UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

OR

[ ] 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

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INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES [X] NO [ ]

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. [ ]

As of September 6, 2001, 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 $11,232,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated September 21, 2001 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 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 the United Kingdom and has joint venture investments in China.

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 comprehensive and cost-effective 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 Supervisory Control and Data Acquisition (SCADA) systems.

Through July 5, 2001, 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. 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 and the Company may sell these products outside of China. HPMS manufactures and sells, under a license from the Company, instrumentation products designed by the Company to electric power companies in China.

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 Company has been successful at integrating the HIA system with certain other Hathaway products and targeting the integrated product at substation automation applications used in the electric power 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.

MOTION CONTROL BUSINESS

The motion control group offers quality, cost-effective products that suit a wide range of applications in the telecommunications, semi-conductor 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) for $317,000. 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 tuneable 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.

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 only a small number of competitors in the power and process markets, but there are numerous competitors in the motion control market. No clear market share data is available for the Company's other product areas. 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 10 of the Notes to Consolidated Financial Statements on page 27 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 2001, 2000 and 1999, no single customer accounted for more than 10% of the Company's consolidated revenue from continuing operations.

SALES BACKLOG

The Company's backlog at June 30, 2001 consisted of sales orders totaling approximately $21,713,000. The Company expects to ship goods filling $19,140,000 of those purchase orders within fiscal 2002. This compares to a backlog of $23,827,000 at June 30, 2000, of which $20,912,000 was scheduled for shipment in fiscal 2001.

GOVERNMENT SALES

Approximately $462,000 of the Company's backlog as of June 30, 2001 consisted of contracts with the United States Government. The Company's contracts with the government contain a provision generally found in government contracts which 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 $4,806,000 in fiscal 2001, $4,274,000 in fiscal 2000 and $4,466,000 in fiscal 1999. 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.

The Company, with other parties, has been named as a defendant in an environmental contamination lawsuit. The Company is investigating the nature of the claims but believes the claims are without merit.

FOREIGN OPERATIONS

The information required by this item is set forth in Note 10 of the Notes to Consolidated Financial Statements on page 28 herein.

EMPLOYEES

As of the end of fiscal 2001, the Company had approximately 352 full-time employees.

ITEM 2. PROPERTIES.

The Company leases 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

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.

The Company, with other parties, has been named as a defendant in an environmental contamination lawsuit. The Company is investigating the nature of the claims but believes the claims are without merit.

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 2001.

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 6, 2001 was 543. The Company did not pay or declare any dividends during fiscal years 2001 and 2000 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 2000		
First Quarter	$ 3.13	$ 1.63
Second Quarter	2.56	0.88
Third Quarter	19.75	1.38
Fourth Quarter	9.25	3.00
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

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes data from the Company's annual financial statements for the fiscal years 1997 through 2001 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 10 herein. See Item 1 in the Business section of this report on Page 2 and Note 2 to Consolidated Financial Statements on page 20 for discussion of a business acquisition completed in fiscal year 1999.

FOR THE FISCAL YEARS ENDED JUNE 30, 2001

2000 1999
1998 1997
-------- -
------- --
------ ---
----- ----
---- IN
THOUSANDS
(EXCEPT
PER SHARE
DATA)
STATEMENTS
OF
OPERATIONS
DATA: Net
revenues $
48,386 $
45,133 $
41,691 $
41,317 $
39,946
========
========
========
========
========
Income
(loss)
before
income
taxes $
2,572 $
1,604 $
(1,317) $
(2,161) $
(2,192)
(Provision)
benefit
for income
taxes
(576)
(129)
(208) 184
763 ------
-- -------
- --------
-------- -

Net income
(loss) $
1,996 $
1,475 $
(1,525) $
(1,977) $
(1,429)
========
========
========
========
========
Diluted
net income
(loss) per
share $
0.41 $
0.31 $
(0.36) $
(0.46) $
(0.34)
========
========
========
========
========
Cash
dividends:
Per share
$ -- $ --
$ -- $ --
$ -- Total
amount
paid $ --
$ -- $ --
$ -- $ --
BALANCE
SHEET
DATA:
Total
assets at
June 30 $
20,203 $
19,937 $
16,398 $
17,820 $

20,477
Total current and long-term debt at June 30
$ 553 $
1,546 $
1,308 $
1,245 $
1,769

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" 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. THESE RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, THE FOLLOWING: INTERNATIONAL, NATIONAL AND LOCAL GENERAL BUSINESS AND ECONOMIC CONDITIONS IN THE COMPANY'S MOTION CONTROL, PROCESS AND POWER MARKETS, 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 ABILITY OF THE COMPANY TO MEET THE TECHNICAL SPECIFICATIONS OF ITS CUSTOMERS, 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, AVAILABILITY OF FINANCING AND THE ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL. THE COMPANY'S ABILITY TO COMPETE IN ITS MARKETS DEPENDS UPON ITS CAPACITY TO ANTICIPATE THE NEED FOR NEW PRODUCTS, AND TO CONTINUE TO DESIGN AND MARKET THOSE PRODUCTS TO MEET CUSTOMERS' NEEDS IN A COMPETITIVE WORLD.

THE COMPANY OPERATES IN A VERY COMPETITIVE ENVIRONMENT. 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 2001 COMPARED TO FISCAL YEAR 2000

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 last year. 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 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.

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. At June 30, 2001 backlog for Motion Control orders was in excess of $13 million, 6% higher than at June 30, 2000. Although the segment's backlog remains strong, there is some slowing in orders and in delivery rates of the OEM programs due to the general economic slowdown. The duration of the slowing in the industry sectors is uncertain but the Company continues to develop applications for its products for new markets and broader segments of already existing markets.

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. 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.

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.

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.

Equity income from investments in joint ventures increased to $1,170,000 in fiscal 2001 from $698,000 in fiscal 2000. This increase is due to the continued success of the Si Fang joint venture which supplies digital relays in China.

On July 5, 2001, the Company sold its 20% equity interest in Si Fang for $3,020,000 in cash. The Company will record a pretax gain on the sale of approximately $650,000 which will be recorded in the first quarter of the fiscal year ending June 30, 2002. During fiscal years 2001 and 2000, the Company recognized equity income from Si Fang of $1,116,000 and $670,000 respectively.

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.

FISCAL YEAR 2000 COMPARED TO FISCAL YEAR 1999

The Company recorded net income of $1,475,000 in fiscal year 2000, compared to a net loss of $1,525,000 in fiscal 1999. Revenues increased 8% from $41,691,000, in fiscal 1999 to $45,133,000 in fiscal 2000. The increase in revenues was due to a 43% increase in revenues from the Company's motion control products, partially offset by a 8% decrease in revenues from the Company's power and process systems and instrumentation products.

The increase in Motion Control revenues in fiscal 2000 was primarily due to expansion into new high growth applications such as test instrumentation for the fiberoptic telecommunications industry as well as the expansion of existing applications. At June 30, 2000, backlog for Motion Control orders was in excess of $12 million, 69% higher than at June 30, 1999. This is a reflection of Motion Control's continued expansion into new markets and broader segments of its existing markets.

The decrease in Power and Process revenues was due to a decline in orders and sales from the process instrumentation business partially as a result of the Company's delay in releasing a new calibration product line which was completed and shipments started in May 2000. In addition, the decline was partially due to higher sales being achieved in fiscal year 1999 from customers purchasing upgrade products to comply with Year 2000 requirements which reduced their funds available for projects in our fiscal year 2000. At June 30, 2000, backlog for Power and Process orders was $11,522,000 which was 5% higher than at the end of the previous year. This reflects higher backlog for power instrumentation and systems automation products partially offset by a decreased backlog for process instrumentation products.

Sales to international customers decreased 9% from $12,902,000, or 31% of sales, in fiscal 1999, to $11,779,000 or 26% of sales, in fiscal 2000 due to a decrease in sales of fault recording and maintenance products in foreign markets.

Sales order backlog increased 30% from $18,260,000 at June 30, 1999 to $23,827,000 at June 30, 2000. Gross margin for fiscal 2000 increased to 38% from 36% in fiscal 1999 due to increased sales volume and changes in the mix of products sold.

Selling expenses decreased 6% from $6,852,000 in fiscal 1999 to $6,433,000 in fiscal 2000 resulting from savings due to the continued overall cost reduction efforts of the Company. General and administrative expenses increased 5% from $4,958,000 in fiscal 1999 to $5,194,000 in fiscal 2000 primarily due to bonuses paid to the management of profitable operations. Engineering and development expenses decreased 4% from $4,466,000 in 1999 to $4,274,000 in 2000.

Amortization of intangibles and other assets decreased from $481,000 in 1999 to $83,000 in 2000. The decrease was primarily due to the $125,000 of amortization and $249,000 write-off in fiscal 1999 of the goodwill from the 1991 acquisition of Hathaway Systems Limited (HSL). This goodwill was fully written off in fiscal 1999.

Equity income from investments in joint ventures increased to $698,000 in fiscal 2000 from $329,000 in fiscal 1999 due to the success of the joint ventures.

In fiscal year 2000, the Company recognized a provision for income taxes of $129,000 compared to $208,000 in fiscal year 1999. The effective tax rate as a percentage of the income or loss before income taxes was a provision of 8% in fiscal 2000 and 16% in fiscal 1999. The difference is primarily due to the changes in the valuation allowance recorded against deferred tax assets. In fiscal 2000, the valuation allowance was decreased due to the utilization of net operating loss carryforwards, whereas in fiscal year 1999, the valuation allowance was increased due to the increase in net operating losses being carried forward. The reduction in the effective tax rate is also due to a decrease in nondeductible expenses and goodwill amortization.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity position as measured by cash and cash equivalents (excluding restricted cash) decreased $1,017,000 during the year to a balance of $1,911,000 at June 30, 2001. Operating activities generated $720,000, $817,000 and $40,000 in fiscals 2001, 2000 and 1999, respectively.

Cash of $715,000, $970,000 and $987,000 was used by investing activities in fiscal 2001, 2000 and 1999, respectively. The 1999 cash used for investing activities includes $281,000 net cash paid for the interest acquired in Ashurst.

Financing activities used $768,000 in fiscal 2001 and generated $809,000 and $63,000 in fiscal years 2000 and 1999, respectively. During fiscal 2001, $1,124,000 in cash was used to pay down the line-of-credit. In fiscal 2000, cash was generated due to proceeds from the exercise of employee stock options, as well as increased net borrowings on the line-of-credit.

At June 30, 2001, the Company had $553,000 of bank debt, compared with $1,546,000 at June 30, 2000, a decrease of $993,000. The debt at June 30, 2001 represents borrowings on the Company's current long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon). The Agreement matures on May 7, 2002 and, accordingly, the $553,000 balance has been classified as a current liability as of June 30, 2001. 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. Borrowings on the loan are restricted to the lesser of $3,000,000 or 85% of the Company's eligible receivables (Maximum Credit Limit). As of June 30, 2001, 85% of the Company's eligible receivables exceeded the maximum loan amount, therefore, the Company could borrow an additional $2,447,000 up to the Maximum Credit Limit of $3,000,000. Subsequent to June 30, 2001, the amount outstanding under the line-of-credit was repaid allowing the Company access to the full $3,000,000 Maximum Credit Limit as of July 31, 2001.

The line-of-credit bears interest at Silicon's prime borrowing rate (prime rate, 6.75% at June 30, 2001) 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, 2001, the Company was in compliance with such covenants.

As in the three-year period ended June 30, 2001, the Company's fiscal 2002 working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations, the existing cash balance of $1,911,000 and the $2,447,000 available under the long-term financing agreement at June 30, 2001. The Company believes that such amounts are sufficient to fund operations and working capital needs for at least the next twelve months. As explained above, the Company's Agreement with Silicon matures on May 7, 2002 but will continue for successive additional terms of one year each 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.

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, 2001, 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 May 2002 and is subject to automatic and continuous annual renewal for successive annual 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 Company manages interest rate risk by investing excess funds in cash equivalents bearing variable interest rates that are tied to various market indices. Additionally, the Company monitors interest rates frequently and has sufficient cash balances to pay off the line-of-credit should interest rates increase significantly. 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.

FOREIGN CURRENCY RISK

The Company has wholly-owned subsidiaries located in Northern Ireland and England. Sales from these operations 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

Statement of Financial Accounting Standards (SFAS) No. 133, "Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. It also specifies the accounting for changes in the fair value of a derivative instrument depending on the intended use of the instrument and whether (and how) it is designated as a hedge. SFAS No. 133 was effective for all fiscal years beginning after June 15, 1999. During 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133," which delayed the effective date of SFAS No. 133 until all fiscal years beginning after June 15, 2000. Through June 30, 2001, the Company had not entered into any transactions involving derivative financial instruments included in the scope of SFAS No. 133, as amended, and, therefore, the adoption of SFAS No. 133 has had no financial statement impact.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," to provide guidance on the recognition, presentation and disclosure of revenue in financial statements. The accounting and disclosures described in SAB No. 101 must be applied no later than the fourth fiscal quarter of the Company's fiscal year ending June 30, 2001, retroactive to July 1, 2000. The adoption of SAB No. 101 has had no material impact on the Company's financial statements. However, implementation guidelines for this bulletin, as well as potential new pronouncements regarding revenue recognition, could result in unanticipated changes to the Company's current revenue recognition policies. These changes could affect the timing of the Company's future revenue recognition and results of operations.

In June 2001, the Financial Accounting Standards Board (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.

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. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Because the Company is 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 will adopt SFAS No. 142 on July 1, 2002. The Company has not yet quantified the effects of adopting SFAS No. 142 on its financial position or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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 June 30, 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.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado,
July 27, 2001.

HATHAWAY CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

JUNE 30,
2001 JUNE
30, 2000 ---
---------- -

ASSETS
Current
Assets: Cash
and cash
equivalents
$ 1,911 $
2,928
Restricted
cash 346 270
Trade
receivables,
net of
allowance
for doubtful
accounts of
$496 and
$530 at June

30, 2001 and 2000, respectively 7,708 7,976 Inventories, net 4,931 4,550 Deferred income taxes 229 601 Income tax refunds receivable, prepaid expenses and other 486 361 -------- -------- Total Current Assets 15,611 16,686 Property and equipment, net 1,781 1,707 Investment in joint ventures, net (Notes 3 and 11) 2,459 1,482 Other 352 62 -------- -------- Total Assets $ 20,203 $ 19,937 ======== ======== LIABILITIES AND STOCKHOLDERS' INVESTMENT Current Liabilities: Line-of-credit (Note 4) $ 553 $ 1,546 Accounts payable 1,583 1,879 Accrued liabilities and other 3,345 3,854 Income taxes payable 380 538 Product warranty reserve 514 813 -------- -------- Total Current Liabilities 6,375 8,630 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; 5,719 and 5,582 shares issued at

June 30,
2001 and
2000,
respectively
100 100
Additional
paid-in
capital
11,230
10,594 Loans
receivable
for stock
(Note 7)
(160) (235)
Retained
earnings
6,787 4,791
Cumulative
translation
adjustments
(152) 34
Treasury
stock, at
cost; 1,122
shares
(3,977)
(3,977) ----
---- -------
- Total
Stockholders'
Investment
13,828
11,307 -----
--- --------
Total
Liabilities
and
Stockholders'
Investment $
20,203 $
19,937
========
========

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, 2001 2000
1999 --------
-------- ----
---- Revenues
$ 48,386 $
45,133 $
41,691 Cost
of products
sold 29,734
28,175 26,475
-------- ----
---- --------
Gross margin
18,652 16,958
15,216
Operating
costs and
expenses:
Selling 6,174
6,433 6,852
General and
administrative
5,551 5,194
4,958
Engineering
and
development
4,806 4,274
4,466
Restructuring
charge (Note
9) 587 -- --
Amortization
and other 57
83 481 ------

-- -------- - ------- Total operating costs and expenses 17,175 15,984 16,757 -------- -------- - ------- Operating income (loss) 1,477 974 (1,541) Other income (expense), net: Equity income from investments in joint ventures (Notes 3 and 11) 1,170 698 329 Interest and dividend income 90 69 111 Interest expense (82) (154) (146) Other (expense) income, net (83) 17 (70) -------- -------- -------- Total other income, net 1,095 630 224 -------- -------- -------- Income (loss) before income taxes 2,572 1,604 (1,317) Provision for income taxes (Note 5) (576) (129) (208) -------- -------- -------- Net income (loss) $ 1,996 $ 1,475 $ (1,525) ======== ======== ======== Basic net income (loss) per share (Note 1) $ 0.44 $ 0.34 $ (0.36) ======== ======== ======== Diluted net income (loss) per share (Note 1) $ 0.41 $ 0.31 $ (0.36) ======== ======== ======== Basic weighted average shares outstanding (Note 1) 4,493 4,341 4,283 ======== ======== ======== Diluted weighted average shares outstanding (Note 1) 4,834 4,785 4,283

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========
========

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,		
	2001	2000	1999
	-------	-------	-------
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 1,996	$ 1,475	$(1,525)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	831	890	1,220
Provision for doubtful accounts	150	150	14
Equity income, net of dividends, from investments in joint ventures (Notes 3 and 11)	(977)	(559)	(208)
Deferred income tax provision	372	31	147
Other	255	(144)	(195)
Changes in assets and liabilities, net of effect in 1999 of purchase of Ashurst (Note 2):			
(Increase) decrease in -			
Restricted cash	(95)	377	(166)
Trade receivables	12	(1,661)	87
Inventories, net	(530)	(1,234)	333
Income tax refunds			

receivable, prepaid expenses and other (130) 182 183 Increase (decrease) in - Accounts payable (340) 309 (499) Accrued liabilities and other (384) 899 408 Income taxes payable (147) (22) 27 Product service reserve (293) 124 214 ------- ------- ------- Net cash provided by (used in) operating activities 720 817 40 CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of property and equipment (908) (827) (792) Purchase of Ashurst, net of cash acquired (Note 2) -- -- (281) Activities related to joint venture investments, net (Notes 3 and 11) -- (282) (35) ------- ------- ------- Net cash used in investing activities (908) (1,109) (1,108) CASH FLOWS FROM FINANCING ACTIVITIES: Repayments on line-of-credit (1,117) (65) (150) Borrowings on line-of-credit 124 303 213 Repayment on loan to employee stock ownership plan 75 -- -- Sale of stock to employees through stock purchase plan 94 --

-- Proceeds from exercise of employee stock options 55 575 -- Purchase of treasury stock -- (4) -- ---- --- ------- ------- Net cash (used in) provided by financing activities (769) 809 63 Effect of foreign exchange rate changes on cash (60) (5) (22) -- ----- ----- -- ------- Net (decrease) increase in cash and cash equivalents (1,017) 512 (1,027) Cash and cash equivalents at beginning of year 2,928 2,416 3,443 ----- -- ------- ------- Cash and cash equivalents at end of year $ 1,911 $ 2,928 $ 2,416 ======= ======= ======= SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Net cash paid during the year for: Interest $ 94 $ 152 $ 123 Income taxes 179 53 (153) Noncash investing and financing activities: Assets of Ashurst purchased, net of liabilities assumed and cash acquired (Note 2) $ -- $ -- $ 281

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
(IN THOUSANDS)

LOANS COMMON STOCK ADDITIONAL RECEIVABLE CUMULATIVE TREASURY STOCK -------- -------- PAID-IN FOR STOCK RETAINED TRANSLATION COMPREHENSIVE ------------ ---- SHARES AMOUNT CAPITAL (NOTE 7) EARNINGS ADJUSTMENTS INCOME (LOSS) SHARES AMOUNT ------ - ------ --- ------- ---- ------ ----- --- -------- --- -------- ----- ------ -------- Balances, June 30, 1998 5,405 $ 100 $ 9,954 $ (235) $ 4,841 $ 389 1,122 $(3,973) Foreign currency translation (235) $ (235) adjustment Net loss (1,525) (1,525) ---- --- Comprehensive loss $(1,760) --- --- ------ - ------- ---- --- -------- ------- ======= ---- -- ------- 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 loss $ 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
6) 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)
======
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=======
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The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

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 has joint venture investments in China (Notes 3 and 11).

PRINCIPLES OF CONSOLIDATION

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

Investments in joint ventures, in which the ownership is at least 20% but less than 50%, are accounted for using the equity method (Note 3).

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

	JUNE 30, 2001	JUNE 30, 2000
Parts and raw materials, net	$3,251	$2,827
Finished goods and work-in-process, net	1,680	1,723
	$4,931	$4,550

Reserves established for anticipated losses on excess or obsolete inventories were approximately $1,844,000 and $1,900,000 at June 30, 2001 and 2000, respectively.

PROPERTY AND EQUIPMENT

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

	USEFUL LIVES	JUNE 30, 2001	JUNE 30, 2000
Machinery, equipment, tools and dies	2-8 years	$ 5,987	$ 8,233
Furniture, fixtures and other	3-10 years	2,839	1,350
		8,826	9,583
Less accumulated depreciation and amortization		(7,045)	(7,876)
		$ 1,781	$ 1,707

Depreciation and amortization expense is provided using the straight-line method over the estimated useful lives of the assets. 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 is reflected in earnings.

Depreciation expense was approximately $774,000, $807,000 and $788,000 in fiscal years 2001, 2000 and 1999, respectively.

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 future cash flows related to the asset did not exceed its net book value. The amount of the impairment is assessed using the assets' fair market value, which is estimated using discounted cash flows.

As a result of its acquisition of Hathaway Systems Limited (HSL) in 1991, the Company had previously recorded goodwill of $1,197,000. At June 30, 1999 and in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the Company determined that the unamortized cost in excess of net assets acquired from its acquisition of HSL was impaired; and, therefore, wrote off the remaining unamortized balance of $249,000. The Company's determination was based on projections of undiscounted cash flows of HSL, which were reflective of then current marketplace conditions, low orders and continuing losses. Such undiscounted cash flow estimates were not sufficient to indicate realization of the related unamortized cost in excess of net assets acquired. Utilizing such projections and discounting the estimated cash flows, the Company determined that the entire unamortized amount was impaired. Fiscal year 1999 amortization of $125,000 and impairment write-off of $249,000, totaling $374,000, is included in amortization of intangibles and other in the fiscal year 1999 consolidated statement of operations.

ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	JUNE 30, 2001	JUNE 30, 2000
Compensation and fringe benefits	$1,617	$1,863
Deferred revenue	621	800
Commissions	552	596
Other accrued expenses	555	595
	$3,345	$3,854

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 cumulative translation adjustments 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, persuasive evidence of an arrangement exists, selling price is fixed, and collectibility is reasonably assured.

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Outstanding options that were determined to have a dilutive effect totaled 341,962 and 444,316 for fiscal years 2001 and 2000, respectively. In fiscal year 1999, stock options to purchase 819,004 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.

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

FOR THE FISCAL YEARS ENDED JUNE 30,	2001	2000	1999
Numerator:			
Net income (loss)	$ 1,996	$ 1,475	$(1,525)
Denominator:			
Weighted average outstanding shares	4,493	4,341	4,283
Basic net income (loss) per share	$ 0.44	$ 0.34	$ (0.36)

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

FOR THE FISCAL YEARS ENDED JUNE 30,	2001	2000	1999
Numerator:			
Net income (loss)	$ 1,996	$ 1,475	

$(1,525)
Denominator:
Weighted average outstanding shares 4,834 4,785 4,283 ------- ------- -------
Diluted net income (loss) per share $ 0.41 $ 0.31 $ (0.36) ======= ======= =======

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

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, net of valuation allowances as of June 30, 2001.

CONCENTRATION OF CREDIT RISK

During fiscal 2001, 2000 and 1999, no single customer accounted for more than 10% of the Company's consolidated revenue from continuing operations 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, when necessary.

USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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

SFAS No. 133, "Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. It also specifies the accounting for changes in the fair value of a derivative instrument depending on the intended use of the instrument and whether (and how) it is designated as a hedge. SFAS No. 133 was effective for all fiscal years beginning after June 15, 1999. During 1999, the Financial Accounting Standards Board (FASB) issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133," which delayed the effective date of SFAS No. 133 until all fiscal years beginning after June 15, 2000. Through June 30, 2001, the Company had not entered into any transactions involving derivative financial instruments falling within the scope of SFAS No. 133, as amended, and, therefore, the adoption of SFAS No. 133 has had no financial statement impact.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," to provide guidance on the recognition, presentation and disclosure of revenue in financial statements. The accounting and disclosures described in SAB No. 101 must be applied no later than the fourth fiscal quarter of the Company's fiscal year ending June 30, 2001, retroactive to July 1, 2000. The adoption of SAB No. 101 has had no material impact on the Company's financial statements. However, implementation guidelines for this bulletin, as well as potential new pronouncements regarding revenue recognition, could result in unanticipated changes to the Company's current revenue recognition policies. These changes could affect the timing of the Company's future revenue recognition and results of operations.

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.

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 121. Because the Company is 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 will adopt SFAS No. 142 on July 1, 2002. The Company has not yet quantified the effects of adopting SFAS No. 142 on its 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. BUSINESS ACQUISITION

Effective July 1, 1998, a wholly-owned subsidiary of the Company acquired all the outstanding shares of Ashurst Logistic Electronics Limited of Bournemouth, England (Ashurst) for $317,000 in cash. 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.

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 final net purchase price allocation was as follows (in thousands):

Cash	$ 36
Trade receivables	190
Prepaid expenses	2
Property and equipment, net	25
Cost in excess of net assets acquired	195
Accounts payable	(43)
Accrued liabilities and other	(88)
Net purchase price	$ 317

The results of operations of Ashurst have been included in the Company's fiscal 1999 consolidated statement of operations starting on July 1, 1998.

3. INVESTMENTS IN JOINT VENTURES

Through July 5, 2001, 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). 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 and the Company may sell these products outside of China. HPMS manufactures and sells, under a license from the Company, instrumentation products designed by the Company to electric power companies in China.

3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The Company accounts 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 until the beginning of fiscal 1998, 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 a portion of its share of equity in income from these joint ventures, totaling $1,170,000, $698,000 and $329,000 in fiscal years 2001, 2000 and 1999, 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 writedowns, from the joint ventures' operating results for the years ended December 31. The Company will continue to recognize its share of equity in income (loss) from these joint ventures to the extent it believes such amounts are realizable.

At June 30, 2001, the Company's investments and ownership interests in these joint ventures are as follows (in thousands):

Cumulative
Investment,
Share of
Income
Cumulative
Balance at
Ownership
Net of
(Through
Dividends
Cumulative
June 30,
Interest
Sales Dec.
31, 2000)
Received
Writedowns
2001 -----
--- ------
----- ----

- --------

Si Fang	20%	$ 642	$ 2,625	$ (453)	$ (484)	$ 2,330
Kehui	25%	100	331	(28)	(298)	105
HPMS	40%	140	101	--	(217)	24
		$ 882	$ 3,057	$ (481)	$ (999)	$ 2,459

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

Summarized financial information for Si Fang as of December 31, 2000, 1999 and 1998 (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	As of and For the Year Ended December 31, 1998
Current assets	$34,722	$25,539	$16,864
Non-current assets	14,869	4,785	1,745
Current liabilities	27,596	20,239	14,752
Non-current liabilities	6,024	--	--
Revenues	48,363	32,959	16,502
Gross margin	12,736	6,834	4,047
Net income before income taxes	6,291		

3,940
1,706 Net
income
5,580
3,352
1,367

Summarized financial information for Kehui and for HPMS is not presented because it is not significant relative to the Company's consolidated financial statements.

During fiscal 1999, the Company sold 2% of its ownership interest in Si Fang for $57,000 in cash and recognized a $49,000 gain on the sale, which is included in other income in the accompanying fiscal year 1999 consolidated statement of operations. The Company reinvested the proceeds from the sale plus an additional $35,000 in cash to maintain its 23% ownership interest due to a capital call by the joint venture.

3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

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 equity interest in Si Fang (Note 11).

4. DEBT

On May 7, 1998, the Company entered into a long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon). The Agreement matures on May 7, 2002 and, accordingly, the $553,000 balance of the line-of-credit has been classified as a current liability as of June 30, 2001. 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. Borrowings on this line-of-credit are restricted to the lesser of $3,000,000 or 85% of the Company's eligible receivables (Maximum Credit Limit). As of June 30, 2001, 85% of the Company's eligible receivables exceeded the maximum loan amount; therefore the Company could borrow an additional $2,447,000 up to the $3,000,000 Maximum Credit Limit.

The line-of-credit bears interest at Silicon's prime borrowing rate (prime rate, 6.75% at June 30, 2001) 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 for each previous twelve-month rolling period. In addition to interest, the line 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 for each previous twelve-month rolling period. The debt is secured by all 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.

5. 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,
2001
2000
1999 --
----- -

Domestic
$ 2,231
$ 1,918
$(1,065)
Foreign
341
(314)
(252) -

Income (loss) before income taxes	$ 2,572	$ 1,604	$(1,317)
	=======	=======	=======

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

	FOR THE FISCAL YEARS ENDED JUNE 30, 2001	2000	1999
Current provision (benefit):			
Domestic	$ 204	$ 117	$ 61
Foreign	--	(19)	--
Total current provision	204	98	61
Deferred provision - domestic	372	31	147
Provision for income taxes	$ 576	$ 129	$ 208
	=====	=====	=====

5. INCOME TAXES (CONTINUED)

The 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, 2001	2000	1999
Tax provision (benefit) computed at statutory rate	$ 874	$ 545	$(448)
State tax, net of federal benefit	87	99	36
Nondeductible expenses and goodwill amortization	119	14	145
Adjustments to prior year accruals*	(312)	--	--
Change in			

valuation allowance	(186)	(561)	497
Other	(6)	32	(22)
Provision for income taxes	$ 576	$ 129	$ 208

* 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, 2001	JUNE 30, 2000
Allowances and other accrued liabilities	$ 983	$ 1,008
Investment in joint ventures	(530)	(198)
Tax credit carryforwards	236	376
Net operating loss carryforwards	14	75
Valuation allowance	(474)	(660)
Net deferred tax asset	$ 229	$ 601

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 carryforward balance at June 30, 2001 is $364,000 and will expire in 2019. A benefit for income taxes will not be recorded upon realization of the operating loss carryforward. The Company also has domestic tax credit carryforwards of $334,000 expiring in 2004 through 2008 and foreign advance corporation tax of $40,000 available which may be utilized to reduce future foreign taxes due.

Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient taxable income 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, 2001. 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, 2001.

6. STOCK COMPENSATION

HATHAWAY CORPORATION STOCK OPTION PLAN

At June 30, 2001, 303,732 shares of common stock were available for grant under the Company's stock option plans. 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, 2001, options to purchase 54,000 shares remain outstanding. The options vest during fiscal 2004.

6. STOCK COMPENSATION (CONTINUED)

Option activity in fiscal years 1999, 2000 and 2001 was as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF SHARES EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE ($)
Outstanding at June 30, 1998	648,204	3.35	303,138	3.36
Granted	249,104	1.71		
Canceled or forfeited	(78,304)	3.18		
Outstanding at June 30, 1999	819,004	2.87	371,866	3.36
Granted	164,000	1.81		
Canceled or 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		
Canceled or forfeited	(32,936)	3.75		
Exercised	(28,630)	1.93		
Outstanding at June 30, 2001	1,052,637	3.66	460,857	2.36

Exercise prices for options outstanding and exercisable at June 30, 2001 are as follows:

	RANGE OF EXERCISE PRICES			TOTAL
	$1.13 - $2.13	$2.66 - $3.88	4.31 - $6.72	$1.13 - $6.72
Options Outstanding:				
Number of options	346,467	251,670	454,500	1,052,637
Weighted average exercise price	$ 1.73	$ 3.18	$ 5.39	$ 3.66
Weighted average remaining contractual life	4.5 years	2.9 years	6.2 years	4.8 years
Options Exercisable:				
Number of options	258,467	188,890	13,500	460,857
Weighted average exercise price	$ 1.78	$ 3.01	$ 4.31	$ 2.36

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,		
	2001	2000	1999
Risk-free interest rate	5.9%	6.7%	6.3%
Expected dividend yield	0.0%	0.0%	0.0%
Expected life	6 years	6 years	6 years
Expected volatility	89.5%	81.9%	60.8%

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,		
	2001	2000	1999
Actual net income (loss)	$ 1,996	$ 1,475	$ (1,525)
Pro forma net income (loss)	$ 1,364	$ 1,444	$ (1,702)
Actual basic net income (loss) per share	$ 0.44	$ 0.34	$ (0.36)
Pro forma basic net income (loss) per share	$ 0.30	$ 0.33	$ (0.40)
Actual diluted net income (loss) per share	$ 0.41	$ 0.31	$ (0.36)
Pro forma diluted net income (loss) per share	$ 0.28	$ 0.30	$ (0.40)

6. STOCK COMPENSATION (CONTINUED)

The weighted average fair value of options granted during fiscal years 2001, 2000 and 1999 was $4.19, $0.79 and $1.07, respectively. The total fair value of options granted was $1,897,000, $130,000 and $266,000 in fiscal years 2001, 2000 and 1999, respectively. These amounts are being amortized ratably over the vesting periods of the options for purposes of this disclosure.

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, 2000 and 1999 was as follows:

	NUMBER OF SHARES		WEIGHTED AVERAGE EXERCISE PRICE	
	TIME VESTED	PERFORMANCE VESTED	TIME VESTED	PERFORMANCE VESTED
Outstanding at June 30, 1998	80,000	187,600	$ 1.37	$ 1.37
Granted	11,000	34,000	$ 2.50	$ 2.50
Cancelled or forfeited	--	(33,683)	--	$ 1.56
Outstanding at June 30, 1999	91,000	187,917	$ 1.51	$ 1.54
Granted	83,118	--	$ 3.43	--
Cancelled				

or
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.

7. LOANS RECEIVABLE FOR STOCK

The Company's loans receivable balance of $160,000 at June 30, 2001 is comprised of a loan for $27,000 from the Leveraged Employee Stock Ownership Plan and Trust (the Plan) and $133,000 from an Officer of the Company. The balance of $235,000 at June 30, 2000 is comprised of a loan of $102,000 from 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 as an offset to stockholders' investment.

The Plan allows eligible Company employees to participate in ownership of the Company. The $27,000 receivable represents 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

7. LOANS RECEIVABLE FOR STOCK (CONTINUED)

matures 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 2001, 2000, and 1999) or ii) the annual interest payable on the note. Company contributions to the Plan were $135,000 in 2001, $84,000 in 2000 and $9,000 in 1999. 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 $133,000 receivable represents 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 is full-recourse and bears interest at a current interest rate. The loan is due on demand but no later than October 31, 2001.

8. COMMITMENTS AND CONTINGENCIES

LEASES

At June 30, 2001, the Company maintained leases for certain facilities and equipment. Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

FISCAL
YEAR
AMOUNT ---
-------- -

2002	$1,010
2003	632
2004	688
2005	650
2006	486
Thereafter	248
	$3,714

Rental expense was $1,027,000, $1,126,000 and $1,000,000 in fiscal years 2001, 2000 and 1999, 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 $1,869,000 as of June 30, 2001. 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 primarily on matters involving the Company's motion control business, as well as other matters as requested by the Chief Executive Officer. During fiscal years 2001, 2000 and 1999, the Company paid $0, $66,000 and $137,750, respectively, to the Chairman of the Board under the Consulting Agreement.

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

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

LITIGATION

The Company, with other parties, has been named as a defendant in an environmental contamination lawsuit. The Company is investigating the nature of the claims but believes the claims are without merit and, therefore, no reserve for this litigation is required at this time.

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.

9. 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 have been incurred as of June 30, 2001.

10. 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.

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 comprehensive and cost-effective 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 Company has successfully sold the system with certain other Hathaway products and targets the combined product at substation automation and integration applications used in power generation, transmission and distribution facilities.

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.

10. SEGMENT INFORMATION (CONTINUED)

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.

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

FOR THE
FISCAL
YEARS ENDED
JUNE 30,
2001 2000
1999 ------

------ ----

-------- --

POWER POWER
POWER AND
MOTION AND
MOTION AND
MOTION
PROCESS
CONTROL
PROCESS
CONTROL
PROCESS
CONTROL ---
----- -----

Revenue from external customers	$ 27,198	$ 21,188	$ 26,542	$ 18,591	$ 28,711	$ 12,980
Equity income from investments in joint ventures	1,170	--	698	--	329	--
(Loss) income before income taxes	(1,539)	3,584	(1,643)	3,139	(1,932)	487
Identifiable assets	12,142	6,532	10,620	7,134	9,232	5,006

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

FOR THE FISCAL YEARS ENDED AND AS OF JUNE 30,	2001	2000	1999
Segments' income (loss) before income taxes	$ 2,045	$ 1,496	$ (1,445)
Corporate activities	527	108	128
Consolidated income (loss) before income taxes	$ 2,572	$ 1,604	$ (1,317)
Segments' identifiable assets	$ 18,674	$ 17,754	$ 14,238
Corporate assets and eliminations	1,529	2,183	2,160
Consolidated total			

assets $
20,203 $
19,937 $
16,398
========
========
========

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
$7,223
$5,632
$7,744
Identifiable
assets
3,927 3,078
3,179

10. SEGMENT INFORMATION (CONTINUED)

Sales to international customers was $15,282,000, $11,577,000 and $12,902,000 in fiscal years 2001, 2000 and 1999, respectively.

11. SUBSEQUENT EVENT

On July 5, 2001, the Company completed the sale of 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 will record a pretax gain on the sale, net of selling costs, of approximately $650,000. The gain will be recorded in the first quarter of the fiscal year ending June 30, 2002 and will be included in other income in the Company's consolidated financial statements.

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 has recognized equity income of $2,291,000 and gain on sales of $175,000. During fiscal years ended June 30, 2001, 2000 and 1999, the Company recognized equity income of $1,116,000, $670,000 and $314,000, respectively.

The following presents the Company's unaudited pro forma financial information for the fiscal years ended June 30, 2001, 2000 and 1999. The pro forma statements of operations give effect to the sale of the Company's joint venture investment in Si Fang as if it 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 Si Fang is not reflected in the pro forma financial information as it is a non-recurring item.

FOR
THE
FISCAL
YEARS
ENDED
JUNE
30,
2001
2000
1999 -

Net income (loss)	$ 1,301	$ 1,036	$ (1,729)
Basic net income (loss) per share	0.29	0.24	(0.40)
Diluted net income (loss) per share	0.27	0.22	(0.40)

12. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for each of the four quarters in fiscal years 2001 and 2000 is as follows (in thousands, except per share data):

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

2000	FIRST	SECOND	THIRD	FOURTH

	QUARTER	QUARTER	QUARTER	QUARTER
Revenues	$ 8,905	$ 11,151	$ 11,767	$ 13,310
Operating income (loss)	(762)	501	139	1,096
Net income (loss)	(721)	617	225	1,354
Basic net income (loss) per share	(0.17)	0.14	0.05	0.30
Diluted net income (loss) per share	(0.17)	0.14	0.05	0.28

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

The Company has not changed its accounting or auditing firm during the past 24 months, nor has it had any material disagreements with its accountants or auditors regarding any accounting or financial statement disclosure matters.

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 primarily on matters involving the Company's Motion Control business, as well as other matters as requested by the Chief Executive Officer. During fiscal year 2001, 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, 2001 and June 30, 2000.

   b) Consolidated Statements of Operations for each of the fiscal years in the three-year period ended June 30, 2001.

   c) Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended June 30, 2001.

   d) Consolidated Statements of Stockholders' Investment for each of the fiscal years in the three-year period ended June 30, 2001.

   e) Notes to Consolidated Financial Statements.

   f) Report of Independent 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.	*

EXHIBIT NO.	SUBJECT	PAGE
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.	*

EXHIBIT NO.	SUBJECT	PAGE
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	The Year 2000 Stock Incentive Plan. Incorporated by reference to Exhibit A to the Company's Proxy Statement dated September 21, 2000.	*
10.18	The 2001 Employee Stock Purchase Plan. Incorporated by reference to Exhibit B to the Company's Proxy Statement dated September 21, 2000.	*
10.19	The 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.	*
21	List of Subsidiaries	37
22	Definitive Proxy Statement dated September 21, 2001 for the Registrant's 2001 Annual Meeting of Shareholders.	*
23	Consent of ARTHUR ANDERSEN LLP.	33

* 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, and 2000 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.

No reports on Form 8-K were filed during the fourth quarter of fiscal 2001.

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
President, Chief Executive Officer
and Chief Financial Officer

Date: September 21, 2001

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	President, Chief Executive Officer, Chief Financial Officer and Director	September 21, 2001
/s/ Eugene E. Prince Eugene E. Prince	Chairman of the Board of Directors	September 21, 2001
/s/ George J. Pilmanis George J. Pilmanis	Director	September 21, 2001
/s/ Delwin D. Hock Delwin D. Hock	Director	September 21, 2001
/s/ Graydon D. Hubbard Graydon D. Hubbard	Director	September 21, 2001

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, 2001:				
Reserve for bad debts	$ 530	$ 150	$(184)	$ 496
YEAR ENDED JUNE 30, 2000:				
Reserve for bad debts	$ 479	$ 150	$ (99)	$ 530
YEAR ENDED JUNE 30, 1999:				
Reserve for bad debts	$ 599	$ 14	$(134)	$ 479

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated July 27, 2001 included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-8 (No. 2-73235) of the Hathaway Corporation Amended 1980 Non-Incentive Stock Option Plan dated August 3, 1981, into the Registration Statement on Form S-8 (No. 2-90687) of the 1983 Incentive and Non-Qualified Stock Option Plan of Hathaway Corporation dated May 10, 1984, into the Registration Statement on Form S-8 (No. 33-44998) of the 1992 Employee Stock Purchase Plan of Hathaway Corporation dated January 8, 1992, into 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, into 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 into 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.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado,
September 21, 2001.