally deleted.]

(vii) (A) resulting from relating to or constituting any Liability for product warranty or product liability claim for products sold by the Company prior to Closing, and (B) resulting from any Design Defects for products sold by the Company during the three (3) month period immediately following the Closing, which are in the aggregate in excess of the reserves therefore set forth on the Balance Sheet;

(viii) [Intentionally deleted];

(ix) for a period of eighteen (18) months following the Closing, resulting from, relating to or constituting a Liability of the Company at the Closing which is not (A) reflected on the Balance Sheet, (B) incurred in the ordinary course of the Company's business between the Balance Sheet Date and the Closing Date or (C) identified on any Schedule to this Agreement; or

(x) incident to the enforcement of this Section 8.2(a).

For purposes of this Agreement, "*Damages*" shall mean and include any and all debts, obligations and other Liabilities, monetary damages, fines, fees, penalties, interest obligations, deficiencies, Liens, losses and expenses (including without limitation amounts paid in settlement, interest, court costs, costs of response (including, without limitation, removal and remediation costs), costs of investigators, fees and expenses of attorneys, accountants, financial advisors and other experts, and other expenses of litigation) actually incurred or actually suffered by an Indemnified Person (as hereinafter defined) or any affiliates thereof.

Notwithstanding anything to the contrary in this Agreement, no claim for indemnification may be made under this Agreement against Seller for any Known Contamination, Environmental Liabilities or Liabilities for Unknown Contamination other than pursuant to Section 9.16.

(b) Buyer shall indemnify Seller, and the Company with respect to clause (ii) below if this Agreement is terminated pursuant to Article V, and their employees, officers, directors and stockholders as applicable (the "*Seller Persons*"), in respect of, and hold Sellers Persons harmless against, any and all Damages (the "*Seller Damages*"):

(i) for the applicable survival period, resulting from, relating to, or constituting any misrepresentation, breach of any representation or warranty, or failure to perform any covenant or agreement of Buyer contained in this Agreement or in any other certificate, agreement or other writing to which Buyer is a party delivered pursuant to this Agreement or in connection with this Agreement;

(ii) any Damages caused by the subsurface investigational activities of Buyer's environmental consultant performed at, on or in the Owned Real Property before or after the Closing Date; and

(iii) incident to the enforcement of this Section 8.2(b).

(c) For purposes of this Agreement, "*Indemnified Person(s)*" shall refer to both Buyer Company Persons and Seller Persons, as applicable; and "*Indemnifying Parties*" shall refer to both Seller and Buyer, as applicable.

8.3. *Method of Asserting Claims.*

(a) The Indemnified Person shall give prompt written notification to the Indemnifying Party of the commencement of any action, suit or proceeding relating to a third party claim for which the indemnification pursuant to this Article VIII may be sought (the "*Third Party Claim*"); provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any obligations under this Article VIII except to the extent such Indemnifying Party is materially prejudiced by such failure and shall not relieve such Indemnifying Party from any other

obligation or liability that it may have to any Indemnified Person otherwise than under this Article VIII.

(b) Any Indemnifying Party shall have the right, at its sole cost and expense, to defend the Indemnified Person against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Person so long as (i) the Indemnifying Party notifies the Indemnified Person in writing within 10 days after the Indemnified Person has given notice of the Third Party Claim that the Indemnifying Party shall indemnify the Indemnified Person from and against the entirety of any Damages the Indemnified Person may suffer resulting from, arising out of, relating to or caused by the Third Party Claim, (ii) the Indemnifying Party provides the Indemnified Person with evidence reasonably acceptable to the Indemnified Person that the Indemnifying Party shall have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (iii) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief, (iv) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Person, likely to establish a precedential custom or practice materially adverse to the continuing business interests of the Indemnified Person, and (v) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently. If the Indemnifying Party does not assume control of the defense or settlement of any Third Party Claim in the manner described above, it shall be bound by the results obtained by the Indemnified Person with respect to the Third Party Claim.

(c) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with Section 8.3(b) above, (i) the Indemnified Person may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (ii) the Indemnified Person shall not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably) and (iii) the Indemnifying Party shall not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Person (not to be withheld unreasonably).

(d) In the event any of the conditions in Section 8.3(b) above is or becomes unsatisfied, however, (i) the Indemnified Person may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Person need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (ii) the Indemnifying Party shall reimburse the Indemnified Person promptly and periodically for the actually incurred costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (iii) the Indemnifying Party shall remain responsible for any Damages the Indemnified Person may suffer resulting from, arising out of, relating to or caused by the Third Party Claim to the extent provided in this Section 8.3.

(e) In the event that the Indemnifying Party exercises the right to undertake any such defense against any such Third Party Claim as provided above, the Indemnified Person shall cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party, at the Indemnifying Party's expense, all witnesses, pertinent records, materials and information in the Indemnified Person's possession or under the Indemnified Person's control relating thereto as is reasonably required by the Indemnifying Party. Similarly, in the event the Indemnified Person is, directly or indirectly, conducting the defense against any such Third Party Claim, the Indemnifying Party shall cooperate with the Indemnified Person in such defense and make available to the Indemnified Person, at the Indemnifying Party's expense, all such witnesses, records, materials and information in the Indemnifying Party's possession or under the Indemnifying Party's control relating thereto as is reasonably required by the Indemnified Person. The party controlling such defense shall keep the other party advised of the status of such Third Party Claim and the defense

thereof and shall consider in good faith recommendations made by the other party with respect thereto.

8.4. *Limitations; Exclusive Remedy; Maximum Indemnification.*

(a) Notwithstanding anything to the contrary herein, except with respect to claims (i) based either on fraud, misrepresentation, a breach of Sections 2.5, 2.6(c) (with respect to Liens on or other interests or rights in the Company's assets or the Company Stock), 2.10, 2.16 (to the extent it relates to issues

of title, without limitation, including title to the Owned Real Property) or 2.21 (to the extent it relates to issues of title), or (ii) pursuant to Sections 8.2(a)(ii), (iii), (iv), (v), (vii), or (ix), the aggregate Liability of Seller for Buyer Company Damages resulting from a breach of a representation or warranty of the Company or Seller contained in Article II shall not exceed, in the aggregate, One Million Dollars ($1,000,000) ("*Cap*"). No indemnification payment by Seller with respect to any Buyer Company Damages otherwise payable pursuant to this Article VIII solely in respect of Section 8.2(a)(ix) or a breach of any representation or warranty of the Company or Seller contained in Article II (other than of Sections 2.5, 2.6(c) (with respect to Liens on or other interests or rights in the Company's assets or the Company Stock) 2.10, 2.16 (to the extent it relates to issues of title, without limitation, including title to the Owned Real Property) or 2.21 (to the extent it relates to issues of title)) shall be payable until such time as all such Buyer Company Damages shall, in the aggregate, exceed more than $250,000 (the "*Deductible Amount*"), and thereafter claims hereunder for such Buyer Company Damages may be brought only for amounts in excess of such Deductible Amount up to but not exceeding the Cap. For purposes of clarification, it is understood and agreed that Buyer Company Damages pursuant to Sections 8.2(a)(ii), (iii), (iv), (v) or (vii) shall be payable from the first dollar and shall not be subject to, nor included in, the Deductible Amount. Notwithstanding anything to the contrary, except with respect to claims based either on fraud or intentional misrepresentation, this Article VIII shall be the exclusive remedy of Buyer Company Persons for claims resulting from or relating to any breach of any representation or warranty of the Company or Seller contained in Article II.

(b) Notwithstanding anything to the contrary herein, except with respect to claims based on fraud or misrepresentation, the aggregate Liability of Buyer in connection with the indemnification of Seller Persons pursuant to this Article VIII for Seller Damages resulting from a misrepresentation or breach of a representation or warranty under Article III shall in no event exceed, in the aggregate, One Million Dollars ($1,000,000) (the "*Buyer Cap*"). No indemnification payment by Buyer with respect to any Seller Damages otherwise payable pursuant to this Article VIII shall be payable until such time as all Seller Damages shall, in the aggregate, exceed more than $100,000 (the "*Buyer Deductible Amount*"), and thereafter claims hereunder for Seller Damages may be brought only for amounts in excess of such Buyer Deductible Amount up to but not exceeding the Buyer Cap.

(c) For purposes of determining whether there has been a breach of any representation, warranty, covenant or agreement contained in this Agreement (other than those in Section 2.27) and the amount of Buyer Company Damages resulting from a breach thereof, such representations, warranties, covenants and agreements shall be deemed to be made without any qualifications or limitations as to knowledge or materiality and the words "Knowledge," "knowledge," "Material Adverse Effect," "material" and words of similar import, and any phrases containing such words or words of similar import, shall be deemed deleted from such representations, warranties, covenants or agreements (other than those in Section 2.27).

(d) Notwithstanding anything to the contrary herein, Seller shall not be liable for Buyer Damages relating to any individual claim that Buyer could have asserted against Seller pursuant to Section 8.2(a)(i) for a misrepresentation or breach of representation or warranty or pursuant to

Section 8.2(a)(ii) for a failure to perform a covenant or agreement prior to the Closing if Buyer had actual knowledge of such misrepresentation, breach of representation or warranty or failure to perform a covenant or agreement at the Closing Date.

ARTICLE IX
MISCELLANEOUS

9.1. *Notices.* All notices, requests for other communications to be given by any party to the other parties hereunder shall be in writing and shall be deemed to be properly given when personally delivered, telecopied or sent by commercial courier service (such as Federal Express) or, if mailed, three (3) days after being sent by prepaid first class U.S. mail, either certified or registered, to the addresses set forth below or to such other addresses as the parties may otherwise designate from time to time in writing:

(a) If to Buyer, to:

Hathaway Motion Control Corporation
8228 Park Meadows Drive
Littleton, Colorado 80124
Telecopier No. (303) 799-8880
Attention: Richard Smith, President

With a required copy to:

Sherman & Howard L.L.C.
633 Seventeenth Street, Suite 3000
Denver, Colorado 80202
Telecopier No. (303) 298-0940
Attention: B. Scott Pullara, Esq.

(b) if to the Company, to:

Motor Products—Owosso\Ohio Corporation
P.O. Box 127
201 S. Delaney Road
Owosso, Michigan 48867
Telecopier No. (989) 723-6035
Attention: President

(c) if to Seller, to

Owosso Corporation
The Triad Building
2200 Renaissance Boulevard, Suite 150

King of Prussia, Pennsylvania 19406
Telecopier No. 610-275-5122
Attention: President

With a required copy to:

Pepper Hamilton LLP
3000 Two Logan Square
Eighteenth and Arch Streets Philadelphia, PA 19103
Telecopier No. 215-981-4750
Attention: Elam M. Hitchner, III, Esquire

9.2. *Succession and Assignment.* This Agreement shall be binding upon and inure to the benefit of the parties named herein and their respective successors and permitted assigns. No party to this Agreement may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of the other parties hereto.

9.3. *Costs and Expenses.* The Buyer shall bear its own expenses (including without limitation, investment banking, financial advisory fees, counsel fees and accounting fees) relating to the transactions contemplated under this Agreement. All expenses and Liabilities (including without limitation, legal, accounting, financial advisory or related consulting fees) of the Company or Seller (a) incurred in connection with the Company's or Seller's efforts to sell (regardless of how structured) the Company or all or substantially all of its assets to any Person other than Buyer ("Previous Sales Effort Expenses") shall be borne by Seller to the extent not actually paid by the Company prior to the Closing out of cash of the Company which would have been dividended or distributed to Seller prior to the Closing ("Excluded Cash") and (b) relating to the transactions contemplated by the Agreement shall be borne by Seller.

9.4. *Public Announcements.* The parties agree to consult with each other before issuing any press release or making any public statement with respect to this Agreement or the transactions contemplated hereby and, except as may be required by applicable law, will not issue any such press release or make any such public statement prior to such consultation.

9.5. *Headings.* The headings preceding the text of the sections and subsections hereof are inserted solely for convenience of reference, and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.

9.6. *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument.

9.7. *Amendment and Waiver.* This Agreement may be amended, and Buyer and Seller may, (a) extend the time for the performance of any of the obligations of any other party, (b) waive any inaccuracies in representations by any other party, (c) waive compliance by any other party with any of the agreements contained herein and performance of any obligations by such other party, and (d) waive the fulfillment of any condition that is precedent to the performance by such party of any of its obligations under this Agreement. To be effective, any such amendment must be in writing and be signed by Buyer and Seller and any waiver must be in writing and signed by the person waiving such right or obligation.

9.8. *Entire Agreement.* This Agreement and the Exhibits and Schedules hereto, each of which is hereby incorporated herein, set forth all of the promises, covenants, agreements, understandings, representations and warranties between the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous promises, covenants, agreements, understandings, representations and warranties among the parties hereto or inducements or conditions, express or implied, oral or written with respect to the subject matter hereof.

9.9. *Governing Law.* This Agreement, including the validity hereof and the rights and obligations of the parties hereunder, shall be construed in accordance with and governed by the laws of the State of Colorado applicable to contracts made and to be performed entirely in such state (without giving effect to the conflicts of laws provisions thereof).

9.10. *Specific Performance; Remedies.* Each party hereto acknowledges that the other party will be irreparably harmed and that there will be no adequate remedy at law for any violation by such party of any of its covenants or agreements contained in this Agreement, including, without limitation, the noncompetition and confidentiality obligations set forth in Section 7.5. It is accordingly agreed that, in addition to any other remedies which may be available upon the breach of any such covenants or agreements, each party hereto shall have the right to obtain injunctive relief to restrain a breach or

threatened breach of, or otherwise to obtain specific performance of, the covenants and agreements contained in this Agreement.

9.11. *Selection of a Forum.* EACH PARTY HERETO AGREES THAT IT SHALL BRING ANY ACTION OR PROCEEDING IN RESPECT OF ANY CLAIM ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTAINED IN OR CONTEMPLATED BY THIS AGREEMENT, WHETHER IN TORT OR CONTRACT OR AT LAW OR IN EQUITY, EXCLUSIVELY IN THE FEDERAL DISTRICT COURT FOR THE STATE OF COLORADO (THE "CHOSEN COURT") AND (A) IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE CHOSEN COURT, (B) WAIVES ANY OBJECTION TO LAYING OF VENUE IN ANY SUCH ACTION OR PROCEEDINGS IN THE CHOSEN COURT, (C) WAIVES ANY OBJECTION THAT THE CHOSEN COURT IS AN INCONVENIENT FORUM OR DOES NOT HAVE JURISDICTION OVER ANY PARTY HERETO, AND (D) AGREES THAT SERVICE OF PROCESS UPON SUCH PARTY IN ANY SUCH ACTION OR PROCEEDING SHALL BE EFFECTIVE IF NOTICE IS GIVEN IN ACCORDANCE WITH THIS AGREEMENT.

9.12. *Absence of Third Party Beneficiary Rights.* Except as expressly set forth in Article VIII, no provision of this Agreement is intended, nor will be interpreted, to provide or to create any third party beneficiary rights or any other rights of any kind in any client, customer, affiliate, officer, director, employee or

agent of any party hereto or any other Person, other than the parties hereto.

9.13. *Time of Essence.* With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

9.14. *Pre-July 1, 2000 Workers Compensation.* Buyer acknowledges that commencing July 1, 2002, the Company switched its workers compensation insurance coverage to the Michigan Workers Compensation Fund (the "Michigan Workers Compensation Insurance"). Following Closing, the Buyer shall cause the Company to utilize separately procured workers compensation insurance coverage and terminate the Michigan Workers Compensation Insurance. Thereafter, any refund in respect of the Michigan Workers Compensation Insurance shall be paid promptly by the Company to Seller and any deficient or assessment in respect thereof shall be paid by Seller to the Company.

9.15. *MAPICS Software.* As of the Closing Date, Buyer acknowledges that no portion of Seller's license for its MAPICS ERP software ("*MAPICS License*") will be assigned to Buyer or the Company on the Closing Date and that Seller shall use commercially reasonable efforts to provide or cause to be provided to Buyer and the Company following the Closing, to the extent permitted by law, the benefits currently being provided to the Company under the MAPICS License at no charge (i) until October 1, 2002, or (ii) such period of time as Buyer or the Company may require to negotiate its own MAPICS ERP license or transition to another enterprise resource planning software program, whichever occurs first.

9.16. *Environmental Related Issues.*

(a) *Company Post Closing Environmental Activities for Known Contamination.*

(i) *Storm Water Ditch Sources.* As soon as is reasonably practicable after Closing, the Company shall, at its cost, endeavor to monitor and, if required, mitigate or eliminate, in its reasonable judgment, the sources of Hazardous Substances that may exist as of the Closing Date which are identified in those certain reports of Environmental Resources Management set forth in part (b)(vi) of Schedule 2.15 (the "*ERM Reports*") that could be contributing contaminants to that certain drainage ditch situated on the Owned Real Property, north of the main operations building and east of the parking lot and generally running west to east, as more particularly described in the ERM Reports (the "*Storm Water Ditch*"), by undertaking such actions as the Company deems reasonably

necessary to monitor and, if required, mitigate or eliminate, any such sources. As soon as the Company has completed these actions to Buyer's satisfaction, Buyer shall notify Seller that the Company has completed its efforts under this Section 9.16(a)(i).

(ii) *Other Known Contaminants.* The Company shall undertake the following additional activities to remediate the presence of Hazardous Substances that may exist at the Owned Real Property as of the Closing Date which are identified in the ERM Reports: (1) if required, remediate, remove or otherwise cleanup any Hazardous Substance-impacted soils in the drum storage area; and (2) plug any and all drains, and seal any and all cracks in the cement flooring, in the area of the TCE Degreasing Area (as defined in the ERM Reports).

(b) *Remediation of Ditch Located On Owned Real Property; Notification of Offsite Migration.* Seller covenants and agrees that, upon receipt of notice from the Buyer that the Company has completed its efforts under Section 9.16(a)(i), Seller shall promptly undertake the excavation, removal and off-site disposal of soils in the Storm Water Ditch area necessary to meet applicable industrial clean-up criteria and Groundwater/Surface Water Interface ("GSI") criteria as specified in the Michigan Department of Environmental Quality ("MDEQ") regulations pursuant to NREPA Part 201 and consistent with the soil verification procedures set forth in MDEQ's Soil Verification Guidance, on a one-time only basis (the "*Ditch Remediation*"). Seller shall develop a plan for the Ditch Remediation which it will submit for Buyer's reasonable approval, which plan shall specify in reasonable detail a scope of work and a good faith estimate of the time and expenses of each stage of the Ditch Remediation and whether modifications to the restrictive covenant described in Section 9.17 are necessary to obtain closure approval from MDEQ if the parties determine such approval is desirable (the "*Work Plan*"). Seller shall have sole responsibility for and control over the Ditch Remediation except for the allocation of deposits, costs and expenses as set forth below. The Company, if after Closing, or Buyer, if before Closing, shall be responsible to pay the first $50,000 in the aggregate of all deposits, costs and expenses related to the Ditch Remediation in accordance with the Work Plan, and shall promptly furnish to the independent environmental contractors engaged by Seller any and all deposits requested by such contractors in connection with the Ditch Remediation and pay all invoices for such work promptly upon presentation of such invoices to the Company, all in accordance with the Work Plan. All deposits, costs and expenses related to the Ditch Remediation in excess of $50,000 shall be shared one half each by the Company, if after Closing, or Buyer, if before Closing, and Seller. The Company, upon Closing, hereby grants Seller and its authorized agents, employees and independent contractors rights of ingress, egress and regress to the Owned Real Property, to the extent reasonably necessary to implement and complete the sampling and ditch remediation required to complete the Ditch Remediation. Seller further undertakes to complete such Ditch Remediation within the time period specified in the Work Plan described above, subject to securing requisite governmental approvals and permits, if any, to force majeure events and offsite access to the extent necessary to complete the Ditch Remediation; provided, however, that Seller shall undertake all actions reasonably necessary to obtain such approvals, permits and access, including payment of reasonable access fees or charges if necessary. To the extent required by law, Seller shall provide appropriate notice to the MDEQ and any other Governmental Body or Person that Hazardous Substances have migrated from the Owned Real Property to adjacent real property.

(c) *Seller's Indemnification Regarding Unknown Environmental Liabilities.*

(i) Seller shall indemnify the Buyer, the Company, and their respective employees, officers, directors and shareholders in respect of, and hold the Buyer, the Company and their respective employees, officers, directors and shareholders harmless against, any and all Damages, resulting from, relating to or constituting any Liability for (1) the off-site migration of any Hazardous Substance from the Owned Real Property to the extent such migration resulted from activities or conditions in, on or under the Owned Real Property prior to the Closing Date, (2) the arrangement for disposal or treatment or the arrangement with a transporter for transport for disposal or treatment, or the transportation, by or on behalf of the Company, prior to the Closing Date, of any Hazardous Substance from the Owned Real Property, or (3) any Unknown Contamination; provided that for purposes of clause (3), Damages shall not include the cost and expenses incurred in performing any environmental investigation undertaken by or on behalf of Buyer or any third party on or after the date of this Agreement, except for those activities required pursuant to judicial or administrative mandate. "*Unknown Contamination*" as used in this Agreement means the presence of Hazardous Substances discovered

after Closing at the Owned Real Property that are not Known Contamination. "*Known Contamination*" as used in this Agreement means the presence of Hazardous Substances at the Owned Real Property in areas which are identified in the ERM Reports and at the concentrations (or at concentrations not materially greater than those) identified in the ERM Reports.

(ii) Notwithstanding anything to the contrary herein, Seller shall have no responsibility for and no claim for indemnification may be made under this Agreement by Buyer against Seller for any Known Contamination Environmental Liabilities, including under Section 8.2(a) above, other than pursuant to this Section 9.16, and provided further that no claim for indemnification may be made under this Agreement (a) to the extent, *but only to the extent*, that the Buyer or the Company takes action which exacerbates any environmental condition existing at the Owned Real Property as of the date of Closing; or (b) if Buyer uses the Owned Real Property for other than industrial purposes. "*Known Contamination Environmental Liabilities*" as used in this Agreement means any Liability arising from or under any Environmental Law relating to the Known Contamination.

(d) *Post-Closing Environmental Compliance Obligations and Environmental Investigations.*

(i) Prior to the Closing Date, the Company at the request and sole cost and expense of Buyer, and after the Closing Date, the Company, at its sole cost and expense, shall take all actions required to comply with the terms and conditions of that certain consent order between the Company and MEDQ, dated January 19, 2001, and bearing AQD No. 3-2001, SRN: H2781, to comply with or obtain any other order or permit issued or required to be issued to the Company by any federal, state, or local unit of government prior to or after the Closing Date to operate its business as currently conducted and otherwise to undertake any actions as may be required to bring the Company into compliance with all Environmental reporting obligations identified in the ERM Reports. Seller shall be responsible for any fines and penalties imposed on the Company by reason of non-compliance with Environmental Laws, including, without limitation, any such orders or permits or reporting obligations, to the extent such non-compliance relates to periods prior to the Closing Date.

(ii) After the Closing Date, Buyer shall not, and shall not permit the Company, directly or through others, to conduct environmental investigations (other than monitoring and compliance auditing) on the Owned Real Property unless Buyer or the Company believes in good faith it is required to do so under or in connection with applicable Environmental Laws, by a financial institution in conjunction with a financing transaction, in conjunction with a

plant expansion or repair/improvement activity, in conjunction with the sale or lease of the Owned Real Property or for a similar reason in the ordinary course of the Company's business.

(e) *Seller's Indemnification Regarding Leased Real Property.* Seller shall indemnify the Buyer, the Company and their respective employees, officers, directors and shareholders in respect of, and hold the Buyer, the Company and their respective employees, officers, directors and shareholders harmless against, any and all Damages or Liabilities under Environmental Laws resulting from or, relating to the Company's occupation of or activities conducted on the Leased Real Property prior to the Closing Date.

9.17. *Declaration of Restrictive Covenant; Due Care Documentation.*

(a) On or prior to the Closing Date, Buyer and Seller will agree upon, and the Company will declare and record with Shiawassee County Register of Deeds, a restrictive covenant on the Owned Real Property in substantially the form set forth as *Exhibit D* hereto (it being understood that Buyer must examine and obtain advice with respect to the statutory provisions of paragraphs 1, 3 and 4 of such *Exhibit*); provided, however, that if the Company is unable to make such declaration and recordation on or prior to the Closing Date, Buyer shall cause the Company to make such declaration and recordation as soon as practicable thereafter.

(b) As soon as is reasonably practicable after Closing, the Company, at its sole cost, shall have an environmental consultant prepare due care documentation, consistent with the requirements of Part 201 of NREPA, including but not limited to sections 107a and 114 thereof, that addresses (a) the proper management of soils and groundwater at the Owned Real Property that are impacted with hazardous substances and (b) operations at the Owned Real Property that may affect the impacted soils and groundwater at the Owned Real Property.

9.18. *Purchase Option; Right of First Refusal.*

(a) *Purchase Option.* The Company hereby grants Seller a purchase option ("*Purchase Option*") to purchase the Option Property (hereinafter defined). The Purchase Option may be exercised by Seller by giving written notice ("*Exercise Notice*") to the Company of its exercise of the Purchase Option (the date of such Exercise Notice being referred to herein as the "*Option Exercise Date*").

(b) *Option Property.* The Option Property consists of approximately a 50 foot wide strip of land east of the main building on the Owned Real Property boarding the Eastern property line and running from Dowling Road at the South to the railroad tracks on the North ("*Option Property*").

(c) *Option Period.* Seller's Purchase Option shall remain effective for the period ("*Option Period*") commencing on the Closing Date and terminating ten (10) years after the Closing Date.

(d) *Closing Obligations.* Within 30 days of the Option Exercise Date, there shall an Option Closing, at which time the Company shall: (A) execute and deliver to Seller a deed sufficient to transfer all right, title and interest in and to the Option Property then currently held by the Company, free and clear of any Liens other than Liens existing against the Option Property prior to the Closing of the transactions contemplated in this Agreement, duly executed and acknowledged by the Company in proper recordable form, granting to Seller good and marketable title of record to the Option Property which is the subject of the Option Closing.

(e) *Transfer Taxes; Cost Allocation.* All transfer taxes associated with Seller's purchase of the Option Property shall be paid by Seller. All lienable charges shall be paid by the

Company prior to closing, net of any items pursuant to which Seller is required to indemnify the Buyer Company Persons under this Agreement. All other closing costs shall be borne by the parties in the manner which is customary for the Shiawassee County area, except that each party shall be responsible for all other transaction costs incurred by such party, including without limitation fees for legal counsel, consulting fees and brokerage claims.

(f) *Right of First Refusal.* In the event the Company receives a written offer from a third party ("Offeror") to purchase the Option Property prior to the expiration of the Option Period, the Company shall provide Seller with written notice of such offer within five (5) days of the Company's receipt of same. The Company hereby grants Seller the right to elect to purchase the Option Property in accordance with the terms and conditions set forth in this Section 9.18.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

HATHAWAY MOTION CONTROL CORPORATION

By: _____

Name: Richard S. Warzala
Title: President, Hathaway Corporation

MOTORS PRODUCTS—OWOSSO CORPORATION

By: _____

Name: George B. Lemmon, Jr.
Title: Vice President

MOTOR PRODUCTS—OHIO CORPORATION

By: _____

Name: George B. Lemmon, Jr.
Title: Vice President

OWOSSO CORPORATION

By: _____

Name: George B. Lemmon, Jr.
Title: President and CEO

STOCK PURCHASE AGREEMENT SIGNATURE PAGE

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.22

Silicon Valley Bank

Amendment to Loan Documents

Borrower: **Hathaway Corporation**
Hathaway Systems Corporation
Hathaway Process Instrumentation Corporation
Hathaway Motion Control Corporation
Hathaway Industrial Automation, Inc.
Computer Optical Products, Inc.
EMOTEQ Corporation

Date: **July 10, 2002**

THIS AMENDMENT TO LOAN DOCUMENTS is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (jointly and severally, "Borrower").

The Parties agree to amend the Loan and Security Agreement between them, dated May 7, 1998 (the "Loan Agreement"), as follows, effective as of the date hereof. (Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan Agreement.)

Borrower has advised Silicon that pursuant to the terms and conditions of that certain Stock Purchase Agreement dated July 8, 2002 among Motor Products—Owosso Corporation ("MP—Owosso"), Motor Products—Ohio Corporation ("MP—Ohio"), Owosso Corporation ("Owosso") and Hathaway Motion Control Corporation ("HMCC") (the "Acquisition Agreement"), HMCC will acquire all of the issued and outstanding capital stock of each of MP—Owosso and MP—Ohio (the "Acquisition").

As a result of the Acquisition, the following are to occur: (i) Owosso will sell and transfer to HMCC all of the issued and outstanding capital stock of each of MP—Owosso and MP—Ohio, (ii) HMCC will pay to Owosso $11,500,000 in cash and issue in favor of Owosso a promissory note in the original principal amount of $300,000 (the "Note"), (iii) the Note will be guaranteed by the unsecured guaranty of Hathaway Corporation in favor of Owosso, and (iv) each of MP—Owosso and MP—Ohio will become a wholly-owned subsidiary of HMCC.

The Borrower is prohibited from entering into the Acquisition pursuant to the terms of Section 5.5(ii) of the Loan Agreement, absent compliance with the terms of Section 5 of the Loan Agreement.

1. Limited Waiver re Acquisition. Silicon and Borrower agree that the prohibition set forth in Section 5.5(ii) of the Loan Agreement is hereby waived with respect to the Acquisition only, and that Silicon hereby consents to the Acquisition in accordance with the terms described above subject to Borrower's sale of its power and process business (excluding the calibrator product line) as provided for in that certain Asset Purchase Agreement dated May 17, 2002 by and between Hathaway Systems Corporation, Hathaway Industrial Automation, Inc., Hathaway Process Instrumentation Corporation, Hathaway Systems, Ltd., Hathaway Corporation, Qualitrol Power Products, LLC and Danaher UK Industries Limited and Borrower's receipt therefrom of proceeds in the amount of at least $5,000,000. The parties hereto further acknowledge that notwithstanding anything to the contrary in the Acquisition Agreement, Silicon does not hereby consent to the granting of any lien or security interest by Borrower to Owosso in the Collateral. It is also understood by the parties hereto, however, that such waivers do

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not constitute a waiver of any other provision or term of the Loan Agreement or any related document, nor an agreement to waive in the future these covenants or any other provision or term of the Loan Agreement or any related document and that nothing herein is to be deemed a waiver of Silicon's right to require that MP—Owosso and MP—Ohio be made co-Borrowers under the Loan Agreement (if deemed necessary by Silicon Valley Bank in its discretion) and to require MP—Owosso and MP—Ohio to execute all documents related thereto deemed necessary by Silicon.

2. Modified Section 6.1. Section 6.1 of the Loan Agreement is hereby amended in its entirety to read as follows:

> ***"6.1 Maturity Date.*** This Agreement shall continue in full force and effect until the maturity date set forth on the Schedule (the "Maturity Date"), subject to Section 6.3 below."

3. Modified Maturity Date. Section 4 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

> **"4. MATURITY DATE**
>
> (Section 6.1): **September 10, 2002**, subject to early termination as provided in Section 6.2 above."

4. Modified Definition of Eligible Inventory. The definition of "Eligible Inventory" which currently reads as follows:

> "*Eligible Inventory*" [NOT APPLICABLE]."

is hereby amended to read as follows:

"*Eligible Inventory*" means Inventory which Silicon, in its sole judgment, deems eligible for borrowing, based on such considerations as Silicon may from time to time deem appropriate. Without limiting the fact that the determination of which Inventory is eligible for borrowing is a matter of Silicon's discretion, Inventory which does not meet the following requirements will not be deemed to be Eligible Inventory: Inventory which (i) consists of raw materials and finished goods, in good, new and salable condition which is not perishable, not obsolete or unmerchantable, and is not comprised of work in process, packaging materials or supplies; (ii) meets all applicable governmental standards; (iii) has been manufactured in compliance with the Fair Labor Standards Act; (iv) conforms in all respects to the warranties and representations set forth in this Agreement; (v) is at all times subject to Silicon's duly perfected, first priority security interest; and (vi) is situated at a one of the locations set forth on the Schedule."

5. Modified Credit Limit. Section 1 of the Schedule, entitled "Credit Limit", is hereby amended to read as follows:

"1. CREDIT LIMIT

(Section 1.1): An amount not to exceed the lesser of a total of **$3,000,000** at any one time outstanding (the "Maximum Credit Limit") or the sum of (a) and (b) below:

(a) **80%** of the amount of Borrower's Eligible Receivables (as defined in Section 8 above), *plus*

(b) an amount (the "Inventory Loans") not to exceed the lesser of:

(1) **25%** of the value of Borrower's Eligible Inventory (as defined in Section 8 above), calculated at the lower of cost or market value and determined on a first-in, first-out basis, or

(2) an amount equal to **30%** of the Borrower's Eligible Receivables (as defined in Section 8 above), or

(3) **$500,000.**

As used in this Agreement, "Loans" include the Inventory Loans.

Letter of Credit Sublimit

(Section 1.5): **$500,000."**

6. Amendment of Streamline Facility Agreement. In the Streamline Facility Agreement, the paragraph immediately following paragraph 2, which currently reads as follows

"Until March 31, 2000, the foregoing provisions (the "Streamline Provisions") shall remain in effect so long as the aggregate availability under the Credit Limit does not fall below $500,000 (the "Minimum Availability"), and, if the Minimum Availability does drop below $500,000, Borrower must repay the Loans within 5 business days thereof in an amount necessary to raise the Minimum Availability above $500,000. Beginning April 1, 2000, and continuing thereafter, the Streamline Provisions shall remain in effect so long as the aggregate availability under the Credit Limit does not fall below $750,000 (the "Minimum Availability"), and, if the Minimum Availability does drop below $750,000, Borrower must repay the Loans within 5 business days thereof in an amount necessary to raise the Minimum Availability above $750,000. If Borrower at any time fails to repay the Loans as set forth above in this paragraph, then at Silicon's sole discretion, the standard reporting requirements as set forth in the Loan Agreement shall immediately go into effect. Notwithstanding the foregoing, Silicon may, in its good faith business judgment, modify the frequency or format of the foregoing reporting requirements at any time."

is hereby deleted.

7. Modified Covenant Regarding Banking Relationship. The covenant entitled "Banking Relationship" set forth in Section 9 of the Schedule to Loan and Security Agreement which currently reads as follows:

"1. Banking Relationship. Borrower shall at all times maintain its primary banking relationship with Silicon."

is hereby amended to read as follows:

"1. Banking Relationship. Borrower shall at all times maintain its primary banking relationship with Silicon. Without limiting the generality of the foregoing, Hathaway Corporation shall, at all times, maintain not less than 85% of its total cash and investments on deposit with Silicon. As to any Deposit Accounts and investment accounts maintained with another institution, Borrower shall cause such institution, within 30 days after the date of this Agreement, to enter into a control agreement in form acceptable to Silicon in its good faith business judgment in order to perfect Silicon's first-priority security interest in said Deposit Accounts and investment accounts."

8. Dissolution of Tate Integrated Systems, Inc. Borrower represents and warrants to Silicon that Tate Integrated Systems, Inc. was dissolved pursuant to a Consent to Action by its Board of Directors dated December 20, 1999 and a Consent to Action by its Sole Shareholder dated December 20, 1999 and the Articles of Dissolution of Tate Integrated Systems, Inc. filed in the Office of the Colorado Secretary of State on February 17, 2000. Borrower represents and warrants that Tate Integrated Systems, Inc. does not and shall not carry on any business except as is appropriate to wind up and liquidate its business and affairs.

9. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

10. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and Borrower set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement, and all other documents and agreements between Silicon and Borrower shall continue in full force and effect and the same are hereby ratified and confirmed.

Borrower:

HATHAWAY CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Silicon:

SILICON VALLEY BANK

By _____
Title _____

Borrower:

HATHAWAY SYSTEMS CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

HATHAWAY PROCESS INSTRUMENTATION CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

HATHAWAY MOTION CONTROL CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

HATHAWAY INDUSTRIAL AUTOMATION, INC.

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

COMPUTER OPTICAL PRODUCTS, INC.

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

EMOTEQ CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

GUARANTOR'S CONSENT

The undersigned acknowledges that his consent to the foregoing Agreement is not required, but the undersigned nevertheless does hereby consent to the foregoing Agreement and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

Guarantor:

HATHAWAY CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

HATHAWAY SYSTEMS CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

Guarantor:

HATHAWAY PROCESS INSTRUMENTATION CORPORATION

By _____

President or Vice President

By _____

Secretary or Ass't Secretary

Guarantor:

HATHAWAY INDUSTRIAL AUTOMATION, INC.

By _____

President or Vice President

By _____

Secretary or Ass't Secretary

Guarantor:

EMOTEQ CORPORATION

By _____

President or Vice President

By _____

Secretary or Ass't Secretary

HATHAWAY MOTION CONTROL CORPORATION

By _____

President or Vice President

By _____

Secretary or Ass't Secretary

Guarantor:

COMPUTER OPTICAL PRODUCTS, INC.

By _____

President or Vice President

By _____

Secretary or Ass't Secretary

Exhibit 10.23

Silicon Valley Bank

Amendment to Loan Documents

Borrower: **Hathaway Corporation**
Hathaway Systems Corporation
Hathaway Process Instrumentation Corporation
Hathaway Motion Control Corporation
Hathaway Industrial Automation, Inc.
Computer Optical Products, Inc.
EMOTEQ Corporation
Motor Products—Ohio Corporation
Motor Products—Owosso Corporation

Date: **July , 2002**

THIS AMENDMENT TO LOAN DOCUMENTS is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (jointly and severally, "Borrower").

The Parties agree to amend the Loan and Security Agreement between them, dated May 7, 1998 (as amended from time to time, the "Loan Agreement"), as follows, effective as of the date hereof. (Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan Agreement.)

1. Modified Credit Limit. Section 1 of the Schedule, entitled "Credit Limit", is hereby amended to read as follows:

"1. CREDIT LIMIT

(Section 1.1): An amount not to exceed the sum of 1 and 2 below:

1. *Revolving Loans.* An amount not to exceed the lesser of (i) a total of **$4,000,000** at any one time outstanding (the "Maximum Credit Limit") or (ii) the sum of (a) and (b) below:

(a) **80%** of the amount of Borrower's Eligible Receivables (as defined in Section 8 above), *plus*

(b) an amount (the "Inventory Loans") not to exceed the lesser of:

(1) **25%** of the value of Borrower's Eligible Inventory (as defined in Section 8 above), calculated at the lower of cost or market value and determined on a first-in, first-out basis, or

(2) an amount equal to **30%** of the Borrower's Eligible Receivables (as defined in Section 8 above), or

(3) **$750,000.**

Revolving Loans will be made to each Borrower based on the Eligible Receivables and Eligible Inventory of each Borrower, subject to the Maximum Credit Limit set forth above for all Revolving Loans to all Borrowers combined.

plus

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2. *Term Loans.* The unpaid principal balance from time to time outstanding of the term loan (the "Term Loan") being made concurrently herewith in an amount equal to the lesser of (i) **$1,750,000**or (ii) **60%** of the net book value of Borower's Equipment deemed eligible by Silicon in its sole discretion.

The Term Loan shall be repaid as provided for herein. The Term Loan cannot be repaid and re-borrowed.

The Term Loan will be made to each Borrower based on the eligible Equipment of each Borrower, subject to the maximum amount set forth above for all Term Loans to all Borrowers combined.

As used in this Agreement, "Loans" includes the Revolving Loans and the Term Loans.

Letter of Credit Sublimit

(Section 1.5): **$500,000."**

2. Modified Interest Rate. Section 2 of the Schedule to Loan and Security Agreement, entitled "2. INTEREST," is hereby amended to read as follows:

2. INTEREST.

Interest Rate (Section 1.2):

With respect to the Revolving Loans:

A rate equal to the "Prime Rate" in effect from time to time, plus **1.5%** per annum. The foregoing interest rate shall be reduced by 0.50% per annum at such time as, and for so long as, Borrower has achieved a Quick Ratio (as defined below) for two consecutive fiscal quarters (the first of which may not be earlier than the fiscal quarter ending September 30, 2002) greater than or equal to 1.20 to 1 but less than 1.50 to 1, and shall be reduced by an additional 0.25% per annum at such time as, and for so long as, Borrower has achieved a Quick Ratio for two consecutive fiscal quarters (the first of which may not be earlier than the fiscal quarter ending September 30, 2002) of greater than or equal to 1.50 to 1. The foregoing rate reduction(s) shall go into effect as of the date of the second consecutive quarter's financial statements showing that Borrower is entitled to such rate reduction(s). If the interest rate is so reduced, based on financial statements as of a certain date and thereafter Borrower's Quick Ratio is no longer at least 1.50 to 1, then the interest rate shall be increased by 0.25% per annum, and if the Borrower's Quick Ratio is no longer at least 1.20 to 1, then the interest rate shall be increased by an additional 0.50% per annum, which rate increase(s) shall go into effect as of the date of the financial statements showing that Borrower is no longer entitled to the rate reduction(s). Such reduction(s) and increase(s) may be made throughout the term of this Agreement.

With respect to the Term Loan:

A rate equal to the U.S. Treasury note yield to maturity for a term of 36 months as quoted in The Wall Street Journal on the day the Term Loan is advanced, plus **5.50%** per annum. The foregoing interest rate shall be reduced by 0.50% per annum at such time as, and for so long as, Borrower has achieved a Quick Ratio (as defined below) for two consecutive fiscal quarters (the first of which may not be earlier than the fiscal quarter ending September 30, 2002) greater than or equal to 1.20 to 1 but less than 1.50 to 1, and shall be reduced by an additional 0.25% per annum at such time as, and for so long as, Borrower has achieved a Quick Ratio for two consecutive fiscal quarters (the first of which may not be earlier than the fiscal quarter ending September 30, 2002) of greater

than or equal to 1.50 to 1. The foregoing rate reduction(s) shall go into effect as of the date of the second consecutive quarter's financial statements showing that Borrower is entitled to such rate reduction(s). If the interest rate is so reduced, based on financial statements as of a certain date and thereafter Borrower's Quick Ratio is no longer at least 1.50 to 1, then the interest rate shall be increased by 0.25% per annum, and if the Borrower's Quick Ratio is no longer at least 1.20 to 1, then the interest rate shall be increased by an additional 0.50% per annum, which rate increase(s) shall go into effect as of the date of the financial statements showing that Borrower is no longer entitled to the rate reduction(s). Such reduction(s) and increase(s) may be made throughout the term of this Agreement.

With respect to all Loans:

Notwithstanding the foregoing, in no event shall an interest rate reduction go into effect if, at the date it is to go into effect, an Event of Default has occurred.

As used above, "Quick Ratio" shall mean the ratio of Borrower's cash and cash equivalents, in each case held at Silicon, to Borrower's current liabilities determined in accordance with GAAP.

With respect to all Loans, interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. "Prime Rate" means the rate announced from time to time by Silicon as its "prime rate;" it is a base rate upon which other rates charged by Silicon are based, and it is not necessarily the best rate available at Silicon. The interest rate applicable to the Obligations shall change on each date there is a change in the Prime Rate.

Minimum Monthly Interest

(Section 1.2): Not Applicable."

3. Modified Unused Line Fee. The Unused Line Fee set forth in Section 3 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

"Unused Line Fee: In the event, in any calendar month (or portion thereof at the beginning and end of the term hereof), the average daily principal balance of the Revolving Loans outstanding during the month is less than the amount of the Maximum Credit Limit, Borrower shall pay Silicon an unused line fee in an amount equal to **0.375%** per annum on the difference between the amount of the Maximum Credit Limit and the average daily principal balance of the Revolving Loans outstanding during the month, which unused line fee shall be computed and paid monthly, in arrears, on the first day of the following month."

4. Modified Maturity Date. Section 4 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

"4. MATURITY DATE

(Section 6.1): With respect to the Revolving Loans: **September 10, 2003**, subject to early termination as provided in Section 6.2 above.

With respect to the Term Loan: The outstanding principal balance of the Term Loan shall be repaid by Borrower to Silicon in forty-two (42) equal monthly payments of principal, commencing on August 1, 2002 and continuing on the first day of each subsequent month until the earlier of the following dates: (i) the date the Term Loan has been indefeasibly paid in full, (ii) the date the Revolving Loans are terminated, or (iii) the date this Agreement terminates by its terms or is terminated by either party in accordance with its terms. On the earlier to occur of the foregoing dates, the entire unpaid principal balance of the Term Loan,

plus all accrued and unpaid interest thereon, shall be due and payable. Interest on the Term Loan shall be payable monthly as provided for in Section 1.2 of this Agreement."

5. Modified Financial Covenants. Section 5 of the Schedule to Loan and Security Agreement, entitled "5. FINANCIAL COVENANTS (Section 5.1)," is hereby amended to read as follows:

5. FINANCIAL COVENANTS

(Section 5.1): Borrower shall, on a consolidated basis, comply with all of the following covenants. Compliance shall be determined as of the end of each month, except as otherwise specifically provided below:

Minimum Tangible Net Worth: Borrower shall maintain a Tangible Net Worth of not less than **$3,500,000***plus* 50% of Borrower's after tax income from the Power Division Sale (as defined below) *plus* 50% of Borrower's quarterly net income from the immediately preceding fiscal quarter (commencing with the fiscal quarter ending September 30, 2002). In no event shall the Minimum Tangible Net Worth requirement be decreased.

Profitability: Borrower shall achieve profitability of not less than the following:

For the month ending July 31, 2002: <**$1,100,000**>; and

For the month ending August 31, 2002: <**$450,000**>; and

For the month ending September 30, 2002: **$0.00**.

Debt Service Coverage: Borrower shall maintain Debt Service Coverage (as defined above), on a rolling 3 month basis ending as of the dates set forth below (the "Period"), of not less than the following:

For the Period ending October 31, 2002: 1.75 to 1.0; and

For the Period ending November 30, 2002 and each Period ending as of the end of each month thereafter: 2.0 to 1.0.

Definitions. For purposes of the foregoing financial covenants, the following terms shall have the following meanings:

"< >" shall mean a negative figure or loss, as applicable.

"Current assets", "current liabilities" and "liabilities" shall have the meanings ascribed to them by generally accepted accounting principles.

"Debt Service Coverage" shall mean the ratio of (a) Borrower's net income before taxes plus Borrower's interest, depreciation and other non-cash amortization expenses and other non-cash expenses, plus or minus (as appropriate) any decrease or increase in capitalized software, all determined in accordance with generally accepted accounting principles, consistently applied, to (b) Borrower's obligations relating to payment of interest and current maturities of principal on Borrower's outstanding indebtedness and capitalized leases, all determined in accordance with generally accepted accounting principles, consistently applied.

"Tangible Net Worth" shall mean the excess of total assets over total liabilities, determined in accordance with generally accepted accounting principles, with the following adjustments:

(A) there shall be excluded from assets: (i) notes, accounts receivable and other obligations owing to the Borrower from its officers or other Affiliates, and (ii) all assets which would be classified as intangible assets under generally accepted accounting principles, including without limitation goodwill, licenses, patents, trademarks, trade names, copyrights, capitalized software and organizational costs, licenses and franchises

(B) there shall be excluded from liabilities: all indebtedness which is subordinated to the Obligations under a subordination agreement in form specified by Silicon or by language in the instrument evidencing the indebtedness which is acceptable to Silicon in its discretion."

6. Modified Covenant Regarding Banking Relationship. The covenant entitled "Banking Relationship" set forth in Section 9 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

"1. Banking Relationship. Borrower shall at all times maintain its primary banking relationship with Silicon. Without limiting the generality of the foregoing, each of Hathaway Corporation, Motor Products—Ohio Corporation and Motor Products—Owosso Corporation shall, at all times, maintain not less than 85% of their respective total cash and investments on deposit with Silicon. As to any Deposit Accounts and investment accounts maintained with another institution, Borrower shall cause such institution, within 30 days after the date of this Agreement, to enter into a control agreement in form acceptable to Silicon in its good faith business judgment in order to perfect Silicon's first-priority security interest in said Deposit Accounts and investment accounts."

7. Modified Early Termination Fee. Section 6.2 of the Loan Agreement is hereby amended in its entirety to read as follows:

6.2 ***Early Termination.*** This Agreement may be terminated prior to the Maturity Date as follows: (i) by Borrower, effective three Business Days after written notice of termination is given to Silicon; or (ii) by Silicon at any time after the occurrence of an Event of Default, without notice, effective immediately. If this Agreement is terminated by Borrower or by Silicon under this Section 6.2 prior to January , 2004 **[18 months from date of Amendment]**, Borrower shall pay to Silicon a termination fee in an amount equal to one percent (1.0%) of the sum of (a) the Maximum Credit Limit plus (b) the unpaid principal balance of the Term Loan, provided that no termination fee shall be charged if the credit facility hereunder is replaced with a new facility from another division of Silicon Valley Bank. The termination fee shall be due and payable on the effective date of termination and thereafter shall bear interest at a rate equal to the highest rate applicable to any of the Obligations.

8. Sale of Power Division a Condition Precedent. The effectiveness of this Amendment is hereby subject to the sale of Borrower's power division assets as more fully set forth in that certain Asset Purchase Agreement by and among Qualitrol Power Products, LLC, Danaher UK Industries Limited, Hathaway Systems Corporation, Hathaway Industrial Automation, Inc., Hathaway Process Instrumentation Corporation, Hathaway Systems, Ltd. and Hathaway Corporation dated May 17, 2002 and consented to by Silicon pursuant to that certain Consent dated July , 2002 (the "Power Division Sale").

9. Fee. In consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of $21,562, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee to Borrower's loan account.

10. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

11. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and Borrower set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement, and all

other documents and agreements between Silicon and Borrower shall continue in full force and effect and the same are hereby ratified and confirmed.

Borrower:

HATHAWAY CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Silicon:

SILICON VALLEY BANK

By _____
Title _____

Borrower:

HATHAWAY SYSTEMS CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

HATHAWAY PROCESS INSTRUMENTATION CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

HATHAWAY MOTION CONTROL CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

HATHAWAY INDUSTRIAL AUTOMATION, INC.

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

COMPUTER OPTICAL PRODUCTS, INC.

By _____
President or Vice President

Borrower:

EMOTEQ CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

By _____
Secretary or Ass't Secretary

Borrower:

MOTOR PRODUCTS—OHIO CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Borrower:

MOTOR PRODUCTS—OWOSSO CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

GUARANTOR'S CONSENT

The undersigned acknowledges that his consent to the foregoing Agreement is not required, but the undersigned nevertheless does hereby consent to the foregoing Agreement and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

Guarantor:

HATHAWAY CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

HATHAWAY SYSTEMS CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

HATHAWAY PROCESS INSTRUMENTATION CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

HATHAWAY MOTION CONTROL CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

HATHAWAY INDUSTRIAL AUTOMATION, INC.

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

COMPUTER OPTICAL PRODUCTS, INC.

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

EMOTEQ CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

MOTOR PRODUCTS—OHIO CORPORATION

By _____
President or Vice President

By _____
Secretary or Ass't Secretary

Guarantor:

MOTOR PRODUCTS—OWOSSO CORPORATION

By _____

President or Vice President

By _____

Secretary or Ass't Secretary

QuickLinks

Exhibit 10.23

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.1

CERTIFICATION

I, Richard D. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Hathaway Corporation (the "registrant");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: September 26, 2002

/s/ Richard D. Smith

Richard D. Smith
Chief Executive Officer and
Chief Financial Officer

QuickLinks

Exhibit 99.1