SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

Form 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

| | |
|---|---|
| For the Quarter Ended | Commission File Number |
| September 30, 1999 | 0-4041 |
| (Unaudited) | |

HATHAWAY CORPORATION
(Incorporated Under the Laws of the State of Colorado)

8228 Park Meadows Drive
Littleton, Colorado 80124
Telephone: (303) 799-8200

84-0518115
(IRS Employer Identification Number)

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 ninety (90) days.

YES X NO ___

Number of Shares of the only class of Common Stock outstanding:
(4,283,000 as of September 30, 1999)

HATHAWAY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

| | September 30, 1999 | June 30, 1999 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,087 | $ 2,416 |
| Restricted cash | 658 | 646 |
| Trade receivables, net | 5,744 | 6,465 |
| Inventories, net | 4,400 | 3,316 |
| Other | 1,267 | 1,170 |
| Total current assets | 13,156 | 14,013 |
| Property and equipment, net | 1,658 | 1,720 |
| Investment in joint ventures, net | 614 | 514 |
| Cost in excess of net assets acquired, net | 115 | 126 |
| Other long-term assets | 17 | 25 |
| Total Assets | $15,560 | $16,398 |
| Liabilities and Stockholders' Investment | | |
| Current Liabilities: | | |
| Line of credit classified as current | $ 1,308 | $ 1,308 |
| Accounts payable | 1,770 | 1,570 |
| Accrued and other current liabilities | 3,751 | 4,204 |
| Total Liabilities | 6,829 | 7,082 |
| Stockholders' Investment: | | |
| Common stock | 100 | 100 |
| Additional paid-in capital | 9,954 | 9,954 |
| Loans receivable for stock | (235) | (235) |
| Retained earnings | 2,595 | 3,316 |
| Cumulative translation adjustments | 290 | 154 |
| Treasury stock | (3,973) | (3,973) |
| Total Stockholders' Investment | 8,731 | 9,316 |
| Total Liabilities and Stockholders' Investment | $15,560 | $16,398 |

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

| | For the three months ended September 30, 1999 | 1998 |
|---|---|---|
| Revenues | $ 8,905 | $ 9,118 |
| Operating costs and expenses: | | |
| Cost of products sold | 5,763 | 6,214 |
| Selling | 1,495 | 1,693 |
| General and administrative | 1,241 | 1,194 |
| Engineering and development | 1,144 | 1,123 |
| Amortization of intangibles | 24 | 59 |
| Total operating costs and expenses | 9,667 | 10,283 |
| Operating loss | (762) | (1,165) |
| Other income (expenses), net: | | |
| Equity income from investments in joint ventures | 100 | --- |
| Interest and dividend income | 18 | 36 |
| Interest expense | (35) | (38) |
| Other income (expenses), net | (84) | (135) |
| Total other income (expense), net | (1) | (137) |
| Loss before income taxes | (763) | (1,302) |
| Benefit (provision) for income taxes | 42 | (5) |
| Net loss | $ (721) | $(1,307) |
| Basic and diluted net loss per share | $ (0.17) | $ (0.31) |
| Basic and diluted weighted average shares outstanding | 4,283 | 4,283 |

HATHAWAY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | For the three months ended September 30, 1999 | 1998 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net loss | $ (721) | $(1,307) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation and amortization | 218 | 261 |
| Other | 60 | 137 |
| Changes in assets and liabilities, net of effect of purchase of Ashurst Logistic Electronics Limited effective July 1, 1998: | | |
| (Increase) decrease in - | | |
| Restricted cash | (12) | (101) |
| Receivables | 698 | 335 |
| Inventories | (1,084) | 78 |
| Prepaid expenses and other | (89) | (290) |
| Increase (decrease) in - | | |
| Accounts payable | 200 | (370) |
| Accrued liabilities and other | (452) | 38 |
| Net cash used in operating activities | (1,182) | (1,219) |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (154) | (250) |
| Dividend from joint venture investment | -- | 120 |
| Purchase of Ashurst Logistic Electronics Limited, net of cash acquired | -- | (258) |
| Net cash used in investing activities | (154) | (388) |
| Cash Flows from Financing Activities: | | |
| Repayments on line of credit | (45) | (150) |
| Borrowings on line of credit | 45 | 43 |
| Net cash used in financing activities | -- | (107) |
| Effect of foreign exchange rate changes on cash | 7 | 12 |
| Net decrease in cash and cash equivalents | (1,329) | (1,702) |
| Cash and cash equivalents at beginning of year | 2,416 | 3,443 |
| Cash and cash equivalents at September 30 | $ 1,087 | $ 1,741 |

HATHAWAY CORPORATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## 1. Basis of Preparation and Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Hathaway Corporation, its wholly-owned subsidiaries and investments in joint ventures (the Company). All significant inter-company accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior year balances in order to conform with the current year's presentation.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and include all adjustments which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements which are prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures herein are adequate to make the information presented not misleading. The financial data for the interim periods may not necessarily be indicative of results to be expected for the year.

The preparation of financial statements in accordance with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

It is suggested that the accompanying condensed interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the June 30, 1999 Annual Report and Form 10-K previously filed by the Company.

## 2. Inventories

Inventories, valued at the lower of cost (first-in, first-out basis) or market, are as follows (in thousands):

| | September 30, 1999 | June 30, 1999 |
|---|---|---|
| Parts and raw materials, net | $2,546 | $2,227 |
| Finished goods and work-in process, net | 1,854 | 1,089 |
| | $4,400 | $3,316 |

3. Basic and Diluted Earnings Per Share

In accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" (EPS), Basic and Diluted EPS have been computed as follows (in thousands, except per share data):

| | For the three months ended September 30, 1999 | 1998 |
|---|---|---|
| Numerator: | | |
| Net loss | $ (721) | $(1,307) |
| Denominator: | | |
| Weighted average outstanding shares | 4,283 | 4,283 |
| Basic and Diluted net loss per share | $(0.17) | $ (0.31) |

At September 30, 1999 and 1998, stock options totaling 871,004 and 838,204, respectively, were excluded from the calculation of diluted earnings (loss) per share since the result would have been anti-dilutive.

4. Segment Information

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 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 products and services.

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

| | For the three months ended September 30, | | | |
|---|---|---|---|---|
| | 1999 | | 1998 | |
| | Power and Process | Motion Control | Power and Process | Motion Control |
| Revenues from external customers | $ 4,838 | $ 4,067 | $ 6,062 | $ 3,056 |
| Income (loss) before income taxes | (1,363) | 626 | (1,151) | (94) |

| | As of September 30, 1999 | | As of June 30, 1999 | |
|---|---|---|---|---|
| | Power and Process | Motion Control | Power and Process | Motion Control |
| Identifiable assets | $ 8,908 | $ 5,438 | $ 9,232 | $ 5,006 |

## 4. Segment Information (Continued)

The following is a reconciliation of segment information to consolidated information:

| | For the three months ended September 30, 1999 | 1998 |
|---|---|---|
| Segments' loss before income taxes | $ (737) | $(1,245) |
| Corporate activities | (26) | (57) |
| Consolidated loss before income taxes | $ (763) | $(1,302) |

| | As of September 30, 1999 | As of June 30, 1999 |
|---|---|---|
| Segments' identifiable assets | $14,346 | $14,238 |
| Corporate assets and eliminations | 1,214 | 2,160 |
| Consolidated total assets | $15,560 | $16,398 |

## 5. Comprehensive Loss

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," (SFAS 130). SFAS 130 establishes standards for reporting and displaying comprehensive income and its components. 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 owners and distributions to owners.

Comprehensive loss is computed as follows (in thousands):

| | For the three months ended September 30, 1999 | 1998 |
|---|---|---|
| Net loss | $(721) | $(1,307) |
| Translation adjustment | 136 | 88 |
| Comprehensive loss | (585) | (1,219) |

HATHAWAY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
OPERATING RESULTS AND FINANCIAL CONDITION

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. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause actual results to differ materially are the following: future financial performance may be impacted by the unavailability of sufficient capital on satisfactory terms to finance the Company's business plan, general business and economic conditions in the domestic and international markets, uncertainty in the viability of international markets, particularly the Asian market, and the impact of political unrest on market forces, the introduction of new technologies and competitors into the systems and instrumentation markets where the Company competes, uncertainties in acceptance of new products in the existing power and process market environment, increased competition and changes in competitor responses to the Company's products, further adverse changes in the regulatory environment, availability of qualified personnel, and others. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes," "expects," "plans," "anticipates," "intends" or "should" to be uncertain and forward-looking. All cautionary statements made herein should be read as being applicable to all related forward-looking statements wherever they appear. In this connection, investors should consider the risks described herein.

## Operating Results

For the first quarter ended September 30, 1999, the Company recognized a net loss of $721,000 or $.17 per share, compared to a net loss of $1,307,000 or $.31 per share, for the same period last year. The decrease in the net loss resulted from improved profitability in the Motion Control segment (Motion Control), partially offset by an increased loss in the Power and Process segment (Power and Process).

Revenues decreased 2% in the first quarter from $9,118,000 last year to $8,905,000 this year. The 2% decrease in revenues was due to a 20% decrease in revenues from Power and Process, partially offset by a 33% increase in revenues from Motion Control.

Motion Control realized pretax profit of $626,000 on revenues of $4,067,000 for the first quarter of fiscal year 2000 compared with a pretax loss of $94,000 on revenues of $3,056,000 for the same period last year. The increase in Motion Control revenues was a reflection of its expansion into new markets and broader segments of its existing markets in addition to some recovery in the semi-conductor industry.

Power and Process reported revenues of $4,838,000 and a pretax loss of $1,363,000 for the first quarter of fiscal year 2000 compared with revenues of $6,062,000 and a pretax loss of $1,151,000 for the first quarter last year. The decrease in revenues was due to the delayed introduction of a new fault recording product; deliveries of this product are now being made. In addition, Power and Process typically experiences its lowest operating results in the first fiscal quarter of each year and expects an improvement in results during the balance of the year. During the first fiscal quarter ended September 30, 1999, the backlog of power instrumentation products, including fault recording and maintenance products increased by $1,328,000.

Sales to international customers decreased from 36% of total sales in the first fiscal quarter of last year to 28% in the first fiscal quarter of this year. The decrease was due to the continuing effect of the downturn in the Far East markets and the delay in the introduction of new Power and Process products.

Cost of products sold decreased from 68% of revenues in the first quarter of fiscal 1999 to 65% of revenues in fiscal 2000. The decrease results primarily from Motion Control and is due to changes in the mix of products sold and absorption of fixed manufacturing costs by a larger sales volume. Selling, general and administrative, and engineering and development expenses decreased 4% from $4,069,000 in the first quarter of fiscal 1999 to $3,904,000 in fiscal 2000 due to overall cost reduction efforts of the Company.

During the first quarter of fiscal year 2000, the Company recognized a portion of its share of equity income from its Chinese joint ventures. The amount recognized was $100,000 as compared to $0 in the same period last year. The amount represents a portion of the joint ventures' expected annual results. The Company will revise its estimates of its share of equity in income (loss) from its joint ventures as necessary over the remainder of the fiscal year.

In the quarter ended September 30, 1999, the Company recognized a $42,000 benefit for income taxes compared to a provision for income taxes of $5,000 recognized last year. The amount is based on projected taxable income and utilization of domestic net operating losses carried forward.

## Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents (excluding restricted cash) decreased $1,329,000 during the first quarter of fiscal 2000 to a balance of $1,087,000 at September 30, 1999, compared to $2,416,000 at June 30, 1999. This decrease reflects $1,329,000 used in the first quarter of fiscal 2000 compared to $1,702,000 used in the same period last year. Operating activities used $1,182,000 in the first quarter of the current fiscal year, compared to $1,219,000 used in the same quarter of the prior year. The decreased use of cash was due to a decrease in net loss, offset by fluctuations in working capital balances. Inventories increased $1,084,000 during the first quarter of fiscal 2000 compared to a decrease of $78,000 during the same quarter last year. The increase is due to additional inventory purchases made to fulfil the Company's increased backlog of orders and anticipated future orders. The Company expects cash to be provided during the balance of the year in line with the typically low results in the first fiscal quarter of each year and the expected improvement in operating results for the balance of the year.

Cash of $154,000 was used by investing activities in the first quarter of fiscal 2000, compared to $388,000 used in investing activities during the first quarter last year. The variance was due to a decrease in property and equipment purchases and a prior year acquisition, offset by a dividend received from a joint venture investment in the prior year.

No net cash was used for financing activities during the first quarter of fiscal year 2000, compared to $107,000 used in the first quarter of fiscal 1999. The decreased use of cash was due to a decrease in repayments on the line of credit during the current quarter.

The Company expects to fund its remaining fiscal 2000 working capital, capital expenditure and debt service requirements from the existing cash balance of $1,087,000 and the $1,692,000 available under the long-term financing agreement at September 30, 1999. The Company believes that such amounts are sufficient to fund operations and working capital needs for at least the next twelve months. The Company's long-term financing agreement with Silicon Valley Bank matures on May 7, 2000 but will continue for successive additional terms of one year unless either party gives notice of termination at least sixty days before the maturity date. The Company has not received notice of termination and does not anticipate receiving or giving such notice, however, if such notice was received, the Company would pursue other lenders to meet its long-term financing needs. Although the Company believes it would be successful in its efforts to obtain alternate financing, there are no assurances that it will be successful in doing so. An inability to obtain such alternate financing may have a material adverse effect on the Company's results of operations and financial condition and could require the Company to implement various strategic alternatives.

## Year 2000 Compliance

Some computers and computer-based systems use only the last two digits to identify a year in the date field and cannot distinguish the year 2000 from the year 1900. The Company recognizes that the Year 2000 poses a challenge to the proper functioning of computer systems included in its products, software systems used in its business and items purchased from its suppliers. The Company has adopted a "Y2K Readiness Program" and is taking what it believes to be appropriate steps necessary in preparation for Year 2000 issues.

The Company is completing an assessment of its products to determine which products will be affected by Year 2000 issues. Test procedures have been modeled from the public document titled "Year 2000 Test Procedures", published by General Motors Corporation, and include a step by step method of date verification using each interface to the product. Testing of most products is completed or under way. Modifications and updates have been or are being made as needed for products that are not Y2K compliant. With the possible exception of some of the older RTU protocol software, testing of all of the Company's current products will be complete before December 31, 1999. Some of the Company's older products that are no longer sold will not be tested for compliance. The Company will indicate on its Web site which products will not be tested.

The Company has completed its assessment of its internal systems, processes and facilities for Year 2000 compliance and they are now 100% compliant. The Company's assessment of its suppliers', service providers' and contractors' Year 2000 compliance is complete and sources have generally attested to being compliant. Alternative sources for major suppliers have been identified so that a secondary supplier will be available in the event that disruption in supply occurs from the primary supplier.

The failure to correct a material Year 2000 problem could result in an interruption in, or failure of, normal business activities or operations. There is inherent uncertainty regarding the Year 2000 problem primarily due to the uncertainty of the readiness of suppliers and customers. Therefore, the Company is unable to predict with certainty whether the consequences of Year 2000 failures will have a material impact on the Company's business, results of operations or financial condition. The Company's Year 2000 efforts are expected to significantly reduce the Company's level of uncertainty about the Year 2000 problem and the Company currently believes it will be able to modify or offer alternative products as well as modify or replace its affected systems in time to minimize any detrimental effects on customer relationships or operations.

Activities related to Year 2000 compliance are being performed with internal resources. The Company is expensing as incurred all payroll and associated costs related to the Year 2000 issue. It is not anticipated that Year 2000 activities will delay other projects or materially impact the Company's business. However, the Company will continue to review on an ongoing basis whether it needs to further address any anticipated costs, problems and uncertainties associated with Year 2000 consequences.

## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

13. Annual Report containing Notes to Consolidated Financial Statements in the Registrant's June 30, 1999 Annual Report to Stockholders.

27. Financial Data Schedule.
*This document was filed with the Securities and Exchange Commission and is incorporated herein by reference.

(b) Reports on Form 8-K
There were no reports on Form 8-K filed during the three months ended September 30, 1999.

## SIGNATURES

Pursuant to the requirements 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

DATE: November 12, 1999

By: /s/ Richard D. Smith
President, Chief Executive Officer and Chief Financial Officer

5
1,000

3-MOS
JUN-30-2000
JUL-01-1999
SEP-30-1999
1,087
0
6,259
515
4,400
13,156
9,282
7,624
15,560
6,829
0
100
0
0
8,631
15,560
8,905
8,905
5,763
5,763
0
22
35
(763)
42
(721)
0
0
0
(721)
(0.17)
(0.17)

Presented gross