

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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
(State or other jurisdiction of
incorporation or organization)

84-0518115
(I.R.S. Employer
Identification No.)

8228 PARK MEADOWS DRIVE
LITTLETON, COLORADO 80124
(Address of principal executive offices) (Zip Code)

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

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

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

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

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 August 27, 1998, 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 \$3,722,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated September 17,
1998 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 three joint venture investments in China.

POWER AND PROCESS BUSINESS

Power Instrumentation

Hathaway's complete line of power instrumentation products helps 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 (RTUS) for Supervisory Control and Data Acquisition (SCADA) systems.

The Company also has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). The Company holds a 25% interest in Kehui and Si Fang and a 40% interest in HPMS. Kehui designs, manufactures and sells cable and overhead fault location, SCADA systems and other test instruments in China. 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. The Company will sell these products outside of China. HPMS will design, manufacture and sell, under a license from the Company, instrumentation products designed by the Company, to electric power companies in China.

Process Instrumentation

The process instrumentation products group manufactures and markets products for the process and power industries including monitoring systems, calibration equipment and process measurement instrumentation. 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. Process measurement instrumentation includes signal conditioning products and transducers used to measure such variables as temperature, voltage, current and power in various industrial applications.

Systems Automation

Effective September 30, 1996, the Company acquired a 100% partnership interest in Tate Integrated Systems, L.P. and 100% of the stock of its sole general partner, Tate Integrated Systems, Inc. (collectively referred to as "TIS"). The ownership interests were acquired for an adjusted negotiated price of \$1,092,000, of which \$718,000 was paid in cash at closing on October 10, 1996, \$145,000 on June 30, 1997 and \$229,000 when certain accounts receivable of TIS were collected during fiscal year 1998. Hathaway purchased the stock and partnership interest from Tate Engineering Services Corporation and its affiliate, Tate Engineering Services, Inc., both divisions of Tate Industries, a privately held company.

TIS has operated under the ownership of Hathaway Industrial Automation (HIA), a newly formed wholly-owned subsidiary of the Company, since October 1, 1996. 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 Supervisory Control and Data Acquisition (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. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company expects to team the HIA system with certain existing Hathaway products and target the combined product at substation automation and integration applications used in power transmission and distribution facilities.

Restructuring

In the fourth quarter of fiscal 1996 the Company decided to reorganize its Canadian and U.K. operations. Effective June 30, 1996 the net assets and substantially all operations of Hathaway Instruments Limited (HIL), the Company's subsidiary located in Hoddesdon, England, were transferred to Hathaway Systems Limited (HSL), the Company's Belfast, Northern Ireland subsidiary. In connection with the asset transfer, substantially all operations of HIL were combined with the operations of HSL. In addition, the Company closed its Toronto, Canada facility and combined substantially all of its operations with the operations of Hathaway Process Instrumentation Corporation, the Carrollton, Texas subsidiary. The initiatives were aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision of \$338,000 recorded in 1996 was primarily comprised of estimated costs for employee severance benefits and fixed asset writeoffs. The payouts related to the restructuring charge were made in fiscal years 1996 and 1997, and the related restructuring accrual fully utilized.

In the first quarter of fiscal year 1997, management decided to restructure the power products manufacturing operations to produce operating efficiencies and to better utilize local management talent and expertise. Accordingly, the manufacturing operation located in Denver was consolidated in fiscal year 1997 into two manufacturing facilities located in Seattle, Washington and Belfast, Northern Ireland.

MOTION CONTROL BUSINESS

The motion control group 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 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).

Subsequent to fiscal year 1998, Emoteq Corporation acquired all of the outstanding shares of Ashurst Logistic Electronics Limited of Bournemouth, England (Ashurst) for \$289,000. 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. For calendar year ended December 31, 1997, Ashurst reported revenues of \$353,000. The acquired company was renamed Emoteq UK Limited.

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 designs, manufactures and markets direct current (DC) brushless motors, related components, and drive and control electronics. Markets served include semiconductor manufacturing, industrial automation, medical equipment, and military and aerospace. A new motion technology center was established in Evergreen, Colorado in fiscal year 1998 to develop more automated methods of manufacturing and advance the state of Emoteq's core technology base.

Optical encoders are manufactured by COPI. They are used to measure rotational and linear movements of parts in diverse applications such as machine tools, robots, printers and medical equipment. The primary markets for the optical encoders are in the industrial, medical and computer peripheral manufacturing 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 9 of the Notes to Consolidated Financial Statements on page 30 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 1998, no single customer accounted for more than 10% of the Company's consolidated revenue from continuing operations.

SALES BACKLOG

The backlog of the Company's continuing operations at June 30, 1998 consisted of sales orders totaling approximately \$13,892,000. The Company expects to ship goods filling \$13,712,000 of those purchase orders within fiscal 1999. This compares to a backlog from continuing operations of \$14,742,000 at June 30, 1997, of which \$14,229,000 was scheduled for shipment in fiscal 1998.

GOVERNMENT SALES

Approximately \$238,000 of the Company's backlog as of June 30, 1998 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 for continuing operations were \$4,411,000 in fiscal 1998, \$3,646,000 in fiscal 1997 and \$3,722,000 in fiscal 1996. 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.

FOREIGN OPERATIONS

The information required by this item is set forth in Note 9 of the Notes to Consolidated Financial Statements on page 32 herein.

EMPLOYEES

As of the end of fiscal 1998, the Company had approximately 349 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 administrative office	Littleton, Colorado	14,000
Engineering and development facility	Evergreen, Colorado	3,000
Office and manufacturing facility	Carrolton, Texas	29,000
Office and manufacturing facility	Kent, Washington	16,000
Engineering, development and administrative office	Hunt Valley, Maryland	14,000
Office and manufacturing facility	Tulsa, Oklahoma	13,000
Office and manufacturing facility	Chatsworth, California	13,000
Office and manufacturing facility	Tulsa, Oklahoma	10,000
Office facility	Hoddesdon, England	3,000
Office and manufacturing facility	Belfast, Northern Ireland	17,000

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 is 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 effect on the Company's consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO 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 1998.

PART II

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

Hathaway Corporation's common stock is traded on the NASDAQ National Market System under the symbol HATH. The number of holders of record of the Company's common stock as of the close of business on August 27, 1998 was 619. The Company declared no dividends during fiscal years 1998 and 1997.

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

	PRICE RANGE	
	HIGH	LOW

Fiscal 1997		
First Quarter	\$4.38	\$2.50
Second Quarter	4.13	3.25
Third Quarter	4.88	3.00
Fourth Quarter	3.81	2.38
FISCAL 1998		
First Quarter	\$4.50	\$2.63
Second Quarter	4.00	2.38
Third Quarter	2.94	2.13
Fourth Quarter	2.63	1.56

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes data from the Company's annual financial statements for the fiscal years 1994 through 1998 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 12 herein. See Item 1 in the Business section of this report and Note 2 to Consolidated Financial Statements on page 21 for discussion of a business acquisition completed in fiscal 1997.

	FOR THE FISCAL YEARS ENDED JUNE 30,				1994
	1998	1997	1996	1995	

In thousands (except per share data)					
STATEMENTS OF OPERATIONS DATA:					
Net revenues from continuing operations	\$41,317	\$39,946	\$35,411	\$39,838	\$43,028
Income (loss) from continuing operations before income taxes	\$(2,161)	\$(2,192)	\$(1,398)	\$ 1,321	\$ 1,275
Benefit (provision) for income taxes	184	763	385	(479)	(320)
Net income (loss) from continuing operations	\$(1,977)	\$(1,429)	\$(1,013)	\$ 842	\$ 955
Net income from operations of divested segment and divested operation	--	--	--	--	885
Gain on sale of segment	--	--	--	--	4,023
Net income (loss)	\$(1,977)	\$(1,429)	\$(1,013)	\$ 842	\$ 5,863
=====					
Diluted earnings (loss) per share:					
Continuing operations	\$ (0.46)	\$ (0.34)	\$ (0.24)	\$ 0.19	\$ 0.20
Operations of divested segment and divested operation	--	--	--	--	0.18
Sale of segment	--	--	--	--	0.83
Net income (loss)	\$ (0.46)	\$ (0.34)	(0.24)	\$ 0.19	\$ 1.21
=====					
Cash dividends:					
Per share	\$ --	\$ --	\$ 0.10	\$ 0.12	\$ 0.205
Total amount paid	\$ --	\$ --	\$ 426	\$ 536	\$ 992
BALANCE SHEET DATA:					
Total assets at June 30	\$17,820	\$20,477	\$21,139	\$23,312	\$24,432
Total current and long-term debt at June 30	\$ 1,245	\$ 1,769	\$ 1,777	\$ 2,144	\$ 2,298

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. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause actual results to differ materially are the following: the unavailability of sufficient capital on satisfactory terms to finance the Company's business plan, increased competition, the introduction of new technologies and competitors into the systems and instrumentation markets where the Company competes, adverse changes in the regulatory environment, and general business and economic conditions. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes," "expects," "plans," "anticipates," or "intends" to be uncertain and forward-looking. All cautionary statements made herein should be read as being applicable to all related forward-looking statements wherever they appear. In this connection, investors should consider the risks described herein.

OPERATING RESULTS

FISCAL YEAR 1998 COMPARED TO FISCAL YEAR 1997

The Company recorded a net loss of \$1,977,000 in fiscal year 1998, compared to a net loss of \$1,429,000 in 1997. The fiscal 1998 and 1997 results include \$2,527,000 and \$923,000 of net losses from Hathaway Industrial Automation (HIA), respectively. HIA was acquired by the Company effective September 30, 1996 (see discussion under "Business Acquisition" below) and is included in the Company's Power and Process Business. Excluding HIA, the Company recognized net income of \$550,000 and a net loss of \$506,000 for the years ended June 30, 1998 and 1997, respectively.

Revenues increased by \$1,371,000, or 3%, from 1997 to 1998, comprised of a 2% increase in sales of the Company's power and process instrumentation and systems automation products and an 8% increase in sales of motion control products (the fifth consecutive annual increase). The increase in sales of power and process products consists of a \$861,000 decrease in sales of the Company's traditional product lines, offset by a \$1,268,000 increase in HIA product sales.

Sales to international customers decreased 2% from \$14,200,000, or 36% of sales, in fiscal 1997, to \$13,955,000, or 34% of sales, in fiscal 1998. Sales backlog decreased from \$14,742,000 at June 30, 1997 to \$13,892,000 at June 30, 1998, comprised of \$11,874,000 of traditional product backlog and \$2,018,000 of HIA product backlog, compared to \$11,996,000 of traditional product backlog and \$2,746,000 of HIA product backlog at June 30, 1997.

Cost of products sold remained at 64% of revenues in 1998 and 1997. Excluding the effect of HIA, the cost of products sold in 1998 and 1997 represents 61% and 63% of related revenues, respectively. This decrease in cost of traditional product sold was primarily due to manufacturing efficiencies and an improved product sales mix in the motion control business.

Selling, general and administrative and engineering and development expenses increased 3% from \$16,018,000 in 1997 to \$16,466,000 in 1998 due to a whole year of HIA operations in 1998 versus a partial year in 1997. Excluding the effect of HIA, these expenses would have totaled \$14,129,000 in 1998, as compared to \$14,182,000 in the prior period.

Amortization of intangibles and other assets increased from \$402,000 in 1997 to \$738,000 in 1998. The increase was primarily due to the \$406,000 write-off in fiscal 1998 of the unamortized portion of goodwill which resulted from the HIA acquisition, offset by the \$197,000 write-off in fiscal 1997 of unamortized debt acquisition costs related to the Marine Midland loan facility. (See further discussion under "Business Acquisition" and "Liquidity and Capital Resources" below.)

In fiscal 1998 the Company recognized \$222,000 of equity income from its investment in two of its Chinese joint ventures, Zibo Kehui Electric Company Ltd. and Hathaway Si Fang Protection and Control Company, Ltd., as compared to none recognized in 1997. (See further discussion under "Liquidity and Capital Resources" below.)

In fiscal year 1998 the Company recognized a benefit for income taxes of \$184,000 compared to \$763,000 in fiscal year 1997. The decrease is primarily due to an increase in nondeductible expenses and goodwill amortization plus an increase in the valuation allowance. Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient United States federal taxable income (approximately \$2,291,000) in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and net operating loss carryforwards. The Company's management believes that, on a more likely than not basis, the recorded net deferred tax asset is realizable. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future United States federal taxable income are reduced.

FISCAL YEAR 1997 COMPARED TO FISCAL YEAR 1996

The Company recorded a net loss of \$1,429,000 in fiscal year 1997, compared to a net loss of \$1,013,000 in 1996. The fiscal 1997 net loss includes a \$923,000 net loss from Hathaway Industrial Automation (HIA) which was acquired by the Company effective September 30, 1996 (see discussion under "Business Acquisition" below), and a \$506,000 net loss from operation of the Company's other businesses.

Revenues increased by \$4,535,000, or 13%, from 1996 to 1997, comprised of a 16% increase in sales of the Company's power and process instrumentation and systems products and a 7% increase in sales of motion control products. The increase in sales of power and process products consists of a 3% increase in sales of the Company's traditional product lines. The remainder of the increase in power and process revenues was due to product sales of HIA, totaling \$2,993,000.

Sales to international customers increased 12% from \$12,668,000, or 36% of sales in fiscal 1996 to \$14,200,000, or 36% of sales in fiscal 1997. Foreign sales as a percentage of total sales remained constant because the growth in the Company's traditional foreign business was offset by HIA's business, which is primarily with domestic customers. Sales backlog increased from \$9,998,000 at June 30, 1996 to \$14,742,000 at June 30, 1997, comprised of \$11,996,000 of traditional product backlog and \$2,746,000 of HIA product backlog.

Cost of products sold increased to 64% of revenues in 1997 from 62% in 1996. The increase occurred primarily because of price reductions implemented in response to competitive pressures, changes in the mix of products sold, and manufacturing inefficiencies resulting from the consolidation of manufacturing operations implemented in 1997. In addition, HIA's cost of products sold represents a higher percentage of revenues than that of the Company's traditional product lines. Excluding the effect of HIA, the cost of products sold in 1997 represents 63% of related revenues.

Selling, general and administrative and engineering and development expenses increased 9% from \$14,671,000 in 1996 to \$16,018,000 in 1997 primarily because of such expenses incurred by HIA. Excluding the effect of HIA, these expenses would have totaled \$14,182,000 in 1997, representing a 3% decrease from the prior period. This decrease reflects the overall cost reduction efforts initiated by the Company in recent years. Amortization of intangibles and other assets increased from \$215,000 in 1996 to \$402,000 in 1997, primarily due to the \$197,000 write-off of unamortized debt acquisition costs related to the Marine Midland loan facility (see further discussion under "Liquidity and Capital Resources" below.)

Other income in 1996 includes \$165,000 of income recorded upon the Company's consummation of an agreement with Global Software, Inc. (Global). Under the terms of this agreement, the Company received \$165,000 in exchange for, among other things, consenting to Global's proposed disposition of certain assets acquired after the Company's January 31, 1994 sale of Global and acknowledging that this disposition would not violate the terms of the original sale agreement.

The Company recorded a \$338,000 restructuring charge in the fourth quarter of fiscal 1996 in connection with the reorganization of its Canadian and U.K. operations. Effective June 30, 1996 the net assets and substantially all operations of Hathaway Instruments Limited (HIL), the Company's subsidiary located in Hoddesdon, England, were transferred to Hathaway Systems Limited (HSL), the Company's Belfast, Northern Ireland subsidiary. In connection with the asset transfer, substantially all operations of HIL were combined with the operations of HSL. In addition, the Company decided to close its Toronto, Canada facility and to combine substantially all of its operations with the operations of Hathaway Process Instrumentation, the Carrollton, Texas division. The initiatives were aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision was primarily comprised of estimated costs for employee severance benefits and fixed asset write-offs. The payouts related to the restructuring charge were made in 1996 and 1997.

In the first quarter of 1997, management decided to restructure the power products manufacturing operations to produce operating efficiencies and to better utilize local management talent and expertise. Accordingly, the manufacturing operation located in Littleton was consolidated in 1997 into two manufacturing facilities located in Kent, Washington and Belfast, Northern Ireland. The cost of consolidating these manufacturing facilities was not material and was paid in fiscal year 1997.

In fiscal year 1997 the Company recognized a benefit for income taxes of \$763,000 compared to \$385,000 in fiscal year 1996. The increase is primarily due to an increase in the Company's loss before income taxes. Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient United States federal taxable income in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and net operating loss carryforwards. The Company's management believes that, on a more likely than not basis, the recorded net deferred tax asset is realizable. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future United States federal taxable income are reduced.

BUSINESS ACQUISITION

Effective September 30, 1996, the Company acquired a 100% partnership interest in Tate Integrated Systems, L.P. and 100% of the stock of the sole general partner, Tate Integrated Systems, Inc. (collectively referred to as "TIS"). The ownership interests were acquired for an adjusted negotiated price of \$1,092,000, of which \$718,000 was paid in cash at closing on October 10, 1996, \$145,000 on June 30, 1997 and \$229,000 when certain accounts receivable of TIS were collected during fiscal 1998.

TIS has operated under the ownership of Hathaway Industrial Automation (HIA), a newly formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located in Hunt Valley, 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 Supervisory Control and Data Acquisition (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. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company expects to team the HIA system with certain existing Hathaway products and target the combined product at substation automation and integration applications used in the generation, distribution and transmission of power. The acquisition has been accounted for using the purchase method of accounting; and, accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based upon the fair values at the date of acquisition.

For the year ended June 30, 1998 and the nine month post-acquisition period ended June 30, 1997, HIA had losses before income taxes of approximately \$2.7 million and \$1.3 million, respectively. HIA's traditional business is highly dependent on sales to the industrial market which typically encompasses a long sales cycle, significant customization to specific customer requirements, long performance periods and large contract values which are subject to a high degree of scrutiny and negotiation with customers. Since the Company's acquisition of HIA in September 1996, the Company has seen significant deterioration in the margins of contracts awarded in this market; and, in several instances, HIA has declined to submit a bid or has not been awarded a project bid due to competitor prices or customer specifications that would have resulted in insignificant or negative contract margin.

As a result of its acquisition of HIA, the Company recorded goodwill of \$624,000, primarily due to loss accruals on an in-process contract acquired by the Company. At June 30, 1998 and in accordance with 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 TIS was impaired; and, therefore, wrote-off the remaining unamortized balance of \$406,000. The Company's determination was based on projections of undiscounted cash flows of HIA, which were based on current marketplace and competitive conditions and resulting low margins for the industrial applications of HIA's product. 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. The current year amortization of \$202,000 and impairment write-off of \$406,000, totaling \$608,000, is included in amortization of intangibles and other in the fiscal year 1998 consolidated statement of operations.

The Company is investing substantial resources in HIA, consistent with the Company's strategy to develop applications of the HIA software for the deregulated power industry. Management believes that the software products developed by HIA, as modified for the power industry and combined with other Company products, will provide power companies with automated and integrated systems solutions that will both reduce their operating costs and improve the reliability of their power supply. However, there can be no assurance that such modifications will be successful and/or economically viable. Management believes that there is significant demand in the power industry for such solutions as a result of the business environment created by the recent industry deregulation.

The successful implementation of the Company's current business plan is partially dependent on the Company's ability to successfully market HIA's products to the deregulated power industry. The factors that will affect the success of implementing this business plan include, but are not limited to, the ability to win a sufficient amount of project work on favorable terms to the Company, the ability to complete projects in a timely and cost-effective manner, and the existence of sufficient demand for the HIA products. An inability to achieve this plan in the planned timeframe may have a material adverse effect on the Company's operating results and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity position as measured by cash and cash equivalents (excluding restricted cash) increased \$12,000 during the year to a balance of \$3,443,000 at June 30, 1998. Fiscal 1998 operating activities generated \$1,450,000, compared to \$197,000 used in fiscal 1997 and \$93,000 used in 1996. Of the \$1,450,000 generated in 1998, \$1,628,000 was used to fund the operations of the HIA business and \$3,078,000 was generated from operating activities of the Company's other businesses. Of the \$197,000 used in 1997 by operating activities, \$1,592,000 was used to fund the operations of the HIA business and \$1,395,000 was generated from the operating activities of the Company's other businesses. The consolidated increased cash generated from operations in 1998 was primarily due to increased revenues, the overall cost reduction efforts of the Company and net income tax refunds of \$1,037,000 received during fiscal 1998.

Cash of \$914,000 and \$1,313,000 was used by investing activities in fiscal 1998 and 1997, respectively, compared to \$376,000 generated in fiscal 1996. The 1996 cash generated by investing activities was primarily due to proceeds of \$1,000,000 from maturities of marketable securities. The 1997 cash used for investing activities includes \$863,000 paid for the interest acquired in TIS. The 1998 cash used for investing activities includes \$229,000 paid for the interest acquired in TIS and \$685,000 paid for capital expenditures.

Financing activities used \$526,000, \$32,000 and \$828,000 in fiscal years 1998, 1997 and 1996, respectively. The increase in cash used for financing activities from 1997 to 1998 was primarily due to repayments on the line-of-credit. The decrease in cash used for financing activities from 1996 to 1997 occurred primarily because no dividends were paid to stockholders in 1997, as compared to \$426,000 of dividends paid to stockholders in 1996.

At June 30, 1998, the Company had \$1,245,000 of debt, compared with \$1,769,000 at June 30, 1997, a reduction of \$524,000. The debt at June 30, 1997 represents borrowings on the Company's previous long-term financing agreement (Midland Agreement) with Marine Midland Business Loans, Inc. The Midland Agreement was a Reducing Revolving Line-of-Credit with a borrowing limit that was reduced monthly over the seven-year term of the loan. On June 3, 1998, the Company repaid the \$1,232,000 balance on this loan and terminated the Midland Agreement.

The debt at June 30, 1998 represents borrowings on the Company's current long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon). The Agreement matures on May 7, 2000 and is subject to automatic annual renewal. Beginning in May 1999, the Company may terminate the Agreement with no termination fee. 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, 1998, the Company could borrow an additional \$1,385,000 up to the Maximum Credit Limit of \$2,630,000.

The loan bears interest at Silicon's prime borrowing rate (prime rate) plus 2% (10.5% at June 30, 1998). The interest rate is adjustable on a quarterly basis to prime rate plus 1.5% if the Company achieves a net loss less than \$750,000 for each previous twelve month rolling period. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to prime rate plus 2%. In addition to interest, the loan bears a monthly unused line fee at 0.125% 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, if the Company achieves a net loss less than \$750,000 for each previous twelve-month rolling period, the monthly unused line fee will be adjusted to 0.0625%. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to 0.125%.

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. At June 30, 1998, the Company was in compliance with such covenants.

The Company has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). Kehui designs, manufactures and sells cable and overhead fault location, SCADA systems and other test instruments within the China market and the Company will sell these products outside of China. 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 and the Company will sell these products outside of China. HPMS will design, manufacture and sell, under a license from Hathaway, instrumentation products designed by Hathaway, to electric power companies in China. There are no future commitments relating to these investments.

The Company accounts for the Chinese joint ventures using the equity method of accounting. At the time of the original investments in the Chinese joint ventures and subsequently, 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 investment and subsequent earnings (which were not significant) was uncertain; and, therefore, the Company fully reserved against the original investments and its share of any equity in income thereafter, and recognized income from the Chinese joint ventures only as cash dividends were received. During fiscal year 1998, the operations of Si Fang and Kehui have continued to mature, their products have gained significant acceptance and they have indicated sustained profitability while the operations of HPMS are still in the development stage and continue to incur losses.

In fiscal year 1998, because of the sustained positive operating results of Si Fang and Kehui combined with the fact that both of these joint ventures are still subject to a certain amount of political and business uncertainty in China, the Company recognized a portion of its share of equity in income from these two joint ventures totaling \$222,000, which is included in other assets and equity income from investments in joint ventures in the fiscal year 1998 consolidated balance sheet and statement of operations, respectively. This amount represents management's best estimate of the amounts expected to be received from the joint ventures as of June 30, 1998. The Company will continue to recognize the portion of its share of equity in income (loss) from these two joint ventures to the extent it believes such amounts are realizable.

The Company also has an 11.4% interest in a joint venture (JV) with KUB Holdings BHD, a Malaysian firm. The interest, acquired by TIS for \$400,000 in March 1995, was acquired by the Company in connection with the purchase of TIS effective September 30, 1996. The fair market value of this asset was not significant at the acquisition date. The JV was created for the purpose of manufacturing, marketing and selling the TIS-4000 system in certain Asian countries. If the JV requires funding, the Company may be required to contribute in accordance with the agreed-upon proportions as defined in the JV agreement. As of June 30, 1998, the Company had ceased all operations of the JV due to unprofitability. The Company is currently in the process of winding down the partnership.

The JV agreement also requires the Company to continue as a going concern and to provide support services to the JV at market rates. If the Company does not meet this requirement, it could be required to refund a contractually-defined portion (\$1,688,000 at June 30, 1998) of the \$2,500,000 proceeds TIS received in 1995 from the sale to the JV of licensing and marketing rights to the TIS-4000 technology. Because of the remote possibility of the Company being required to make such a refund, this obligation was determined to be zero at the acquisition date. Further, as of September 17, 1998, because sales have ceased, the Company does not expect that such refunds will be required. In addition, the Company is not aware of any violations of the requirements defined in the JV agreement nor does it anticipate any future violations.

As in the three-year period ended June 30, 1998, the Company's fiscal 1999 working capital, capital expenditure and debt service requirements are expected to be funded from the existing cash balance of \$3,443,000 and the \$1,385,000 available under the long-term financing agreement at June 30, 1998. The Company believes that such amounts are sufficient to fund operations and working capital needs for at least the next twelve months.

YEAR 2000 COMPLIANCE

Some computers and computer-based systems use only the last two digits to identify a year in the date field and cannot distinguish the year 2000 from the year 1900. The Company recognizes that the Year 2000 poses a challenge to the proper functioning of computer systems included in its products, items purchased from its suppliers and software systems used in its business. The Company is taking what it believes to be appropriate steps necessary in preparation for Year 2000 issues. The Company has assessed its products and application software systems and has concluded that no major changes or updates are required. Minor modifications and updates are being made as needed. An assessment of its suppliers and service providers is ongoing and is expected to be completed by June 30, 1999. The Company does not anticipate that the overall costs of adaptation of its products and systems will be material, however the Company will continue to review on an ongoing basis whether it needs to further address any anticipated costs, problems and uncertainties associated with Year 2000 consequences.

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 anticipated that these factors would 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, 1998, 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. At June 30, 1998, approximately \$1.3 million was outstanding with a weighted average interest rate of 10.5% (prime plus 2%). The line-of-credit matures in May 2000 and is subject to automatic annual renewal. Beginning in May 1999, the Company may pay the balance in full at any time without penalty. The Company manages interest rate risk by investing excess funds in cash equivalents bearing variable interest rates which 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 and any early termination penalties, 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 a wholly-owned subsidiary located in Northern Ireland. Sales from this operation are typically denominated in British Pounds, thereby creating exposures to changes in exchange rates. The changes in the British/U.S. exchange rate may positively or negatively affect the Company's sales, gross margins 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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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, 1998 and 1997, 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, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hathaway Corporation and subsidiaries as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 30, 1998 in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Denver, Colorado
July 31, 1998 (except with respect to the matter
discussed in Note 13, as to which the date is
August 13, 1998).

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

JUNE 30, 1998 JUNE 30, 1997

	JUNE 30, 1998	JUNE 30, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,443	\$ 3,431
Restricted cash	480	253
Trade receivables, net of allowance for doubtful accounts of \$599 and \$492 at June 30, 1998 and 1997, respectively	6,400	6,910
Inventories, net	3,649	4,907
Current deferred income taxes	779	854
Income tax refunds receivable, prepaid expenses and other	684	1,690
Total current assets	15,435	18,045
Property and equipment, net	1,730	1,841
Cost in excess of net assets acquired, net	374	591
Other (Note 3)	281	--
Total Assets	\$17,820	\$20,477
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities:		
Line-of-credit classified as current (Note 4)	\$ --	\$ 1,769
Accounts payable	2,027	1,843
Accrued liabilities	2,500	2,594
Income taxes and other current liabilities	497	679
Product service reserve	475	566
Total current liabilities	5,499	7,451
Line-of-credit (Note 4)	1,245	--
Total Liabilities	6,744	7,451
Commitments and Contingencies (Notes 3, 4 and 8)		
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; 5,405 issued at June 30, 1998 and 1997, respectively	100	100
Additional paid-in capital	9,954	9,954
Loans receivable for stock (Note 7)	(235)	(235)
Retained earnings	4,841	6,818
Cumulative translation adjustments (Note 1)	389	360
Treasury stock, at cost; 1,122 and 1,121 shares at June 30, 1998 and 1997, respectively (Note 8)	(3,973)	(3,971)
Total Stockholders' Investment	11,076	13,026
Total Liabilities and Stockholders' Investment	\$17,820	\$20,477

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the fiscal years ended June 30,		
	1998	1997	1996
Revenues	\$41,317	\$39,946	\$35,411
Operating costs and expenses:			
Cost of products sold	26,379	25,575	21,926
Selling	7,857	7,601	6,269
General and administrative	4,198	4,771	4,680
Engineering and development	4,411	3,646	3,722
Amortization of intangibles and other	738	402	215
Restructuring charge (Note 11)	--	--	338
Total operating costs and expenses	43,583	41,995	37,150
Operating loss	(2,266)	(2,049)	(1,739)
Other income (expense), net:			
Equity income from investments in joint ventures (Note 3)	222	--	--
Interest and dividend income	217	245	325
Interest expense	(148)	(173)	(194)
Other income (expense), net	(186)	(215)	210
Total other income (expense), net	105	(143)	341
Loss before income taxes	(2,161)	(2,192)	(1,398)
Benefit for income taxes (Note 5)	184	763	385
Net loss	\$(1,977)	\$(1,429)	\$(1,013)
Basic and diluted net loss per share (Note 1)	\$ (0.46)	\$ (0.34)	\$ (0.24)
Basic and diluted weighted average shares outstanding (Note 1)	4,284	4,259	4,260

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	For the fiscal years ended June 30, 1998	1997	1996
<hr/>			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(1,977)	\$(1,429)	\$(1,013)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,490	1,199	960
Equity income from investments in joint ventures (Note 3)	(222)	--	--
Deferred income tax provision (benefit)	75	39	(155)
Other	201	241	(149)
Changes in assets and liabilities, net of effect in 1997 of purchase of Tate Integrated Systems (Note 2):			
(Increase) decrease in -			
Restricted cash	(227)	59	86
Trade receivables, net	374	(239)	1,177
Inventories, net	742	1,174	(503)
Income tax refunds receivable, prepaid expenses and other	1,177	(827)	(282)
Increase (decrease) in -			
Accounts payable	184	(46)	1
Accrued liabilities	(94)	(649)	187
Income taxes payable	(182)	274	(360)
Product service reserve	(91)	7	(42)
Net cash provided by (used in) operating activities	1,450	(197)	(93)
<hr/>			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(685)	(651)	(719)
Purchase of Tate Integrated Systems (Note 2)	(229)	(863)	--
Investments in joint ventures (Note 3)	--	--	(70)
Proceeds from maturity of marketable securities	--	201	1,000
Other	--	--	165
Net cash provided by (used in) investing activities	(914)	(1,313)	376
<hr/>			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments on line-of-credit	(1,769)	(8)	(360)
Borrowings on line-of-credit	1,245	--	--
Dividends paid to stockholders	--	--	(426)
Proceeds from exercise of employee stock options	--	81	--
Purchase of treasury stock	(2)	(105)	(42)
Net cash used in financing activities	(526)	(32)	(828)
Effect of foreign exchange rate changes on cash	2	48	(35)
Net increase (decrease) in cash and cash equivalents	12	(1,494)	(580)
Cash and cash equivalents at beginning of year	3,431	4,925	5,505
Cash and cash equivalents at end of year	\$ 3,443	\$ 3,431	\$ 4,925

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Net cash paid (received) during the year for:			
Interest	\$ 146	\$ 167	\$ 177
Income taxes	(1,037)	4	173
Noncash investing and financing activities:			
Assets of Tate Integrated Systems purchased, net of liabilities assumed (Note 2)	\$ --	\$ 1,092	\$ --
Acquisition of common stock as a result of stock option exercises (Note 6)	--	161	--

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	LOANS RECEIVABLE (NOTE 7)	RETAINED EARNINGS	TREASURY STOCK (NOTE 8)	
	SHARES	AMOUNT				SHARES	AMOUNT
Balances, June 30, 1995	5,307	\$100	\$9,767	\$(235)	\$ 9,686	1,042	\$(3,663)
Long-term incentive plan bonus (Note 8)	--	--	(55)	--	--	--	--
Purchase of treasury stock	--	--	--	--	--	16	(42)
Dividend paid to stockholders (\$.10 per share)	--	--	--	--	(426)	--	--
Net loss	--	--	--	--	(1,013)	--	--
Balances, June 30, 1996	5,307	\$100	\$9,712	\$(235)	\$ 8,247	1,058	\$(3,705)
Purchase of treasury stock	--	--	--	--	--	25	(105)
Exercise of employee stock options	32	--	81	--	--	--	--
Acquisition of common stock as a result of stock option exercises (Note 6)	66	--	161	--	--	38	(161)
Net loss	--	--	--	--	(1,429)	--	--
Balances, June 30, 1997	5,405	\$100	\$9,954	\$(235)	\$ 6,818	1,121	\$(3,971)
Purchase of treasury stock	--	--	--	--	--	1	(2)
Net loss	--	--	--	--	(1,977)	--	--
Balances, June 30, 1998	5,405	\$100	\$9,954	\$(235)	\$ 4,841	1,122	\$(3,973)

The accompanying notes to consolidated financial statements are an integral part of these 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 three joint venture investments in China (Note 3).

PRINCIPLES OF CONSOLIDATION

The 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

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include amounts 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, 1998	JUNE 30, 1997
Parts and raw materials, net	\$2,210	\$2,141
Finished goods and work-in-process, net	1,439	2,766
	\$3,649	\$4,907
	=====	=====

Reserves established for anticipated losses on excess or obsolete inventories were approximately \$1,742,000 and \$1,943,000 at June 30, 1998 and 1997, respectively.

PROPERTY AND EQUIPMENT

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

	USEFUL LIVES	JUNE 30, 1998	JUNE 30, 1997
Machinery, equipment, tools and dies	2-8 years	\$ 6,597	\$ 6,738
Furniture, fixtures and other	3-10 years	2,662	2,056
		9,259	8,794
Less accumulated depreciation and amortization		(7,529)	(6,953)
		\$ 1,730	\$ 1,841
		=====	=====

Depreciation and amortization are provided using the straight-line method over the estimated useful life 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.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

COST IN EXCESS OF NET ASSETS ACQUIRED

Cost in excess of net assets acquired represents the amount by which the purchase price of acquired companies exceeds the fair market value of net assets acquired, and is amortized using the straight-line method over ten years. Cost in excess of net assets acquired as of June 30, 1998 and 1997 consists of \$1,197,000 and \$1,305,000 of original costs and \$823,000 and \$714,000 of accumulated amortization, respectively.

The Company reviews its 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 the net book value. The amount of the impairment is assessed using the assets' fair market value, which is determined using discounted cash flows. As discussed in Note 2, at June 30, 1998, the Company determined that the cost in excess of net assets acquired related to its acquisition of Tate Integrated Systems was impaired; and therefore, the unamortized balance was written off.

ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	JUNE 30, 1998	JUNE 30, 1997
Compensation and fringe benefits	\$ 973	\$ 716
Commissions	474	592
Other accrued expenses	1,053	1,286
	\$2,500	\$2,594

FOREIGN CURRENCY TRANSLATION

In accordance with Statement of Financial Accounting Standards (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.

Changes in Cumulative Translation Adjustments included in the Stockholders' Investment section of the accompanying Consolidated Balance Sheets are as follows (in thousands):

	June 30, 1998	JUNE 30, 1997
Cumulative Translation Adjustments, beginning of year	\$360	\$163
Translation adjustments	29	197
	\$389	\$360

REVENUE AND COST RECOGNITION ON CONTRACTS

Hathaway Industrial Automation (HIA) undertakes contracts for the installation of integrated process control systems that use its proprietary software. 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 profits, 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 traditional businesses (other than HIA) generally recognize revenue when products are shipped.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

EARNINGS PER SHARE

During fiscal year 1998, the Company adopted SFAS No. 128, "Earnings Per Share", which establishes standards for computing and presenting basic and diluted earnings per share (EPS). Under this statement, basic earnings (loss) per share is computed by dividing the net earnings or loss by the weighted average number of shares of common stock outstanding. Diluted earnings or loss per share is determined by dividing the net earnings or loss by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of outstanding warrants and stock options determined utilizing the treasury stock method. In fiscal years 1998, 1997 and 1996, stock options totaling 648,204, 708,704 and 332,856, respectively, were excluded from the calculation of diluted earnings (loss) per share since the result would have been anti-dilutive. The adoption of this statement had no impact on prior year's reported per share amounts.

Basic and Diluted EPS have been computed as follows (in thousands, except per share data):

	FOR THE FISCAL YEARS ENDED JUNE 30,		
	1998	1997	1996
Numerator:			
Net loss	\$(1,977)	\$(1,429)	\$(1,013)
Denominator			
Weighted average outstanding shares	4,284	4,259	4,260
Basic and Diluted net loss per share	\$(0.46)	\$ (0.34)	\$ (0.24)

STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans for employees under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25).

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.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years' balances in order to conform to the current year's presentation.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," (SFAS 130). SFAS 130 establishes standards for reporting and displaying comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. SFAS 130 is effective for fiscal years beginning after December 15, 1997. The Company will adopt SFAS 130 in fiscal year 1999, beginning July 1, 1998. Historically, the only additional item considered part of comprehensive income has been the cumulative translation adjustment.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," (SFAS 131). SFAS 131 requires that public companies report information about their operating segments based on the financial information used by the chief operating decision maker in their annual financial statements and requires those companies to report selected information in their interim statements. The Company adopted SFAS 131 at June 30, 1998 (see Note 9).

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. SFAS 133 is effective for fiscal quarters and fiscal years beginning after June 15, 1999. Management believes that the adoption of SFAS 133 will not have a significant impact on the Company's financial condition and results of operations, as the Company has not historically utilized such instruments.

2. BUSINESS ACQUISITION

Effective September 30, 1996, the Company acquired a 100% partnership interest in Tate Integrated Systems, L.P. and 100% of the stock of its sole general partner, Tate Integrated Systems, Inc. (collectively referred to as "TIS"). The ownership interests were acquired for an adjusted negotiated price of \$1,092,000, of which \$718,000 was paid in cash at closing on October 10, 1996, \$145,000 on June 30, 1997 and \$229,000 when certain accounts receivable were collected during fiscal 1998.

TIS has operated under the ownership of HIA, a newly formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located near Baltimore, Maryland and is a full service developer and supplier of integrated process automation systems for industrial applications. HIA has developed a state-of-the-art software system, the TIS-4000, for Supervisory Control and Data Acquisition (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. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company expects to team the HIA system with certain existing Hathaway products and target the combined product at substation automation and integration applications used in the generation, transmission and distribution of power.

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 fair values at the date of acquisition. The net purchase price allocation was as follows (in thousands):

Trade receivables, net	\$ 485
Inventories, net	649
Property and equipment, net	123
Cost in excess of net assets acquired	624
Accounts payable	(580)
Accrued liabilities and other	(209)
Net purchase price	\$1,092
	=====

For the year ended June 30, 1998 and the nine month post-acquisition period ended June 30, 1997, HIA had losses before income taxes of approximately \$2.7 million and \$1.3 million, respectively. HIA's traditional business is highly dependent on sales to the industrial market which typically encompass a long sales cycle, significant customization to specific customer requirements, long performance periods and large contract values which are subject to a high degree of scrutiny and negotiation with customers. Since the Company's acquisition of HIA in September 1996, the Company has seen significant deterioration in the margins of contracts awarded in this market; and, in several instances, HIA has declined to submit a bid or has not been awarded a project bid due to competitor prices or customer specifications that would have resulted in insignificant or negative contract margin.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. BUSINESS ACQUISITION (CONTINUED)

As a result of its acquisition of HIA, the Company recorded goodwill of \$624,000, primarily due to loss accruals on an in-process contract acquired by the Company. As a result of continuing and expected near term losses from HIA at June 30, 1998 and in accordance with 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 TIS was impaired; and, therefore, wrote-off the remaining unamortized balance of \$406,000. The Company's determination was based on projections of undiscounted cash flows of HIA, which were based on current marketplace and competitive conditions and resulting low margins for the industrial applications of HIA's product. 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. The current year amortization of \$202,000 and impairment write-off of \$406,000, totaling \$608,000, is included in amortization of intangibles and other in the fiscal year 1998 consolidated statement of operations.

The results of operations of TIS have been included in the Company's fiscal 1998 and 1997 Consolidated Statement of Operations starting on October 1, 1996.

The following unaudited pro forma summary (in thousands, except per share data) combines the consolidated results of operations of the Company and TIS as if the acquisition had occurred at the beginning of fiscal years 1997 and 1996, respectively, after giving effect to certain pro forma adjustments related to such items as income taxes, depreciation, and amortization of cost in excess of net assets acquired. The pro forma results are shown for illustrative purposes only, and do not purport to be indicative of the actual results which would have occurred had the transaction been consummated as of those earlier dates, nor are they indicative of results of operations which may occur in the future.

	FOR THE YEARS ENDED JUNE 30,	
	1997	1996

	(UNAUDITED)	
Revenue	\$40,946	\$40,016
Net loss	(1,403)	(1,072)
Basic net loss per share	(0.33)	(0.25)

3. INVESTMENTS IN JOINT VENTURES

The Company has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). Kehui designs, manufactures and sells cable and overhead fault location, SCADA systems and other test instruments in China. 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. HPMS will design, manufacture and sell, under a license from Hathaway, instrumentation products designed by Hathaway, to electric power companies in China. At June 30, 1998, the Company's original investment and ownership interest in these Chinese joint ventures are as follows (in thousands):

	INVESTMENT	OWNERSHIP INTEREST

Kehui	\$100	25%
Si Fang	175	25%
HPMS	140	40%

	\$415	
	=====	

As discussed below, the Company has fully reserved against these original investments. The Company has no future commitments relating to these investments.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The Company accounts for the Chinese joint ventures using the equity method of accounting. At the time of the original investments in the Chinese joint ventures and subsequently, 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 investment and subsequent earnings (which were not significant) was uncertain; and, therefore, the Company fully reserved against the original investments and its share of any equity in income thereafter, and recognized income from the Chinese joint ventures only as cash dividends were received. During fiscal year 1998, the operations of Si Fang and Kehui have continued to mature, their products have gained significant acceptance and they have indicated sustained profitability while the operations of HPMS are still in the development stage and continue to incur losses.

In fiscal year 1998, because of the sustained positive operating results of Si Fang and Kehui combined with the fact that both of these joint are still subject to a certain amount of political and business uncertainty in China, the Company recognized a portion of its share of equity in income from these two joint ventures totaling \$222,000, which is included in other assets and equity income from investments in joint ventures in the fiscal year 1998 consolidated balance sheet and statement of operations, respectively. This amount represents management's best estimate of the amounts expected to be received from the joint ventures as of June 30, 1998. The Company will continue to recognize the portion of its share of equity in income (loss) from these two joint ventures to the extent it believes such amounts are realizable.

In accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," summarized financial information for Si Fang as of December 31, 1997 (Si Fang is on a calendar fiscal year) is presented as follows (in thousands):

As of and
For the Year Ended
December 31, 1997

Current assets	\$8,638
Non-current assets	1,498
Current liabilities	7,378
Non-current liabilities	--
Revenues	8,918
Gross profit	2,232
Net income before income taxes	1,525
Net income	1,525

Summarized financial information for Si Fang for the years ended December 31, 1996 and 1995 and for Kehui for the years ended December 31, 1997, 1996 and 1995 is not presented because it is not significant relative to the Company's consolidated financial statements.

The Company also has an 11.4% interest in a joint venture (JV) with KUB Holdings BHD, a Malaysian firm. The interest, acquired by TIS for \$400,000 in March 1995, was acquired by the Company in connection with the purchase of TIS effective September 30, 1996 (Note 2). The fair value of this asset was not significant at the acquisition date. The JV was created for the purpose of manufacturing, marketing and selling the TIS-4000 system in certain Asian countries. If the JV requires funding, the Company may be required to contribute in accordance with the agreed-upon proportions as defined in the JV agreement. The Company has no significant involvement in, or influence over, the JV. As of June 30, 1998, the JV had ceased all operations due to unprofitability and the Asian economic downturn. The JV is currently in the process of being dissolved and has adequate assets to settle its existing obligations. The Company does not believe it will have any further obligations regarding this JV after the wind-down.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The JV agreement also requires the Company to continue as a going concern and to provide support services to the JV at market rates. If the Company does not meet this requirement, it could be required to refund a contractually-defined portion (\$1,688,000 at June 30, 1998) of the \$2,500,000 proceeds TIS received in 1995 from the sale to the JV of licensing and marketing rights to the TIS-4000 technology. Because of the remote possibility of the Company being required to make such a refund, this obligation was determined to be zero at the acquisition date. Further, as of July 30, 1998, because operations have ceased, the Company does not expect that such refunds will be required. In addition, the Company is not aware of any violations of the requirements defined in the JV agreement nor does it anticipate any future violations.

4. DEBT

On August 2, 1993, the Company entered into a long-term financing agreement with Marine Midland Business Loans, Inc. (Midland Agreement). The Midland Agreement was a Reducing Revolving Line-of-Credit with a borrowing limit that was reduced monthly over the seven-year term of the loan. On June 3, 1998, the Company fully repaid the remaining balance on this loan and terminated the Midland Agreement.

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, 2000 and is subject to automatic annual renewal. Beginning in May 1999, the Company may terminate the Agreement with no termination fee. 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, 1998, the Company could borrow an additional \$1,385,000, up to the \$2,630,000 Maximum Credit Limit.

The line bears interest at Silicon's prime borrowing rate (prime rate) plus 2% (10.5% at June 30, 1998). The interest rate is adjustable on a quarterly basis to prime rate plus 1.5% if the Company achieves a net loss less than \$750,000 for each previous twelve month rolling period. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to prime rate plus 2%. In addition to interest, the line bears a monthly unused line fee at 0.125% 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, if the Company achieves a net loss less than \$750,000 for each previous twelve-month rolling period, the monthly unused line fee will be adjusted to 0.0625%. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to 0.125%.

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. At June 30, 1998, the Company was in compliance with such covenants.

Contractual maturities of long-term debt are as follows (in thousands):

1999	\$	--
2000		1,245
Total	\$	1,245
		=====

5. INCOME TAXES

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

	For the fiscal years ended June 30,		
	1998	1997	1996

Domestic	\$(2,179)	\$(2,471)	\$(1,160)
Foreign	18	279	(238)

Loss before income taxes	\$(2,161)	\$(2,192)	\$(1,398)
	=====		

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAXES (CONTINUED)

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

	For the fiscal years ended June 30,		
	1998	1997	1996
Current benefit (provision):			
Domestic	\$ 308	\$ 682	\$ 222
Foreign	(49)	120	8
Total current benefit	259	802	230
Domestic deferred benefit (provision)	(75)	(39)	155
Benefit for income taxes	\$ 184	\$ 763	\$ 385
	=====		

The benefit 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,		
	1998	1997	1996
Tax benefit computed at statutory rate	\$ 735	\$ 745	\$ 475
State tax, net of federal benefit	(2)	(2)	(2)
Nondeductible expenses and goodwill amortization	(267)	(32)	(90)
Income tax credits	--	--	(72)
Non-benefited losses of foreign subsidiaries	--	(3)	(33)
Recovery of prior year taxes paid	69	98	84
Change in valuation allowance	(315)	(89)	37
Other	(36)	46	(14)
Benefit for income taxes	\$ 184	\$ 763	\$ 385
	=====		

The tax effects of significant temporary differences and credit and operating loss carryforwards that give rise to the net deferred tax asset under SFAS No. 109 are as follows (in thousands):

	June 30, 1998	JUNE 30, 1997
Allowances and other accrued liabilities	\$ 927	\$1,047
Tax credit carryforwards	352	216
Net operating loss carryforwards	224	--
Valuation allowance	(724)	(409)
Net deferred tax asset	\$ 779	\$ 854
	=====	

As of June 30, 1998, the Company has paid foreign advance corporation tax of \$18,000 which may be utilized to reduce future foreign taxes due, domestic tax credit carryforwards of \$334,000 expiring in 2004 through 2008 and has a domestic loss carryforward of \$658,000 which will expire in 2013.

Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient United States federal taxable income (approximately \$2,291,000) in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and net operating loss carryforwards. The Company's management believes that, on a more likely than not basis, the recorded net deferred tax asset is realizable. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future United States federal taxable income are reduced.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK COMPENSATION

Hathaway Corporation Stock Option Plan

At June 30, 1998, 396,521 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.

During fiscal year 1997, the Company granted options for 125,000 shares of the Company's common stock to certain key management personnel of HIA. Of the total, 75,000 vest over seven years, subject to acceleration if certain performance criteria are achieved by HIA, and expire ten years after the date of grant. In fiscal year 1998, options to purchase 21,000 shares were forfeited due to terminations. The remaining 50,000 shares vest over four years only if certain performance criteria are met. Based on HIA's fiscal years' 1998 and 1997 operating results, 17,200 options will never vest and were forfeited, and options to purchase 11,200 shares were forfeited due to terminations.

In fiscal year 1997, certain eligible employees of the Company exercised stock options by surrendering to the Company their Company stock with an aggregate fair market value of \$161,000, in non-cash, tax-free transactions.

Option activity in fiscal years 1996, 1997 and 1998 was as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at June 30, 1995	362,856	\$2.88	228,856	\$2.76
Granted	22,500	2.68		
Canceled or forfeited	(52,500)	2.75		
Outstanding at June 30, 1996	332,856	\$2.87	250,856	\$2.88
Granted	503,350	3.58		
Exercised	(98,252)	2.46		
Canceled or forfeited	(29,250)	3.84		
Outstanding at June 30, 1997	708,704	\$3.45	187,104	\$3.19
Granted	45,900	2.13		
Canceled or forfeited	(106,400)	3.48		
Outstanding at June 30, 1998	648,204	3.36	303,138	\$3.36

Exercise prices for options outstanding at June 30, 1998 are as follows:

	\$2.13 - \$3.19	RANGE OF EXERCISE PRICES \$3.50 - \$4.31	TOTAL \$2.13 - \$4.31
Options Outstanding:			
Number of options	295,004	353,200	648,204
Weighted average exercise price	\$ 2.73	\$ 3.88	\$ 3.36
Weighted average remaining contractual life	4.27 years	4.6 years	4.45 years
Options Exercisable:			
Number of options	141,604	161,534	303,138
Weighted average exercise price	\$ 2.86	\$ 3.79	\$ 3.36

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK COMPENSATION (CONTINUED)

The Company accounts for its stock-based compensation plans for employees under the provisions of APB 25. In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) which established an alternative method of expense recognition for stock-based compensation awards to employees based on fair values. Companies that elect to continue accounting for stock-based compensation plans under the provisions of APB 25 must present certain pro forma disclosures.

Pro forma information regarding net loss and loss per share is required by SFAS 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 a Black-Scholes pricing model with the following weighted average assumptions:

	FOR THE FISCAL YEARS ENDED JUNE 30,	
	1998	1997
Risk-free interest rate	5.7%	6.3%
Expected dividend yield	0.0%	0.0%
Expected life	6 years	6 years
Expected volatility	58.2%	58.5%

Using the fair value method of SFAS 123, the net loss and net 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,	
	1998	1997
Pro forma net loss	\$(2,128)	\$(1,686)
Pro forma basic and diluted net loss per share	\$ (0.50)	\$ (0.40)

The weighted average fair value of options granted during fiscal years 1998 and 1997 was \$1.28 and \$1.98, respectively. The total fair value of options granted was \$59,000 and \$978,000 in fiscal years 1998 and 1997, respectively. These amounts are being amortized ratably over the vesting periods of the options for purposes of this disclosure.

EMOTEQ CORPORATION STOCK OPTION PLAN

During fiscal 1998 the Company's wholly-owned subsidiary, Emoteq Corporation (Emoteq), adopted a stock option plan. Under the terms of the plan, up to 360,000 (18%) of the 2,000,000 authorized shares of Emoteq are available for stock option grants to officers and key employees of Emoteq. 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.

One hundred thousand of the options available under the plan are Time Vested and 260,000 of the options available under the plan are Performance Vested. The Time Vested options will become exercisable evenly over the fiscal years from the date of grant through June 30, 2001. The Performance Vested options may become exercisable during the fiscal years from the date of grant through June 30, 2001 if certain performance criteria are met. All options will expire as of the first Board of Directors meeting following the year ended June 30, 2004. The Company may, in its discretion, purchase shares of Emoteq acquired through the exercise of stock options.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK COMPENSATION (CONTINUED)

Option activity during fiscal year 1998 was as follows:

	NUMBER OF SHARES		WEIGHTED AVERAGE EXERCISE PRICE		WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	
	TIME VESTED	PERFORMANCE VESTED	Time Vested	PERFORMANCE VESTED	Time Vested	PERFORMANCE VESTED
Outstanding at June 30, 1997	--	--	\$ --	\$ --		
Granted	80,000	187,600	1.37	1.37		
Exercised	--	--	--	--		
Canceled or forfeited	--	--	--	--		
Outstanding at June 30, 1998	80,000	187,600	\$ 1.37	\$ 1.37	6 years	6 years

Exercise prices for options outstanding at June 30, 1998 under this plan are as follows:

	TIME VESTED	PERFORMANCE VESTED
Number of Options Exercisable at 6/30/98	20,000	15,008
Weighted Average Exercise Price	\$ 1.37	\$ 1.37

The potential dilution of the Company's ownership of Emoteq at June 30, 1998 is as follows:

	COMPANY	EMPLOYEES	TOTAL
Issued and Outstanding Exercisable Options	1,640,000	--	1,640,000
	--	35,008	35,008
Total	1,640,000	35,008	1,675,008
Percentage	97.9%	2.1%	100.0%

The Company has recognized \$66,162 in compensation expense for the fiscal year ended June 30, 1998 related to this plan.

7. LOANS RECEIVABLE FOR STOCK

The Company's loans receivable balance of \$235,000 at June 30, 1998 and 1997 is comprised of a loan for \$102,000 from the Leveraged Employee Stock Ownership Plan and Trust (the Plan) and \$133,000 from an Officer of the Company.

The Plan allows eligible Company employees to participate in ownership of the Company. The \$102,000 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 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 1998, 1997 and 1996) or ii) the annual interest payable on the note. Company contributions to the Plan were \$9,000 in 1998, 1997 and 1996, representing interest in all three years.

The \$133,000 receivable represents the unpaid balance of a loan made in fiscal year 1994 to an 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 the applicable federal rate determined by the Internal Revenue Service (6.0% at June 30, 1998). The loan is due on demand but no later than October 26, 1998. The Board of Directors of the Company has proposed to authorize an extension of the due date of the loan to October 31, 2001, with all other terms of the loan to remain unchanged.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. COMMITMENTS AND CONTINGENCIES

LEASES

At June 30, 1998, 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

1999	\$1,006
2000	732
2001	566
2002	372
2003	223
Thereafter	223

	\$3,122
	=====

Net rental expense was \$869,000, \$783,000 and \$822,000 in fiscal years 1998, 1997 and 1996, respectively.

SHAREHOLDER RIGHTS PLAN

During fiscal year 1989, the Company adopted a shareholder rights plan under which preferred stock purchase rights were distributed, one right for each share of common stock outstanding. Each right entitles holders of the Company's common stock to buy one one-hundredth of a newly issued share of Series A Junior Participating Preferred Stock at an exercise price of \$17.50, following certain change of control events including a tender offer for, or acquisition by, any entity of 20% or more of the Company's common stock.

At any time up to ten business days following the public announcement of certain change of control events, the Company can redeem the rights at \$.001 per right. If certain subsequent triggering events occur, the rights will give shareholders the ability to acquire, upon payment of the then-current exercise price, the Company's common stock or the common stock of an acquirer having a value equal to twice the right's exercise price. The rights will expire June 25, 1999.

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 that could be required to be paid under these contracts, if such events occur, aggregated approximately \$1,876,000 as of June 30, 1998. (See Note 13 for discussion of termination of one of the severance benefit agreements.)

EMPLOYMENT AGREEMENTS

Effective July 1, 1993, the Company entered into five-year employment agreements with two of its executive officers. These agreements are renewable after the initial five-year term on a year-to-year basis unless the Company or the officers give termination notice at least sixty days prior to expiration of the initial or subsequent terms. The agreements provide for base salary plus 1) an annual incentive bonus to be paid in cash based on the achievement of specified returns on equity and growth in share price plus dividends paid for each fiscal year, 2) a long-term incentive bonus, 3) specified benefits upon termination of employment (for reasons other than cause or change in control) which are effective for one year thereafter and 4) a bonus paid for gains on dispositions, if any, of certain subsidiaries and divisions of the Company. (See Note 13 for discussion of amendment of one of the agreements and termination of the other agreement.)

No annual bonus was paid in fiscal years 1998, 1997 or 1996.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

To replace the expired long-term incentive bonus, on August 15, 1996, the Board of Directors approved the issuance of stock options to the two executive officers to purchase 148,500 shares at an exercise price equal to the fair market value of \$2.8125 at the grant date. The options become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant.

As of June 30, 1998, the maximum amount that could be required to be paid under the termination clause of these agreements was approximately \$779,000. (See Note 13 for discussion of new employment 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 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.

9. SEGMENT INFORMATION

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 requires disclosure of operating segments, which as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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

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 (RTUs) for Supervisory Control and Data Acquisition (SCADA) systems.

The process instrumentation products group manufactures and markets products for the process and power industries including monitoring systems, calibration equipment and process measurement instrumentation. 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. Process measurement instrumentation includes signal conditioning products and transducers used to measure such variables as temperature, voltage, current and power in various industrial applications.

Hathaway's state-of-the-art software system for Supervisory Control and Data Acquisition (SCADA) and Distributed Control Systems (DCS) 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 expects to team the system with certain other Hathaway products and target the combined product at substation automation and integration applications used in power generation, transmission and distribution facilities.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. 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 (DC) 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 YEAR ENDED JUNE 30,					
	1998		1997		1996	
	POWER AND PROCESS	MOTION CONTROL	POWER AND PROCESS	MOTION CONTROL	POWER AND PROCESS	MOTION CONTROL
Revenue from external customers	\$27,476	\$13,841	\$27,069	\$12,877	\$23,337	\$12,074
Equity income from investments in joint ventures	222	--	--	--	--	--
Income (loss) before income taxes	(4,659)	1,848	(3,402)	1,218	(2,961)	1,933
Identifiable assets	9,985	3,969	12,320	3,965	11,362	4,890

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

	FOR THE FISCAL YEAR ENDED OR AS OF JUNE 30,		
	1998	1997	1996
Segments' loss before income taxes	\$(2,811)	\$(2,184)	\$(1,028)
Corporate activities	650	(8)	(370)
Consolidated loss before income taxes	\$(2,161)	\$(2,192)	\$(1,398)
Segments' identifiable assets	\$13,954	\$16,285	\$16,252
Corporate assets and eliminations	3,866	4,192	4,873
Consolidated total assets	\$17,820	\$20,477	\$21,125

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. SEGMENT INFORMATION (CONTINUED)

The Company's wholly-owned foreign subsidiaries have been based in Northern Ireland and Canada and are included in the accompanying consolidated financial statements. The Company closed its Canadian operating facility during fiscal year 1997. Financial information for the foreign subsidiaries is summarized below (in thousands):

	FOR THE FISCAL YEARS ENDED JUNE 30,		
	1998	1997	1996
Revenues derived from foreign subsidiaries	\$7,197	\$7,031	\$7,261
Identifiable assets	3,723	4,335	4,636

10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected Quarterly Financial Data for each of the four quarters in fiscal years 1998 and 1997 is as follows (in thousands, except per share data):

	1998	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Revenues		\$9,539	\$11,137	\$ 9,804	\$10,837
Operating loss		(874)	(79)	(630)	(683)
Net loss		(589)	(157)	(690)	(541)
Basic and diluted net loss per share		\$(0.14)	\$ (0.04)	\$ (0.16)	\$ (0.13)
1997		First Quarter	Second Quarter	Third Quarter	FOURTH QUARTER
Revenues		\$8,818	\$10,368	\$ 9,443	\$11,317
Operating income (loss)		(540)	(425)	(1,186)	102
Net income (loss)		(375)	(226)	(936)	108
Basic and diluted net income (loss) per share		\$(0.09)	\$ (0.05)	\$ (0.22)	\$ 0.03

11. RESTRUCTURING OF OPERATIONS

In the first quarter of fiscal 1997, management restructured the power products manufacturing operations to produce operating efficiencies and to better utilize local management talent and expertise. Accordingly, the manufacturing operation located in Littleton, Colorado was consolidated in 1997 into two manufacturing facilities located in Kent, Washington and Belfast, Northern Ireland. The cost of consolidating these manufacturing facilities was not material and was paid in fiscal year 1997.

The Company recorded a \$338,000 restructuring charge in the fourth quarter of fiscal 1996 in connection with the reorganization of its Canadian and U.K. operations. Effective June 30, 1996 the net assets and substantially all operations of Hathaway Instruments Limited (HIL), the Company's subsidiary located in Hoddesdon, England, were transferred to Hathaway Systems, Limited (HSL), the Company's Belfast, Northern Ireland subsidiary. In connection with the asset transfer, substantially all operations of HIL were combined with the operations of HSL. In addition, the Company decided to close its Toronto, Canada facility and to combine substantially all of its operations with the operations of Hathaway Process Instrumentation operations, the Carrollton, Texas subsidiary. The initiatives were aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision was primarily comprised of estimated costs for employee severance benefits and fixed asset writeoffs. The payouts related to the restructuring charge were made in fiscal years 1996 and 1997 and the related restructuring accrual was fully utilized.

12. INCOME TAX RULING REQUEST

In June 1998, the Company filed a request for an income tax ruling by the Internal Revenue Service (IRS) with respect to the tax-free treatment of the possible spin-off of its Power and Process Business. The proposed spin-off would separate the Company's Power and Process Business from its Motion Control Business. Prior to the spin-off, the Power and Process Business will be organized under one of Hathaway's subsidiaries, Hathaway Systems Corporation (HSC). If such transaction were to occur, all of the outstanding shares of HSC would be distributed to the Hathaway shareholders, and thereafter, the Power and Process Business would operate as a separate publicly-owned company under the name of Hathaway Corporation and the Motion Control Business would operate as a separate publicly-owned company under the name of Hathaway Motion Control Corporation. The final decision as to whether to proceed with the spin-off will be made by the Company's Board of Directors only after the IRS has ruled on the Company's request and approval is obtained from the Company's lenders and after consideration of other factors at that time. Because management has not committed to such spin-off, the Power and Process Business has not been treated as a discontinued operation.

13. SUBSEQUENT EVENTS

Effective August 13, 1998, Richard D. Smith was appointed President and CEO of the Company. He succeeded Mr. Prince who retired from his employment with the Company effective August 31, 1998. Mr. Prince will remain as Chairman of the Board of Directors.

Effective August 31, 1998, Mr. Prince's severance benefit and employment agreements were terminated upon his retirement and acceptance of his resignation. Mr. Smith's severance benefit and employment agreements are being amended and extended. The amended agreement will provide for 1) an annual incentive bonus based on corporate performance, as defined each year by the Board of Directors; 2) a long-term incentive bonus in the form of stock options; 3) specified benefits upon termination of employment (for reasons other than cause or change in control) which are effective for one year thereafter; and 4) a bonus paid on dispositions of divisions or subsidiaries of the Company.

The Company is in the process of entering into a Consulting Agreement with Mr. Prince effective upon his retirement from employment on August 31, 1998. Under the Agreement, Mr. Prince 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 President.

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 10) 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 and 5) in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Since July 1, 1996, the Company has not entered into any material related party transactions.

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

- g) Consolidated Balance Sheets as of June 30, 1998 and June 30, 1997.
- h) Consolidated Statements of Operations for each of the fiscal years in the three-year period ended June 30, 1998.
- i) Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended June 30, 1998.
- j) Consolidated Statements of Stockholders' Investment for each of the fiscal years in the three-year period ended June 30, 1998.
- k) Notes to Consolidated Financial Statements.
- l) Report of Independent Public Accountants.

2. FINANCIAL STATEMENT SCHEDULES

None.

3. EXHIBITS

Exhibit No. -----	Subject -----	Page ----
3.1	Restated Articles of Incorporation.	*
3.2	Amendment to Articles of Incorporation, dated September 24, 1993.	*
3.3	By-laws of the Company adopted August 11, 1994.	*
4	Rights Agreement between Hathaway Corporation and Bank of America National Trust and Savings Association, dated June 15, 1989. Incorporated by reference to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989.	*
10.1	The 1983 Incentive and Non-Qualified Stock Option Plan dated September 22, 1983. Incorporated by reference to the Company's Form S-8 filed May 10, 1984.	*
10.2	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.	*
10.3	Amendment to the 1983 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.	*
10.4	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.	*
10.5	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.	*
10.6	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.	*

Exhibit No. -----	Subject -----	Page ----
10.7	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.	*
10.8	Employment Agreement between Hathaway Corporation and Richard D. Smith, dated July 1, 1993. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.9	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.	*
10.10	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.	*
10.11	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.	*
10.12	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.**	*
10.13	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.	*
10.14	Joint Venture Agreement between KUB Holdings Bhd. And Tate Integrated Systems, L.P. dated March 9, 1995 and Supplement dated June 15, 1995. Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the fiscal year ended June 30, 1997.	*
10.15	License Agreement between Tate Integrated Systems, L.P. and KUB-TIS Controls Sdn. Bhd. dated March 9, 1995. Incorporated by reference to Exhibit 10.24 to the Company's Form 10-K for the fiscal year ended June 30, 1997.	*
10.16	Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank.	42
10.17	Schedule to Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank.	57
10.18	Amendment Number One dated August 1, 1998 to the 1989 Incentive and Non-Qualified Stock Option Plan.	63

Exhibit No. -----	Subject -----	Page -----
10.19	The Amended 1991 Incentive and Nonstatutory Stock Option Plan dated August 1, 1998.	65
21	List of Subsidiaries	41
22	Definitive Proxy Statement, dated September 17, 1998 for the Registrant's 1998 Annual Meeting of Shareholders.	*
23	Consent of ARTHUR ANDERSEN LLP.	37
27	Financial Data Schedule	34

* 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 and 1999 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 1998.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated July 31, 1998 (except with respect to the matter discussed in Note 13 to the Consolidated Financial Statements, as to which the date is August 13, 1998) 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. 3344998) 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, and into the Registration Statements on Form S-8 (Nos. 3344997 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.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Denver, Colorado,
September 14, 1998.

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 17, 1998

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 17, 1998
/s/ Eugene E. Prince ----- Eugene E. Prince	Chairman of the Board of Directors	September 17, 1998
/s/ George J. Pilmanis ----- George J. Pilmanis	Director	September 17, 1998
/s/ Delwin D. Hock ----- Delwin D. Hock	Director	September 17, 1998
/s/ Chester H. Clarridge ----- Chester H. Clarridge	Director	September 17, 1998
/s/ Graydon D. Hubbard ----- Graydon D. Hubbard	Director	September 17, 1998

OFFICERS AND DIRECTORS/INVESTOR INFORMATION

BOARD OF DIRECTORS

Eugene E. Prince
Chairman of the Board

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

Chester H. Clarridge
Consultant

Graydon D. Hubbard
Retired Partner, Arthur Andersen LLP

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

INVESTOR INFORMATION

ANNUAL MEETING

The Annual Meeting of Shareholders of
Hathaway Corporation will be held at 2:00 p.m.,
on Thursday, October 22, 1998 at the Lone Tree
Country Club, 9808 Sunningdale Boulevard,
Littleton, Colorado.

INFORMATION REQUESTS

Copies of the Company's reports to the
Securities and Exchange Commission, excluding
exhibits, on Form 10-K and Form 10-Q may be
obtained from the Company without charge.
Direct your written request to: Hathaway
Corporation, 8228 Park Meadows Drive,
Littleton, Colorado 80124.

TRANSFER AGENT

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005

INDEPENDENT PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN LLP
Denver, Colorado

CORPORATE OFFICERS

Richard D. Smith
President and Chief Executive Officer and Chief
Financial Officer

Herbert Franson
Assistant Treasurer, Corporate Controller
and Assistant Secretary

Susan M. Chiarmonte
Secretary

SUBSIDIARIES AND DIVISIONS

DOMESTIC SUBSIDIARIES AND DIVISIONS

Hathaway Systems Corporation
Littleton, Colorado

Hathaway Automation Technology, a division of
Hathaway Systems Corporation
Kent, Washington

Hathaway Process Instrumentation Corporation
Carrolton, Texas

Hathaway Industrial Automation, Inc.
Hunt Valley, Maryland

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

Computer Optical Products, Inc.
Chatsworth, California

Emoteq Corporation
Tulsa, Oklahoma
Evergreen, Colorado

INTERNATIONAL SUBSIDIARY

Hathaway Systems Limited
Belfast, Northern Ireland

LOAN AND SECURITY AGREEMENT - .L

SILICON VALLEY BANK

LOAN AND SECURITY AGREEMENT

BORROWER: HATHAWAY CORPORATION
HATHAWAY SYSTEMS CORPORATION
HATHAWAY PROCESS INSTRUMENTATION CORPORATION
HATHAWAY MOTION CONTROL CORPORATION
HATHAWAY INDUSTRIAL AUTOMATION, INC.
COMPUTER OPTICAL PRODUCTS, INC.
EMOTEQ CORPORATION
TATE INTEGRATED SYSTEMS, INC.

ADDRESS: 8228 PARK MEADOWS
LITTLETON, CO 80214

DATE: MAY 7, 1998

THIS LOAN AND SECURITY AGREEMENT is entered into on the above date between SILICON VALLEY BANK, COMMERCIAL FINANCE DIVISION ("Silicon"), whose address is 3003 Tasman Drive, Santa Clara, California 95054 and the borrower(s) named above (jointly and severally, the "Borrower"), whose chief executive office is located at the above address ("Borrower's Address"). The Schedule to this Agreement (the "Schedule") shall for all purposes be deemed to be a part of this Agreement, and the same is an integral part of this Agreement. (Definitions of certain terms used in this Agreement are set forth in Section 8 below.)

1. LOANS.

1.1 LOANS. Silicon will make loans to Borrower (the "Loans"), in amounts determined by Silicon in its sole discretion, up to the amounts (the "Credit Limit") shown on the Schedule, provided no Default or Event of Default has occurred and is continuing, and subject to deduction of any Reserves for accrued interest and such other Reserves as Silicon deems proper from time to time.

1.2 INTEREST. All Loans and all other monetary Obligations shall bear interest at the rate shown on the Schedule, except where expressly set forth to the contrary in this Agreement. Interest shall be payable monthly, on the last day of the month. Interest may, in Silicon's discretion, be charged to Borrower's loan account, and the same shall thereafter bear interest at the same rate as the other Loans. Silicon may, in its discretion, charge interest to Borrower's Deposit Accounts maintained with Silicon. Regardless of the amount of Obligations that may be outstanding from time to time, Borrower shall pay Silicon minimum monthly interest during the term of this Agreement in the amount set forth on the Schedule (the "Minimum Monthly Interest").

1.3 OVERADVANCES. If at any time or for any reason the total of all outstanding Loans and all other Obligations exceeds the Credit Limit (an "Overadvance"), Borrower shall immediately pay the amount of the excess to Silicon, without notice or demand. Without limiting Borrower's obligation to repay to Silicon on demand the amount of any Overadvance, Borrower agrees to pay Silicon interest on the outstanding amount of any Overadvance, on demand, at a rate equal to the interest rate which would otherwise be applicable to the Overadvance, plus an additional 2% per annum.

1.4 FEES. Borrower shall pay Silicon the fee(s) shown on the Schedule, which are in addition to all interest and other sums payable to Silicon and are not refundable.

1.5 LETTERS OF CREDIT. At the request of Borrower, Silicon may, in its sole discretion, issue or arrange for the issuance of letters of credit for the account of Borrower, in each case in form and substance satisfactory to Silicon in its sole discretion (collectively, "Letters of Credit"). The aggregate face amount of all outstanding Letters of Credit from time to time shall not exceed the amount shown on the Schedule (the "Letter of Credit Sublimit"), and shall be reserved against Loans which would otherwise be available hereunder. Borrower shall pay all bank charges (including charges of Silicon) for the issuance of Letters of Credit, together with such additional fee as Silicon's letter of credit department shall charge in connection with the issuance of the Letters of

Credit. Any payment by Silicon under or in connection with a Letter of Credit shall constitute a Loan hereunder on the date such payment is made. Each Letter of Credit shall have an expiry date no later than thirty days prior to the Maturity Date. Borrower hereby agrees to indemnify, save, and hold Silicon harmless from any loss, cost, expense, or liability, including payments made by Silicon, expenses, and reasonable attorneys' fees incurred by Silicon arising out of or in connection with any Letters of Credit. Borrower agrees to be bound by the regulations and interpretations of the issuer of any Letters of Credit guaranteed by Silicon and opened for Borrower's account or by Silicon's interpretations of any Letter of Credit issued by Silicon for Borrower's account, and Borrower understands and agrees that Silicon shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments, or supplements thereto. Borrower understands that Letters of Credit may require Silicon to indemnify the issuing bank for certain costs or liabilities arising out of claims by Borrower against such issuing bank. Borrower hereby agrees to indemnify and hold Silicon harmless with respect to any loss, cost, expense, or liability incurred by Silicon under any Letter of Credit as a result of Silicon's indemnification of any such issuing bank. The provisions of this Loan Agreement, as it pertains to Letters of Credit, and any other present or future documents or agreements between Borrower and Silicon relating to Letters of Credit are cumulative.*

*NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS SECTION 1.5, THE TERM "LETTERS OF CREDIT" WILL NOT INCLUDE THE EXISTING CASH SECURED LETTERS OF CREDIT ISSUED BY COLORADO NATIONAL BANK, THE TOTAL AMOUNT OF WHICH DO NOT EXCEED \$750,000 IN THE AGGREGATE (THE "COLORADO NATIONAL BANK LETTERS OF CREDIT").

2. SECURITY INTEREST.

2.1 SECURITY INTEREST. To secure the payment and performance of all of the Obligations when due, Borrower hereby grants to Silicon a security interest in all of Borrower's interest in the following, whether now owned or hereafter acquired, and wherever located (collectively, the "Collateral"): All Inventory, Equipment, Receivables, and General Intangibles, including, without limitation, all of Borrower's Deposit Accounts, and all money, and all property now or at any time in the future in Silicon's possession (including claims and credit balances), and all proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties), all products and all books and records related to any of the foregoing (all of the foregoing, together with all other property in which Silicon may now or in the future be granted a lien or security interest, is referred to herein, collectively, as the "Collateral").

3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE BORROWER.

In order to induce Silicon to enter into this Agreement and to make Loans, Borrower represents and warrants to Silicon as follows, and Borrower covenants that the following representations will continue to be true, and that Borrower will at all times comply with all of the following covenants:

3.1 CORPORATE EXISTENCE AND AUTHORITY. Borrower, if a corporation, is and will continue to be, duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Borrower is and will continue to be qualified and licensed to do business in all jurisdictions in which any failure to do so would have a material adverse effect on Borrower. The execution, delivery and performance by Borrower of this Agreement, and all other documents contemplated hereby (i) have been duly and validly authorized, (ii) are enforceable against Borrower in accordance with their terms (except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally), and (iii) do not violate Borrower's articles or certificate of incorporation, or Borrower's by-laws, or any law or any material agreement or instrument which is binding upon Borrower or its property, and (iv) do not constitute grounds for acceleration of any material indebtedness or obligation under any material agreement or instrument which is binding upon Borrower or its property.

3.2 NAME; TRADE NAMES AND STYLES. The name of Borrower set forth in the heading to this Agreement is its correct name. Listed on the Schedule are all prior names of Borrower and all of Borrower's present and prior trade names. Borrower shall give Silicon 30 days' prior written notice before changing its name or doing business under any other name. Borrower has complied, and will in the future comply, with all laws relating to the conduct of business under a fictitious business name.

3.3 PLACE OF BUSINESS; LOCATION OF COLLATERAL. The address set forth in the heading to this Agreement is Borrower's chief executive office. In addition, Borrower has places of business and Collateral is located only at the locations set forth on the Schedule. Borrower will give Silicon at least 30 days prior written notice before opening any additional place of business, changing its chief executive office, or moving any of the Collateral to a location other than Borrower's Address or one of the locations set forth on the Schedule.

3.4 TITLE TO COLLATERAL; PERMITTED LIENS. Borrower is now, and will at all

times in the future be, the sole owner of all the Collateral, except for items of Equipment which are leased by Borrower. The Collateral now is and will remain free and clear of any and all liens, charges, security interests, encumbrances and adverse claims, except for Permitted Liens. Silicon now has, and will continue to have, a first-priority perfected and enforceable security interest in all of the Collateral, subject only to the Permitted Liens, and Borrower will at all times defend Silicon and the Collateral against all claims of others. None of the Collateral now is or will be affixed to any real property in such a manner, or with such intent, as to become a fixture. Borrower is not and will not become a lessee under any real property lease pursuant to which the lessor may obtain any rights in any of the Collateral and

no such lease now prohibits, restrains, impairs or will prohibit, restrain or impair Borrower's right to remove any Collateral from the leased premises.* Whenever any Collateral is located upon premises in which any third party has an interest (whether as owner, mortgagee, beneficiary under a deed of trust, lien or otherwise), Borrower shall, whenever requested by Silicon, use its best efforts to cause such third party to execute and deliver to Silicon, in form acceptable to Silicon, such waivers and subordinations as Silicon shall specify, so as to ensure that Silicon's rights in the Collateral are, and will continue to be, superior to the rights of any such third party. Borrower will keep in full force and effect, and will comply with all the terms of, any lease of real property where any of the Collateral now or in the future may be located.

*CERTAIN OF THE BORROWER'S CURRENT LEASES PROVIDE THAT IN ADDITION TO ANY STATUTORY LANDLORD'S LIENS GRANTED UNDER APPLICABLE STATE LAW, BORROWER HAS GRANTED THE LANDLORD OF SUCH LEASE A SECURITY INTEREST IN THE ASSETS OF BORROWER AS SECURITY FOR ALL OBLIGATIONS OF BORROWER UNDER SUCH LEASE. BORROWER REPRESENTS AND WARRANTS THAT (I) NO BORROWER HAS EXECUTED A UCC-1 FINANCING STATEMENT OR SIMILAR INSTRUMENT OR DOCUMENT IN FAVOR OF ANY SUCH LANDLORD AND WILL NOT DO SO WITHOUT SILICON'S PRIOR WRITTEN CONSENT, AND (II) BORROWER IS PERFORMING ITS OBLIGATIONS UNDER ALL SUCH LEASES AND NO EVENT OF DEFAULT HAS OCCURRED UNDER ANY SUCH LEASE.

3.5 MAINTENANCE OF COLLATERAL. Borrower will maintain the Collateral in good working condition, and Borrower will not use the Collateral for any unlawful purpose. Borrower will immediately advise Silicon in writing of any material loss or damage to the Collateral.

3.6 BOOKS AND RECORDS. Borrower has maintained and will maintain at Borrower's Address complete and accurate books and records, comprising an accounting system in accordance with generally accepted accounting principles.

3.7 FINANCIAL CONDITION, STATEMENTS AND REPORTS. All financial statements now or in the future delivered to Silicon have been, and will be, prepared in conformity with generally accepted accounting principles and now and in the future will completely and accurately reflect the financial condition of Borrower, at the times and for the periods therein stated. Between the last date covered by any such statement provided to Silicon and the date hereof, there has been no material adverse change in the financial condition or business of Borrower. Borrower is now and will continue to be solvent.

3.8 TAX RETURNS AND PAYMENTS; PENSION CONTRIBUTIONS. Borrower has timely filed, and will timely file, all tax returns and reports required by foreign, federal, state and local law, and Borrower has timely paid, and will timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions now or in the future owed by Borrower. Borrower may, however, defer payment of any contested taxes, provided that Borrower (i) in good faith contests Borrower's obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (ii) notifies Silicon in writing of the commencement of, and any material development in, the proceedings, and (iii) posts bonds or takes any other steps required to keep the contested taxes from becoming a lien upon any of the Collateral. Borrower is unaware of any claims or adjustments* proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid, and shall continue to pay all amounts necessary to fund all present and future pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not and will not withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any such plan which could result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency. Borrower shall, at all times, utilize the services of an outside payroll service providing for the automatic deposit of all payroll taxes payable by Borrower**.

*(THAT HAVE NOT ALREADY BEEN ACCRUED FOR)

**EXCEPT WITH RESPECT TO BORROWER'S OFFICES LOCATED AT THE BORROWER'S ADDRESS AND IN SEATTLE, WASHINGTON

3.9 COMPLIANCE WITH LAW. Borrower has complied, and will comply, in all material respects, with all provisions of all foreign, federal, state and local laws and regulations relating to Borrower, including, but not limited to, those relating to Borrower's ownership of real or personal property, the conduct and licensing of Borrower's business, and all environmental matters.

3.10 LITIGATION. Except as disclosed in the Schedule, there is no claim, suit, litigation, proceeding or investigation pending or (to best of Borrower's knowledge) threatened by or against or affecting Borrower in any court or before any governmental agency (or any basis therefor known to Borrower) which may result, either separately or in the aggregate, in any material adverse change in the financial condition or business of Borrower, or in any material impairment in the ability of Borrower to carry on its business in substantially the same manner as it is now being conducted. Borrower will promptly inform Silicon in writing of any claim, proceeding, litigation or investigation in the future threatened or instituted by or against Borrower involving any single claim of \$50,000 or more, or involving \$100,000 or more in the aggregate.

3.11 USE OF PROCEEDS. All proceeds of all Loans shall be used solely for lawful business purposes. Borrower is not purchasing or carrying any "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System) and no part of the proceeds of any Loan will be used to purchase or carry any "margin stock" or to extend credit to others for the purpose of purchasing or carrying any "margin stock."

4. RECEIVABLES.

4.1 REPRESENTATIONS RELATING TO RECEIVABLES. Borrower represents and warrants to Silicon as follows: Each Receivable with respect to which Loans are requested by Borrower shall, on the date each Loan is requested and made, (i) represent an undisputed bona fide existing unconditional obligation of the Account Debtor created by the sale, delivery, and acceptance of goods or the rendition of services in the ordinary course of Borrower's business, and (ii) meet the Minimum Eligibility Requirements set forth in Section 8 below.

4.2 REPRESENTATIONS RELATING TO DOCUMENTS AND LEGAL COMPLIANCE. Borrower represents and warrants to Silicon as follows: All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Receivables are and shall be true and correct and all such invoices, instruments and other documents and all of Borrower's books and records are and shall be genuine and in all respects what they purport to be, and all signatories and endorsers have the capacity to contract. All sales and other transactions underlying or giving rise to each Receivable shall fully comply with all applicable laws and governmental rules and regulations. All signatures and endorsements on all documents, instruments, and agreements relating to all Receivables are and shall be genuine, and all such documents, instruments and agreements are and shall be legally enforceable in accordance with their terms.

4.3 SCHEDULES AND DOCUMENTS RELATING TO RECEIVABLES. Borrower shall deliver to Silicon transaction reports and loan requests, schedules and assignments of all Receivables, and schedules of collections, all on Silicon's standard forms; provided, however, that Borrower's failure to execute and deliver the same shall not affect or limit Silicon's security interest and other rights in all of Borrower's Receivables, nor shall Silicon's failure to advance or lend against a specific Receivable affect or limit Silicon's security interest and other rights therein. Loan requests received after 12:00 Noon will not be considered by Silicon until the next Business Day. *Together with each such schedule and assignment, or later if requested by Silicon, Borrower shall furnish Silicon with copies (or, at Silicon's request, originals) of all contracts, orders, invoices, and other similar documents, and all original shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Receivables, and Borrower warrants the genuineness of all of the foregoing. Borrower shall also furnish to Silicon an aged accounts receivable trial balance in such form and at such intervals as Silicon shall request. In addition, Borrower shall deliver to Silicon the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing or securing any Receivables, immediately upon receipt thereof and in the same form as received, with all necessary indorsements, all of which shall be with recourse. Borrower shall also provide Silicon with copies of all credit memos** within two days after the date issued.***

*IF REQUESTED BY SILICON, TOGETHER

**IN EXCESS OF \$10,000

***IF THE STREAMLINE FACILITY AGREEMENT OF APPROXIMATE EVEN DATE HERewith AND EXECUTED BY BORROWER AND SILICON TERMINATES, THEN BORROWER SHALL PROVIDE SILICON WITH THE INFORMATION SET FORTH ABOVE ON A WEEKLY BASIS, OR MORE FREQUENTLY AS REQUESTED BY SILICON.

4.4 COLLECTION OF RECEIVABLES. Borrower shall have the right to collect all Receivables, unless and until a Default or an Event of Default has occurred. Borrower shall hold all payments on, and proceeds of, Receivables in trust for Silicon, and Borrower shall immediately deliver all such payments and proceeds to Silicon in their original form, duly endorsed in blank, to be applied to the Obligations in such order as Silicon shall determine. Silicon may, in its discretion, require that all proceeds of Collateral be deposited by Borrower into a lockbox account, or such other "blocked account" as Silicon may specify, pursuant to a blocked account agreement in such form as Silicon may specify. Silicon or its designee may, at any time, notify Account Debtors that the Receivables have been assigned to Silicon.

4.5 REMITTANCE OF PROCEEDS. All proceeds arising from the disposition of any Collateral shall be delivered, in kind, by Borrower to Silicon in the original form in which received by Borrower not later than the following Business Day after receipt by Borrower, to be applied to the Obligations in such order as Silicon shall determine; provided that, if no Default or Event of Default has occurred, Borrower shall not be obligated to remit to Silicon the proceeds of the sale of worn out or obsolete equipment disposed of by Borrower in good faith in an arm's length transaction for an aggregate purchase price of \$25,000 or less (for all such transactions in any fiscal year). Borrower agrees that it will not commingle proceeds of Collateral with any of Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for Silicon. Nothing in this Section limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

4.6 DISPUTES. Borrower shall notify Silicon promptly of all disputes or claims relating to Receivables. Borrower shall not forgive (completely or partially), compromise or settle any Receivable for less than payment in full, or agree to do any of the foregoing, except that Borrower may do so, provided that: (i) Borrower does so in good faith, in a commercially reasonable manner, in the ordinary course of business, and in arm's length transactions, which are reported to Silicon on the regular reports provided to Silicon; (ii) no Default or Event of Default has occurred and is continuing; and (iii) taking into account all such discounts settlements and forgiveness, the total outstanding Loans will not exceed the Credit Limit. Silicon may, at any time after the occurrence of an Event of Default, settle or adjust disputes or claims directly with Account Debtors

for amounts and upon terms which Silicon considers advisable in its reasonable credit judgment and, in all cases, Silicon shall credit Borrower's Loan account with only the net amounts received by Silicon in payment of any Receivables.

4.7 RETURNS. Provided no Event of Default has occurred and is continuing, if any Account Debtor returns any Inventory to Borrower in the ordinary course of its business, Borrower shall promptly determine the reason for such return and promptly issue a credit memorandum to the Account Debtor in the appropriate amount (sending a copy to Silicon). In the event any attempted return occurs after the occurrence of any Event of Default, Borrower shall (i) hold the returned Inventory in trust for Silicon, (ii) segregate all returned Inventory from all of Borrower's other property, (iii) conspicuously label the returned Inventory as Silicon's property, and (iv) immediately notify Silicon of the return of any Inventory, specifying the reason for such return, the location and condition of the returned Inventory, and on Silicon's request deliver such returned Inventory to Silicon.

4.8 VERIFICATION. Silicon may, from time to time, verify directly with the respective Account Debtors the validity, amount and other matters relating to the Receivables, by means of mail, telephone or otherwise, either in the name of Borrower or Silicon or such other name as Silicon may choose.

4.9 NO LIABILITY. Silicon shall not under any circumstances be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to a Receivable, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Receivable, or for settling any Receivable in good faith for less than the full amount thereof, nor shall Silicon be deemed to be responsible for any of Borrower's obligations under any contract or agreement giving rise to a Receivable. Nothing herein shall, however, relieve Silicon from liability for its own gross negligence or willful misconduct.

5. ADDITIONAL DUTIES OF THE BORROWER.

5.1 FINANCIAL AND OTHER COVENANTS. Borrower shall at all times comply with the financial and other covenants set forth in the Schedule.

5.2 INSURANCE. Borrower shall, at all times insure all of the tangible personal property Collateral and carry such other business insurance, with insurers reasonably acceptable to Silicon, in such form and amounts as Silicon may reasonably require, and Borrower shall provide evidence of such insurance to Silicon, so that Silicon is satisfied that such insurance is, at all times, in full force and effect. All such insurance policies shall name Silicon as an additional loss payee, and shall contain a lenders loss payee endorsement in form reasonably acceptable to Silicon. Upon receipt of the proceeds of any such insurance, Silicon shall apply such proceeds in reduction of the Obligations as Silicon shall determine in its sole discretion, except that, provided no Default or Event of Default has occurred and is continuing, Silicon shall release to Borrower insurance proceeds with respect to Equipment totaling less than \$100,000, which shall be utilized by Borrower for the replacement of the Equipment with respect to which the insurance proceeds were paid. Silicon may require reasonable assurance that the insurance proceeds so released will be so used. If Borrower fails to provide or pay for any insurance, Silicon may, but is not obligated to, obtain the same at Borrower's expense. Borrower shall promptly deliver to Silicon copies of all reports made to insurance companies.

5.3 REPORTS. Borrower, at its expense, shall provide Silicon with the written reports set forth in the Schedule, and such other written reports with respect to Borrower (including budgets, sales projections, operating plans and other financial documentation), as Silicon shall from time to time reasonably specify.

5.4 ACCESS TO COLLATERAL, BOOKS AND RECORDS. At reasonable times, and on one Business Day's notice, Silicon, or its agents, shall have the right to inspect the Collateral, and the right to audit and copy Borrower's books and records. Silicon shall take reasonable steps to keep confidential all information obtained in any such inspection or audit, but Silicon shall have the right to disclose any such information to its auditors, regulatory agencies, and attorneys, and pursuant to any subpoena or other legal process. The foregoing inspections and audits shall be at Borrower's expense and the charge therefor shall be \$500 per person per day (or such higher amount as shall represent Silicon's then current standard charge for the same), plus reasonable out of pocket expenses. Borrower will not enter into any agreement with any accounting firm, service bureau or third party to store Borrower's books or records at any location other than Borrower's Address, without first obtaining Silicon's written consent, which may be conditioned upon such accounting firm, service bureau or other third party agreeing to give Silicon the same rights with respect to access to books and records and related rights as Silicon has under this Loan Agreement. Borrower waives the benefit of any accountant-client privilege or other evidentiary privilege precluding or limiting the disclosure, divulgence or delivery of any of its books and records (except that Borrower does not waive any attorney-client privilege).

5.5 NEGATIVE COVENANTS. Except as may be permitted in the Schedule, Borrower shall not, without Silicon's prior written consent, do any of the following:

(i) merge or consolidate with another corporation or entity; (ii) acquire any assets, except in the ordinary course of business; (iii) enter into any other transaction outside the ordinary course of business*; (iv) sell or transfer any Collateral, except for the sale of finished Inventory in the ordinary course of Borrower's business, and except for the sale of obsolete or unneeded Equipment in the ordinary course of business; (v) store any Inventory or other Collateral with any warehouseman or other third party; (vi) sell any Inventory on a sale-or-return, guaranteed

sale, consignment, or other contingent basis; (vii) make any loans of any money or other assets**; (viii) incur any debts, outside the ordinary course of business, which would have a material, adverse effect on Borrower or on the prospect of repayment of the Obligations; (ix) guarantee or otherwise become liable with respect to the obligations of another party or entity; (x) pay or declare any dividends on Borrower's stock (except for dividends payable solely in stock of Borrower); (xi) redeem, retire, purchase or otherwise acquire, directly or indirectly, any of Borrower's stock***; (xii) make any change in Borrower's capital structure which would have a material adverse effect on Borrower or on the prospect of repayment of the Obligations; or (xiii) pay total compensation, including salaries, fees, bonuses, commissions, and all other payments, whether directly or indirectly, in money or otherwise, to Borrower's executives, officers and directors (or any relative thereof) in an amount in excess of the amount set forth on the Schedule; or (xiv) dissolve or elect to dissolve. Transactions permitted by the foregoing provisions of this Section are only permitted if no Default or Event of Default would occur as a result of such transaction.

*(PROVIDED THAT BORROWER MAY SEPARATE HATHAWAY MOTION CONTROL CORPORATION, EMOTEQ CORPORATION AND COMPUTER OPTICAL PRODUCTS, INC. (COLLECTIVELY, THE "HMCC PARTIES") FROM HATHAWAY SYSTEMS CORPORATION, HATHAWAY PROCESS INSTRUMENTATION CORPORATION, HATHAWAY INDUSTRIAL AUTOMATION, INC., TATE INTEGRATED SYSTEMS, INC. (COLLECTIVELY, THE "HSC PARTIES"), HATHAWAY SYSTEMS UK GROUP LIMITED, HATHAWAY SYSTEMS LIMITED AND HATHAWAY INSTRUMENTS LIMITED (COLLECTIVELY WITH THE HSC PARTIES, THE "NON-HMCC PARTIES") THROUGH A SALE, DISPOSITION OR TAX FREE DISTRIBUTION OF EITHER THE HMCC PARTIES OR THE NON-HMCC PARTIES (THE "PERMITTED DISPOSITION") AND THE CONTINUING BORROWER UNDER THIS AGREEMENT SHALL BE THE HSC PARTIES, PROVIDED THAT IF AND ONLY IF PRIOR TO THE PERMITTED DISPOSITION,

SILICON TO ITS SATISFACTION HAS DETERMINED (I) THAT THE ELIGIBLE RECEIVABLES OF THE CONTINUING BORROWER (I.E., THE HSC PARTIES) ARE SUFFICIENT TO SUPPORT ALL OBLIGATIONS AND MAY APPLICABLE RESERVES, (II) THAT THE OBLIGATIONS DO NOT EXCEED THE CREDIT LIMIT AS MODIFIED HEREIN AFTER THE PERMITTED DISPOSITION AND (III) THAT NO EVENT OF DEFAULT EXISTS BEFORE OR AS A RESULT OF THE PERMITTED DISPOSITION. IN ADDITION, IMMEDIATELY AFTER THE COMPLETION OF THE PERMITTED DISPOSITION, THE MINIMUM TANGIBLE NET WORTH REQUIREMENT OF SECTION 5.1 SHALL BE REDUCED TO \$6,000,000, AND THE MAXIMUM CREDIT LIMIT SHALL BE REDUCED TO \$2,000,000 ANND THE INTEREST RATE IN THE AGREEMENT (AS IIT IS DEFINED IN SECTION 2 OF THE SCHEDULE TO LOAN AND SECURITY AGREEMENT SHALL INCREASE TO A RATE EQUAL TO PRIME PLUS 3.0% PER ANNUM, PROVIDED FURTHER THAT THE APPLICABLE INTEREST RATE MAY BE REDUCED TO PRIME PLUS 1.5% (AND POSSIBLY LATER INCREASED TO PRIME PLUS 3%) UPON COMPLIANCE BY BORROWER WITH THE TERMS FOR SUCH REDUCTION (OR INCREASE) AS SET FORTH IN THE SCHEDULE TO LOAN AND SECURITY AGREEMENT.)

**EXCEPT FOR (A) INTERCOMPANY LOANS MADE AFTER THE DATE HEREOF, WHICH IN THE AGGREGATE TOTAL LESS THAN \$500,000, PROVIDED, FURTHER, THAT SUCH DOLLAR LIMITATION SHALL NOT APPLY TO INTERCOMPANY LOANS MADE AFTER THE DATE HEREOF TO OTHER CO-BORROWERS UNDER THIS AGREEMENT OR ANY GUARANTOR OF THE BORROWERS' OBLIGATIONS UNDER THIS AGREEMENT AND (B) NON-CASH LOANS RELATED TO THE EXERCISE OF STOCK OPTIONS FROM TIME TO TIME

***EXCEPT THAT BORROWER MAY REPURCHASE SHARES OF BORROWER'S STOCK PURSUANT TO ANY EMPLOYEE STOCK PURCHASE OR BENEFIT PLAN, PROVIDED THAT THE TOTAL AMOUNT PAID

BY BORROWER FOR SUCH STOCK DOES NOT EXCEED \$125,000 IN ANY FISCAL YEAR, PROVIDED, FURTHER, THAT, AFTER GIVING EFFECT THERETO, NO EVENT OF DEFAULT HAS

OCCURRED AND NO EVENT HAS OCCURRED WHICH, WITH NOTICE OR PASSAGE OF TIME OR BOTH, WOULD CONSTITUTE AN EVENT OF DEFAULT

5.6 LITIGATION COOPERATION. Should any third-party suit or proceeding be instituted by or against Silicon with respect to any Collateral or in any manner relating to Borrower, Borrower shall, without expense to Silicon, make available Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Silicon may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding.

5.7 FURTHER ASSURANCES. Borrower agrees, at its expense, on request by Silicon, to execute all documents and take all actions, as Silicon, may deem reasonably necessary or useful in order to perfect and maintain Silicon's perfected security interest in the Collateral, and in order to fully consummate the transactions contemplated by this Agreement.

6. TERM.

6.1 MATURITY DATE. This Agreement shall continue in effect until the maturity date set forth on the Schedule (the "Maturity Date"); provided that the Maturity Date shall automatically be extended, and this Agreement shall automatically and continuously renew, for successive additional terms of one year each, unless one party gives written notice to the other, not less than sixty days prior to the next Maturity Date, that such party elects to terminate this Agreement effective on the next Maturity Date.

6.2 EARLY TERMINATION. This Agreement may be terminated prior to the Maturity Date as follows: (i) by Borrower, effective three Business Days after written notice of termination is given to Silicon; or (ii) by Silicon at any

time after the occurrence of an Event of Default, without notice, effective immediately. If this Agreement is terminated by Borrower or by Silicon under this Section 6.2*, Borrower shall pay to Silicon a termination fee in an amount equal to** of the Maximum Credit Limit***. The termination fee shall be due and payable on the effective date of termination and

thereafter shall bear interest at a rate equal to the highest rate applicable to any of the Obligations.

*PRIOR TO THE FIRST ANNIVERSARY DATE OF THIS AGREEMENT

**ONE PERCENT (1.0%)

***PROVIDED, HOWEVER, NO SUCH TERMINATION FEE SHALL BE CHARGED (I) IF THE CREDIT FACILITY HEREUNDER IS REPLACED WITH A NEW FACILITY FROM ANOTHER DIVISION OF SILICON VALLEY BANK OR (II) IF THIS AGREEMENT IS TERMINATED AFTER THE FIRST ANNIVERSARY DATE OF THIS AGREEMENT OR (III) SILICON TERMINATES THIS AGREEMENT PURSUANT TO THE TERMS OF SECTION 7.1(P) OR (Q)

6.3 PAYMENT OF OBLIGATIONS. On the Maturity Date or on any earlier effective date of termination, Borrower shall pay and perform in full all Obligations, whether evidenced by installment notes or otherwise, and whether or not all or any part of such Obligations are otherwise then due and payable. Without limiting the generality of the foregoing, if on the Maturity Date, or on any earlier effective date of termination, there are any outstanding Letters of Credit issued by Silicon or issued by another institution based upon an application, guarantee, indemnity or similar agreement on the part of Silicon, then on such date Borrower shall provide to Silicon cash collateral in an amount equal to the face amount of all such Letters of Credit plus all interest, fees and cost due or to become due in connection therewith, to secure all of the Obligations relating to said Letters of Credit, pursuant to Silicon's then standard form cash pledge agreement. Notwithstanding any termination of this Agreement, all of Silicon's security interests in all of the Collateral and all of the terms and provisions of this Agreement shall continue in full force and effect until all Obligations have been paid and performed in full; provided that, without limiting the fact that Loans are subject to the discretion of Silicon, Silicon may, in its sole discretion, refuse to make any further Loans after termination. No termination shall in any way affect or impair any right or remedy of Silicon, nor shall any such termination relieve Borrower of any Obligation to Silicon, until all of the Obligations have been paid and performed in full. Upon payment and performance in full of all the Obligations and termination of this Agreement, Silicon shall promptly deliver to Borrower termination statements, requests for reconveyances and such other documents as may be required to fully terminate Silicon's security interests.

7. EVENTS OF DEFAULT AND REMEDIES.

7.1 EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an "Event of Default" under this Agreement, and Borrower shall give Silicon immediate written notice thereof: (a) Any warranty, representation, statement, report or certificate made or delivered to Silicon by Borrower or any of Borrower's officers, employees or agents, now or in the future, shall be untrue or misleading in a material respect; or (b) Borrower shall fail to pay when due any Loan or any interest thereon or any other monetary Obligation; or (c) the total Loans and other Obligations outstanding at any time shall exceed the Credit Limit; or (d) Borrower shall fail to comply with any of the financial covenants set forth in the Schedule or shall fail to perform any other non-monetary Obligation which by its nature cannot be cured; or (e) Borrower shall fail to perform any other non-monetary Obligation, which failure is not cured within 5 Business Days after the date due; or (f) Any levy, assessment, attachment, seizure, lien or encumbrance (other than a Permitted Lien) is made on all or any part of the Collateral which is not cured within 10 days after the occurrence of the same; or (g) any default or event of default occurs under any obligation secured by a Permitted Lien, which is not cured within any applicable cure period or waived in writing by the holder of the Permitted Lien; or (h) Borrower breaches any material contract or obligation, which has or may reasonably be expected to have a material adverse effect on Borrower's business or financial condition; or (i) Dissolution, termination of existence, insolvency or business failure of Borrower; or appointment of a receiver, trustee or custodian, for all or any part of the property of, assignment for the benefit of creditors by, or the commencement of any proceeding by Borrower under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect; or (j) the commencement of any proceeding against Borrower or any guarantor of any of the Obligations under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect, which is not cured by the dismissal thereof within 30 days after the date commenced; or (k) revocation or termination of, or limitation or denial of liability upon, any guaranty of the Obligations or any attempt to do any of the foregoing, or commencement of proceedings by any guarantor of any of the Obligations under any bankruptcy or insolvency law; or (l) revocation or termination of, or limitation or denial of liability upon, any pledge of any certificate of deposit, securities or other property or asset of any kind pledged by any third party to secure any or all of the Obligations, or any attempt to do any of the foregoing, or commencement of proceedings by or against any such third party under any bankruptcy or insolvency law; or (m) Borrower makes any payment on account of any indebtedness or obligation which has been subordinated to the Obligations other than as permitted in the applicable subordination agreement, or if any Person who has subordinated such indebtedness or obligations terminates or in any way limits his subordination agreement; or (n) or (o) Borrower shall

generally not pay its debts as they become due, or Borrower shall conceal, remove or transfer any part of its property, with intent to hinder, delay or defraud its creditors, or make or suffer any transfer of any of its property which may be fraudulent

under any bankruptcy, fraudulent conveyance or similar law; or (p) there shall be a material adverse change in Borrower's business or financial condition; or (q) Silicon, acting in good faith and in a commercially reasonable manner, deems itself insecure because of the occurrence of an event prior to the effective date hereof of which Silicon had no knowledge on the effective date or because of the occurrence of an event on or subsequent to the effective date. Silicon may cease making any Loans hereunder during any of the above cure periods, and thereafter if an Event of Default has occurred.

*THERE SHALL BE A CHANGE IN THE MAJORITY OF THE BORROWER'S BOARD OF DIRECTORS AFTER THE DATE HEREOF;

7.2 REMEDIES. Upon the occurrence of any Event of Default, and at any time thereafter, Silicon, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Borrower), may do any one or more of the following: (a) Cease making Loans or otherwise extending credit to Borrower under this Agreement or any other document or agreement; (b) Accelerate and declare all or any part of the Obligations to be immediately due, payable, and performable, notwithstanding any deferred or installment payments allowed by any instrument evidencing or relating to any Obligation; (c) Take possession of any or all of the Collateral wherever it may be found, and for that purpose Borrower hereby authorizes Silicon without judicial process to enter onto any of Borrower's premises without interference to search for, take possession of, keep, store, or remove any of the Collateral, and remain on the premises or cause a custodian to remain on the premises in exclusive control thereof, without charge for so long as Silicon deems it reasonably necessary in order to complete the enforcement of its rights under this Agreement or any other agreement; provided, however, that should Silicon seek to take possession of any of the Collateral by Court process, Borrower hereby irrevocably waives: (i) any bond and any surety or security relating thereto required by any statute, court rule or otherwise as an incident to such possession; (ii) any demand for possession prior to the commencement of any suit or action to recover possession thereof; and (iii) any requirement that Silicon retain possession of, and not dispose of, any such Collateral until after trial or final judgment; (d) Require Borrower to assemble any or all of the Collateral and make it available to Silicon at places designated by Silicon which are reasonably convenient to Silicon and Borrower, and to remove the Collateral to such locations as Silicon may deem advisable; (e) Complete the processing, manufacturing or repair of any Collateral prior to a disposition thereof and, for such purpose and for the purpose of removal, Silicon shall have the right to use Borrower's premises, vehicles, hoists, lifts, cranes, equipment and all other property without charge; (f) Sell, lease or otherwise dispose of any of the Collateral, in its condition at the time Silicon obtains possession of it or after further manufacturing, processing or repair, at one or more public and/or private sales, in lots or in bulk, for cash, exchange or other property, or on credit, and to adjourn any such sale from time to time without notice other than oral announcement at the time scheduled for sale. Silicon shall have the right to conduct such disposition on Borrower's premises without charge, for such time or times as Silicon deems reasonable, or on Silicon's premises, or elsewhere and the Collateral need not be located at the place of disposition. Silicon may directly or through any affiliated company purchase or lease any Collateral at any such public disposition, and if permissible under applicable law, at any private disposition. Any sale or other disposition of Collateral shall not relieve Borrower of any liability Borrower may have if any Collateral is defective as to title or physical condition or otherwise at the time of sale; (g) Demand payment of, and collect any Receivables and General Intangibles comprising Collateral and, in connection therewith, Borrower irrevocably authorizes Silicon to endorse or sign Borrower's name on all collections, receipts, instruments and other documents, to take possession of and open mail addressed to Borrower and remove therefrom payments made with respect to any item of the Collateral or proceeds thereof, and, in Silicon's sole discretion, to grant extensions of time to pay, compromise claims and settle Receivables and the like for less than face value; (h) Offset against any sums in any of Borrower's general, special or other Deposit Accounts with Silicon; and (i) Demand and receive possession of any of Borrower's federal and state income tax returns and the books and records utilized in the preparation thereof or referring thereto. All reasonable attorneys' fees, expenses, costs, liabilities and obligations incurred by Silicon with respect to the foregoing shall be added to and become part of the Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations. Without limiting any of Silicon's rights and remedies, from and after the occurrence of any Event of Default, the interest rate applicable to the Obligations shall be increased by an additional* per annum.

*1.5%

7.3 STANDARDS FOR DETERMINING COMMERCIAL REASONABLENESS. Borrower and Silicon agree that a sale or other disposition (collectively, "sale") of any Collateral which complies with the following standards will conclusively be deemed to be commercially reasonable: (i) Notice of the sale is given to Borrower at least seven days prior to the sale, and, in the case of a public sale, notice of the sale is published at least seven days before the sale in a newspaper of general circulation in the county where the sale is to be conducted; (ii) Notice of the sale describes the collateral in general, non-specific terms; (iii) The sale is conducted at a place designated by Silicon,

with or without the Collateral being present; (iv) The sale commences at any time between 8:00 a.m. and 6:00 p.m; (v) Payment of the purchase price in cash or by cashier's check or wire transfer is required; (vi) With respect to any sale of any of the Collateral, Silicon may (but is not obligated to) direct any prospective purchaser to ascertain directly from Borrower any and all information concerning the same. Silicon shall be free to employ other methods of noticing and selling the

Collateral, in its discretion, if they are commercially reasonable.

7.4 POWER OF ATTORNEY. Upon the occurrence of any Event of Default, without limiting Silicon's other rights and remedies, Borrower grants to Silicon an irrevocable power of attorney coupled with an interest, authorizing and permitting Silicon (acting through any of its employees, attorneys or agents) at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, to do any or all of the following, in Borrower's name or otherwise, but Silicon agrees to exercise the following powers in a commercially reasonable manner: (a) Execute on behalf of Borrower any documents that Silicon may, in its sole discretion, deem advisable in order to perfect and maintain Silicon's security interest in the Collateral, or in order to exercise a right of Borrower or Silicon, or in order to fully consummate all the transactions contemplated under this Agreement, and all other present and future agreements; (b) Execute on behalf of Borrower any document exercising, transferring or assigning any option to purchase, sell or otherwise dispose of or to lease (as lessor or lessee) any real or personal property which is part of Silicon's Collateral or in which Silicon has an interest; (c) Execute on behalf of Borrower, any invoices relating to any Receivable, any draft against any Account Debtor and any notice to any Account Debtor, any proof of claim in bankruptcy, any Notice of Lien, claim of mechanic's, materialman's or other lien, or assignment or satisfaction of mechanic's, materialman's or other lien; (d) Take control in any manner of any cash or non-cash items of payment or proceeds of Collateral; endorse the name of Borrower upon any instruments, or documents, evidence of payment or Collateral that may come into Silicon's possession; (e) Endorse all checks and other forms of remittances received by Silicon; (f) Pay, contest or settle any lien, charge, encumbrance, security interest and adverse claim in or to any of the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; (g) Grant extensions of time to pay, compromise claims and settle Receivables and General Intangibles for less than face value and execute all releases and other documents in connection therewith; (h) Pay any sums required on account of Borrower's taxes or to secure the release of any liens therefor, or both; (i) Settle and adjust, and give releases of, any insurance claim that relates to any of the Collateral and obtain payment therefor; (j) Instruct any third party having custody or control of any books or records belonging to, or relating to, Borrower to give Silicon the same rights of access and other rights with respect thereto as Silicon has under this Agreement; and (k) Take any action or pay any sum required of Borrower pursuant to this Agreement and any other present or future agreements. Any and all reasonable sums paid and any and all reasonable costs, expenses, liabilities, obligations and attorneys' fees incurred by Silicon with respect to the foregoing shall be added to and become part of the Obligations, shall be payable on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations. In no event shall Silicon's rights under the foregoing power of attorney or any of Silicon's other rights under this Agreement be deemed to indicate that Silicon is in control of the business, management or properties of Borrower.

7.5 APPLICATION OF PROCEEDS. All proceeds realized as the result of any sale of the Collateral shall be applied by Silicon first to the reasonable costs, expenses, liabilities, obligations and attorneys' fees incurred by Silicon in the exercise of its rights under this Agreement, second to the interest due upon any of the Obligations, and third to the principal of the Obligations, in such order as Silicon shall determine in its sole discretion. Any surplus shall be paid to Borrower or other persons legally entitled thereto; Borrower shall remain liable to Silicon for any deficiency. If, Silicon, in its sole discretion, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Silicon shall have the option, exercisable at any time, in its sole discretion, of either reducing the Obligations by the principal amount of purchase price or deferring the reduction of the Obligations until the actual receipt by Silicon of the cash therefor.

7.6 REMEDIES CUMULATIVE. In addition to the rights and remedies set forth in this Agreement, Silicon shall have all the other rights and remedies accorded a secured party under the California Uniform Commercial Code and under all other applicable laws, and under any other instrument or agreement now or in the future entered into between Silicon and Borrower, and all of such rights and remedies are cumulative and none is exclusive. Exercise or partial exercise by Silicon of one or more of its rights or remedies shall not be deemed an election, nor bar Silicon from subsequent exercise or partial exercise of any other rights or remedies. The failure or delay of Silicon to exercise any rights or remedies shall not operate as a waiver thereof, but all rights and remedies shall continue in full force and effect until all of the Obligations have been fully paid and performed.

8. DEFINITIONS. AS USED IN THIS AGREEMENT, THE FOLLOWING TERMS HAVE THE FOLLOWING MEANINGS:

"Account Debtor" means the obligor on a Receivable.

"Affiliate" means, with respect to any Person, a relative, partner,

shareholder, director, officer, or employee of such Person, or any parent or

subsidiary of such Person, or any Person controlling, controlled by or under common control with such Person.

"Business Day" means a day on which Silicon is open for business.

"Code" means the Uniform Commercial Code as adopted and in effect in the State of California from time to time.

"Collateral" has the meaning set forth in Section 2.1 above.

"Default" means any event which with notice or passage of time or both, would constitute an Event of Default.

"Deposit Account" has the meaning set forth in Section 9105 of the Code.

"Eligible Inventory" [NOT APPLICABLE].

"Eligible Receivables" means Receivables arising in the ordinary course of

Borrower's business from the sale of goods or rendition of services, which Silicon, in its sole judgment, shall deem eligible for borrowing, based on such considerations as Silicon may from time to time deem appropriate.* Without limiting the fact that the determination of which Receivables are eligible for borrowing is a matter of Silicon's discretion, the following (the "Minimum

Eligibility Requirements") are the minimum requirements for a Receivable to be

an Eligible Receivable: (i) the Receivable must not be outstanding for more than 90 days from its invoice date, (ii) the Receivable must not represent progress billings, or be due under a fulfillment or requirements contract with the Account Debtor, (iii) the Receivable must not be subject to any contingencies (including Receivables arising from sales on consignment, guaranteed sale or other terms pursuant to which payment by the Account Debtor may be conditional), (iv) the Receivable must not be owing from an Account Debtor with whom the Borrower has any dispute** (whether or not relating to the particular Receivable), (v) the Receivable must not be owing from an Affiliate of Borrower, (vi) the Receivable must not be owing from an Account Debtor which is subject to any insolvency or bankruptcy proceeding, or whose financial condition is not acceptable to Silicon, or which, fails or goes out of a material portion of its business, (vii) the Receivable must not be owing from the United States or any department, agency or instrumentality thereof (unless there has been compliance, to Silicon's satisfaction, with the United States Assignment of Claims Act), (viii) the Receivable must not be owing from an Account Debtor located outside the United States or Canada (unless pre-approved by Silicon in its discretion in writing, or backed by a letter of credit satisfactory to Silicon, or FCIA insured satisfactory to Silicon), (ix) the Receivable must not be owing from an Account Debtor to whom Borrower is or may be liable for goods purchased from such Account Debtor or otherwise. Receivables owing from one Account Debtor will not be deemed Eligible Receivables to the extent they exceed 25% of the total eligible Receivables outstanding. In addition, if more than 50% of the Receivables owing from an Account Debtor are outstanding more than 90 days from their invoice date (without regard to unapplied credits) or are otherwise not eligible Receivables, then all Receivables owing from that Account Debtor will be deemed ineligible for borrowing. Silicon may, from time to time, in its discretion, revise the Minimum Eligibility Requirements, upon written notice to the Borrower.

*WITHOUT LIMITING THE FACT THAT THE DETERMINATION OF WHICH RECEIVABLES ARE ELIGIBLE FOR BORROWING IS A MATTER OF SILICON'S DISCRETION, UNTIL SILICON GIVES WRITTEN NOTICE TO THE CONTRARY, ALL RECEIVABLES OF HATHAWAY INDUSTRIAL AUTOMATION, INC. SHALL BE DEEMED INELIGIBLE.

**IN EXCESS OF \$5,000

"Equipment" means all of Borrower's present and hereafter acquired machinery,

molds, machine tools, motors, furniture, equipment, furnishings, fixtures, trade fixtures, motor vehicles, tools, parts, dyes, jigs, goods and other tangible personal property (other than Inventory) of every kind and description used in Borrower's operations or owned by Borrower and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located.

"Event of Default" means any of the events set forth in Section 7.1 of this

Agreement.

"General Intangibles" means all general intangibles of Borrower, whether now

owned or hereafter created or acquired by Borrower, including, without limitation, all choses in action, causes of action, corporate or other business records, Deposit Accounts, inventions, designs, drawings, blueprints, patents, patent applications, trademarks and the goodwill of the business symbolized thereby, names, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, security and other deposits, rights in all litigation presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise), and all judgments now or hereafter arising therefrom, all claims of Borrower against Silicon, rights to purchase or sell real or personal property, rights as a licensor or licensee of any kind, royalties, telephone numbers, proprietary information, purchase orders, and all insurance policies and claims (including without limitation life insurance, key man insurance, credit insurance, liability insurance, property insurance and other insurance), tax refunds and claims, computer programs, discs, tapes and tape files, claims under guaranties, security interests or other security held by or granted to Borrower, all rights to indemnification and all other

intangible property of every kind and nature (other than Receivables).

"Inventory" means all of Borrower's now owned and hereafter acquired goods,

merchandise or other personal property, wherever located, to be furnished under any contract of service or held for sale or lease (including without limitation all raw materials, work in process, finished goods and goods in transit), and all materials and supplies of every kind, nature and description which are or might be used or consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise or other personal property, and all warehouse receipts, documents of title and other documents representing any of the foregoing.

"Obligations" means all present and future Loans, advances, debts,

liabilities, obligations, guaranties, covenants, duties and indebtedness at any time owing by Borrower to Silicon, whether evidenced by this Agreement or any note or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, banker's acceptance, loan, guaranty,

indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by Silicon in Borrower's debts owing to others), absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorney's fees, expert witness fees, audit fees, letter of credit fees, collateral monitoring fees, closing fees, facility fees, termination fees, minimum interest charges and any other sums chargeable to Borrower under this Agreement or under any other present or future instrument or agreement between Borrower and Silicon.

"Permitted Liens" means the following: (i) purchase money security interests

 in specific items of Equipment; (ii) leases of specific items of Equipment; (iii) liens for taxes not yet payable; (iv) additional security interests and liens consented to in writing by Silicon, which consent shall not be unreasonably withheld; (v) security interests being terminated substantially concurrently with this Agreement; (vi) liens of materialmen, mechanics, warehousemen, carriers, or other similar liens arising in the ordinary course of business and securing obligations which are not delinquent; (vii) liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by liens of the type described above in clauses (i) or (ii) above, provided that any extension, renewal or replacement lien is limited to the property encumbered by the existing lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase; (viii) Liens in favor of customs and revenue authorities which secure payment of customs duties in connection with the importation of goods. Silicon will have the right to require, as a condition to its consent under subparagraph (iv) above, that the holder of the additional security interest or lien sign an intercreditor agreement on Silicon's then standard form, acknowledge that the security interest is subordinate to the security interest in favor of Silicon, and agree not to take any action to enforce its subordinate security interest so long as any Obligations remain outstanding, and that Borrower agree that any uncured default in any obligation secured by the subordinate security interest shall also constitute an Event of Default under this Agreement.

"Person" means any individual, sole proprietorship, partnership, joint

 venture, trust, unincorporated organization, association, corporation, government, or any agency or political division thereof, or any other entity.

"Receivables" means all of Borrower's now owned and hereafter acquired

 accounts (whether or not earned by performance), letters of credit*, contract rights, chattel paper, instruments, securities, documents and all other forms of obligations at any time owing to Borrower, all guaranties and other security therefor, all merchandise returned to or repossessed by Borrower, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party.

*(EXCLUDING, HOWEVER, THE COLORADO NATIONAL BANK LETTERS OF CREDIT AND THE CERTIFICATES OF DEPOSIT SECURING SUCH COLORADO NATIONAL BANK LETTERS OF CREDIT)

"Reserves" means, as of any date of determination, such amounts as Silicon may

 from time to time establish and revise in good faith reducing the amount of Loans and Letters of Credit which would otherwise be available to Borrower under the lending formula(s) provided in the Schedule: (a) to reflect events, conditions, contingencies or risks which, as determined by Silicon in good faith, do or may affect either (i) the Collateral or any other property which is security for the Obligations or its value, (ii) the assets, business or prospects of Borrower or any Guarantor or (iii) the security interests and other rights of Silicon in the Collateral (including the enforceability, perfection and priority thereof), or (b) to reflect Silicon's good faith belief that any collateral report or financial information furnished by or on behalf of Borrower or any Guarantor to Silicon is or may have been incomplete, inaccurate or misleading in any material respect, or (c) in respect of any state of facts which Silicon determines in good faith constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

Other Terms. All accounting terms used in this Agreement, unless otherwise

 indicated, shall have the meanings given to such terms in accordance with generally accepted accounting principles, consistently applied. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

9. GENERAL PROVISIONS.

9.1 INTEREST COMPUTATION. In computing interest on the Obligations, all checks, wire transfers and other items of payment received by Silicon (including proceeds of Receivables and payment of the Obligations in full) shall be deemed applied by Silicon on account of the Obligations three Business Days after receipt by Silicon of immediately available funds, and, for purposes of the foregoing, any such funds received after 12:00 Noon on any day shall be deemed received on the next Business Day. Silicon shall not, however, be required to

credit Borrower's account for the amount of any item of payment which is unsatisfactory to Silicon in its sole discretion, and Silicon may charge Borrower's loan account for the amount of any item of payment which is returned to Silicon unpaid.

9.2 APPLICATION OF PAYMENTS. All payments with respect to the Obligations may be applied, and in Silicon's sole discretion reversed and re-applied, to the Obligations, in such order and manner as Silicon shall determine in its sole discretion.

9.3 CHARGES TO ACCOUNTS. Silicon may, in its discretion, require that Borrower pay monetary Obligations in cash to Silicon, or charge them to Borrower's Loan account, in which event they will bear interest at the same rate applicable to the Loans. Silicon may also, in its discretion, charge any monetary

Obligations to Borrower's Deposit Accounts maintained with Silicon.

9.4 MONTHLY ACCOUNTINGS. Silicon shall provide Borrower monthly with an account of advances, charges, expenses and payments made pursuant to this Agreement. Such account shall be deemed correct, accurate and binding on Borrower and an account stated (except for reverses and reapplications of payments made and corrections of errors discovered by Silicon), unless Borrower notifies Silicon in writing to the contrary within thirty days after each account is rendered, describing the nature of any alleged errors or admissions.

9.5 NOTICES. All notices to be given under this Agreement shall be in writing and shall be given either personally or by reputable private delivery service or by regular first-class mail, or certified mail return receipt requested, addressed to Silicon or Borrower at the addresses shown in the heading to this Agreement, or at any other address designated in writing by one party to the other party. Notices to Silicon shall be directed to the Commercial Finance Division, to the attention of the Division Manager or the Division Credit Manager. All notices shall be deemed to have been given upon delivery in the case of notices personally delivered, or at the expiration of one Business Day following delivery to the private delivery service, or two Business Days following the deposit thereof in the United States mail, with postage prepaid.

9.6 SEVERABILITY. Should any provision of this Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Agreement, which shall continue in full force and effect.

9.7 INTEGRATION. This Agreement and such other written agreements, documents and instruments as may be executed in connection herewith are the final, entire and complete agreement between Borrower and Silicon and supersede all prior and contemporaneous negotiations and oral representations and agreements, all of which are merged and integrated in this Agreement. There are no oral

understandings, representations or agreements between the parties which are not set forth in this Agreement or in other written agreements signed by the parties in connection herewith.

9.8 WAIVERS. The failure of Silicon at any time or times to require Borrower to strictly comply with any of the provisions of this Agreement or any other present or future agreement between Borrower and Silicon shall not waive or diminish any right of Silicon later to demand and receive strict compliance therewith. Any waiver of any default shall not waive or affect any other default, whether prior or subsequent, and whether or not similar. None of the provisions of this Agreement or any other agreement now or in the future executed by Borrower and delivered to Silicon shall be deemed to have been waived by any act or knowledge of Silicon or its agents or employees, but only by a specific written waiver signed by an authorized officer of Silicon and delivered to Borrower. Borrower waives demand, protest, notice of protest and notice of default or dishonor, notice of payment and nonpayment, release, compromise, settlement, extension or renewal of any commercial paper, instrument, account, General Intangible, document or guaranty at any time held by Silicon on which Borrower is or may in any way be liable, and notice of any action taken by Silicon, unless expressly required by this Agreement.

9.9 NO LIABILITY FOR ORDINARY NEGLIGENCE. Neither Silicon, nor any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Silicon shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Borrower or any other party through the ordinary negligence of Silicon, or any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Silicon, but nothing herein shall relieve Silicon from liability for its own gross negligence or willful misconduct.

9.10 AMENDMENT. The terms and provisions of this Agreement may not be waived or amended, except in a writing executed by Borrower and a duly authorized officer of Silicon.

9.11 TIME OF ESSENCE. Time is of the essence in the performance by Borrower of each and every obligation under this Agreement.

9.12 ATTORNEYS FEES AND COSTS. Borrower shall reimburse Silicon for all reasonable attorneys' fees and all filing, recording, search, title insurance, appraisal, audit, and other reasonable costs incurred by Silicon, pursuant to, or in connection with, or relating to this Agreement (whether or not a lawsuit is filed), including, but not limited to, any reasonable attorneys' fees and costs Silicon incurs in order to do the following: prepare and negotiate this Agreement and the documents relating to this Agreement; obtain legal advice in connection with this Agreement or Borrower; enforce, or seek to enforce, any of its rights; prosecute actions against, or defend actions by, Account Debtors; commence, intervene in, or defend any action or proceeding; initiate any complaint to be relieved of the automatic stay in bankruptcy; file or prosecute

any probate claim, bankruptcy claim, third-party claim, or other claim; examine, audit, copy, and inspect any of the Collateral or any of Borrower's books and records; protect, obtain possession of, lease, dispose of, or otherwise enforce Silicon's security interest in, the Collateral; and otherwise represent Silicon in any litigation relating to Borrower. In satisfying Borrower's obligation

hereunder to reimburse Silicon for attorneys fees, Borrower may, for

convenience, issue checks directly to Silicon's attorneys, Levy, Small & Lallas,

but Borrower acknowledges and agrees that Levy, Small & Lallas is representing

only Silicon and not Borrower in connection with this Agreement. If either

Silicon or Borrower files any lawsuit against the other predicated on a breach
of this Agreement, the prevailing party in such action shall be entitled to
recover its reasonable costs and attorneys' fees, including (but not limited to)
reasonable

attorneys' fees and costs incurred in the enforcement of, execution upon or defense of any order, decree, award or judgment. All attorneys' fees and costs to which Silicon may be entitled pursuant to this Paragraph shall immediately become part of Borrower's Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations.

9.13 BENEFIT OF AGREEMENT. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and Silicon; provided, however, that Borrower may not assign or transfer any of its rights under this Agreement without the prior written consent of Silicon, and any prohibited assignment shall be void. No consent by Silicon to any assignment shall release Borrower from its liability for the Obligations.

9.14 JOINT AND SEVERAL LIABILITY. If Borrower consists of more than one Person, their liability shall be joint and several, and the compromise of any claim with, or the release of, any Borrower shall not constitute a compromise with, or a release of, any other Borrower.

9.15 LIMITATION OF ACTIONS. Any claim or cause of action by Borrower against Silicon, its directors, officers, employees, agents, accountants or attorneys, based upon, arising from, or relating to this Loan Agreement, or any other present or future document or agreement, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause or thing whatsoever, occurred, done, omitted or suffered to be done by Silicon, its directors, officers, employees, agents, accountants or attorneys, shall be barred unless asserted by Borrower by the commencement of an action or proceeding in a court of competent jurisdiction by the filing of a complaint within one year after the first act, occurrence or omission upon which such claim or cause of action, or any part thereof, is based, and the service of a summons and complaint on an officer of Silicon, or on any other person authorized to accept service on behalf of Silicon, within thirty (30) days thereafter. Borrower agrees that such one-year period is a reasonable and sufficient time for Borrower to investigate and act upon any such claim or cause of action. The one-year period provided herein shall not be waived, tolled, or extended except by the written consent of Silicon in its sole discretion. This provision shall survive any termination of this Loan Agreement or any other present or future agreement.

9.16 PARAGRAPH HEADINGS; CONSTRUCTION. Paragraph headings are only used in this Agreement for convenience. Borrower and Silicon acknowledge that the headings may not describe completely the subject matter of the applicable paragraph, and the headings shall not be used in any manner to construe, limit, define or interpret any term or provision of this Agreement. The term "including", whenever used in this Agreement, shall mean "including (but not limited to)". This Agreement has been fully reviewed and negotiated between the parties and no uncertainty or ambiguity in any term or provision of this Agreement shall be construed strictly against Silicon or Borrower under any rule of construction or otherwise.

9.17 GOVERNING LAW; JURISDICTION; VENUE. This Agreement and all acts and transactions hereunder and all rights and obligations of Silicon and Borrower shall be governed by the laws of the State of California. As a material part of the consideration to Silicon to enter into this Agreement, Borrower (i) agrees that all actions and proceedings relating directly or indirectly to this Agreement shall, at Silicon's option, be litigated in courts located within California, and that the exclusive venue therefor shall be Santa Clara County; (ii) consents to the jurisdiction and venue of any such court and consents to service of process in any such action or proceeding by personal delivery or any other method permitted by law; and (iii) waives any and all rights Borrower may have to object to the jurisdiction of any such court, or to transfer or change the venue of any such action or proceeding.

9.18 MUTUAL WAIVER OF JURY TRIAL. BORROWER AND SILICON EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS AGREEMENT OR ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN SILICON AND BORROWER, OR ANY CONDUCT, ACTS OR OMISSIONS OF SILICON OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH SILICON OR BORROWER, IN ALL OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

BORROWER:

HATHAWAY CORPORATION

BY /S/ RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/ SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

HATHAWAY SYSTEMS CORPORATION

BY /S/ RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/ SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

HATHAWAY PROCESS INSTRUMENTATION CORPORATION

BY /S/RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

HATHAWAY MOTION CONTROL CORPORATION

BY /S/RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

HATHAWAY INDUSTRIAL AUTOMATION, INC.

BY /S/RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

COMPUTER OPTICAL PRODUCTS, INC.

BY /S/RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

EMOTEQ CORPORATION

BY /S/RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

TATE INTEGRATED SYSTEMS, INC.

BY /S/RICHARD D. SMITH
PRESIDENT OR VICE PRESIDENT

BY /S/SUSAN M. CHIARMONTE
SECRETARY OR ASS'T SECRETARY

SILICON:

SILICON VALLEY BANK

BY /S/CHRIS HILL
TITLE VICE PRESIDENT

SCHEDULE TO LOAN AND SECURITY AGREEMENT -.S.

SILICON VALLEY BANK

SCHEDULE TO

LOAN AND SECURITY AGREEMENT

BORROWER: HATHAWAY CORPORATION
HATHAWAY SYSTEMS CORPORATION
HATHAWAY PROCESS INSTRUMENTATION CORPORATION
HATHAWAY MOTION CONTROL CORPORATION
HATHAWAY INDUSTRIAL AUTOMATION, INC.
COMPUTER OPTICAL PRODUCTS, INC.
EMOTEQ CORPORATION
TATE INTEGRATED SYSTEMS, INC.

ADDRESS: 8228 PARK MEADOWS
LITTLETON, CO 80124

DATE: MAY 7, 1998

This Schedule forms an integral part of the Loan and Security Agreement between Silicon Valley Bank and the above-borrower of even date.

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1. CREDIT LIMIT
(SECTION 1.1): An amount not to exceed the lesser of: (i) \$3,000,000 at any one time outstanding (the "Maximum Credit Limit"); or (ii) 85% of the amount of Borrower's Eligible Receivables (as defined in Section 8 above).

LETTER OF CREDIT SUBLIMIT
(SECTION 1.5): \$500,000

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2. INTEREST.
INTEREST RATE (SECTION 1.2):
A rate equal to the "Prime Rate" in effect from time to time, plus 2.0% per annum. Provided, however, upon Borrower achieving a net loss (on a consolidated basis) of less than \$750,000 at the end of any fiscal quarter ending after the date hereof for the twelve month period ending as of the end of such fiscal quarter, then the interest rate shall be reduced to a rate equal to the Prime Rate in effect from time to time, plus 1.50% per annum.

Provided, further, that if thereafter Borrower incurs a net loss (on a consolidated basis) of greater than \$750,000 at the end of any fiscal quarter ending after the date thereof for the twelve month period ending as of the end of such fiscal quarter, then the interest rate shall be increased to a rate equal to the Prime Rate in effect from time to time, plus 2.0% per annum. Any such rate reduction shall go into effect following Silicon's review and approval of Borrower's financial statements (on a consolidated basis) showing Borrower is entitled to such rate reduction.

If Borrower is entitled to a rate reduction and thereafter the rate is increased pursuant to the terms set forth above, Borrower shall still be entitled to future rate reductions

(and subject to future rate increases) upon compliance with the terms for such reduction (or increase) set forth above.

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

MINIMUM MONTHLY
INTEREST (SECTION 1.2): Not Applicable.

3. FEES (SECTION 1.4):

Loan Fee: \$30,000, payable concurrently herewith. (Any Commitment Fee previously paid by the Borrower in connection with this loan shall be credited against this Fee.)

Collateral Monitoring Fee: \$1,500, per calendar month, payable in arrears (prorated for any partial calendar month at the beginning and at termination of this Agreement).

Unused Line Fee: Borrower shall pay Silicon an Unused Line Fee, in addition to all interest and other fees payable hereunder. The amount of the Unused Line Fee shall be 0.125% per month multiplied by an amount equal to the Maximum Credit Limit minus the average daily balance of the outstanding Loans. Provided, however, upon Borrower achieving a net loss (on a consolidated basis) of less than \$750,000 at the end of any fiscal quarter ending after the date hereof for the twelve month period ending as of the end of such fiscal quarter, then the Unused Line Fee shall be reduced to an amount equal to 0.0625% per month multiplied by an amount equal to the Maximum Credit Limit minus the average daily balance of the outstanding Loans. Provided, further, that if thereafter Borrower incurs a net loss (on a consolidated basis) of greater than \$750,000 at the end of any fiscal quarter ending after the date thereof for the twelve month period ending as of the end of such fiscal quarter, then the Unused Line Fee shall be increased to an amount equal to 0.125% per month multiplied by an amount equal to the Maximum Credit Limit minus the average daily balance of the outstanding Loans. Any such reduction in the unused line fee shall go into effect following Silicon's review and approval of Borrower's financial statements (on a consolidated basis) showing Borrower is entitled to such reduction. If Borrower is entitled to a reduction in the Unused Line Fee and thereafter the Unused Line Fee is increased pursuant to the terms set forth above, Borrower shall still be entitled to future reductions (and subject to future increases) upon compliance with the terms for such reduction (or increase) set forth above. the Unused Line Fee shall be computed and paid monthly, in arrears (prorated for any partial calendar month at the beginning and at termination of this agreement), and shall be due on the last day of each calendar month.

4. MATURITY DATE
(SECTION 6.1):

Two years from the date of this Agreement, subject to automatic renewal as provided in Section 6.1 above, and early termination as provided in Section 6.2 above.

5. FINANCIAL COVENANTS
(SECTION 5.1):

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

MINIMUM TANGIBLE
NET WORTH:

Borrower shall maintain a Tangible Net Worth of
not less than \$8,000,000.

DEFINITIONS.

For purposes of the foregoing financial covenants, the following terms shall have the following meanings: "Current assets", "current liabilities" and "liabilities" shall have the meanings ascribed to them by generally accepted accounting principles. "Tangible Net Worth" shall mean the excess of total assets over total liabilities, determined in accordance with generally accepted accounting principles, with the following adjustments:

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

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

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6. REPORTING.
(SECTION 5.3):

Borrower shall provide Silicon with the following:

1. Monthly Receivable agings, aged by invoice date, within fifteen days after the end of each month, except when the Streamline Facility of approximate even date is in effect.
2. Monthly accounts payable agings, aged by invoice date within fifteen days after the end of each month, except when the Streamline Facility of approximate even date is in effect.
3. Monthly outstanding or held check registers, if any, within thirty days after the end of each month.
4. Monthly reconciliations of Receivable agings (aged by invoice date), transaction reports, and general ledger, within fifteen days after the end of each month.
- 5.
6. Monthly unaudited financial statements, as soon as available, and in any event within thirty days after the end of each month.
7. Monthly Compliance Certificates, within thirty days after the end of each month, in such form as silicon shall reasonably specify, signed by the Chief Financial Officer of Borrower, certifying that as of the end of such month Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Silicon shall reasonably request, including, without limitation, a statement that at the end of such month there were no held checks.
8. Quarterly unaudited financial statements, as soon as available, and in any event within thirty days after the end of each fiscal quarter of Borrower.
9. Annual operating budgets (including income statements, balance sheets and cash flow statements, by month) for the upcoming fiscal year of Borrower within thirty days prior to the end of each fiscal year of Borrower.

10. Annual financial statements, as soon as available, and in any event within 120 days following the end of Borrower's fiscal year, certified by independent certified public accountants acceptable to Silicon.

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7. COMPENSATION
(SECTION 5.5): Not Applicable.
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8. BORROWER INFORMATION:

PRIOR NAMES OF
BORROWER
(SECTION 3.2): See Representations and Warranties of Borrower dated
February 6, 1998.

PRIOR TRADE
NAMES OF BORROWER
(SECTION 3.2): See Representations and Warranties of Borrower dated
February 6, 1998.

EXISTING TRADE
NAMES OF BORROWER
(SECTION 3.2): See Representations and Warranties of Borrower dated
February 6, 1998.

OTHER LOCATIONS AND
ADDRESSES
(SECTION 3.3): See Representations and Warranties of Borrower
dated February 6, 1998.

MATERIAL ADVERSE
LITIGATION
(SECTION 3.10): None

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9. OTHER COVENANTS
(SECTION 5.1): Borrower shall at all times comply with all of the
following additional covenants:

1. BANKING RELATIONSHIP. Borrower shall at all times maintain its primary banking relationship with Silicon.
2. GUARANTY BY U.K. COMPANIES. Borrower shall cause each of Hathaway Systems U.K. Group, Ltd., and Hathaway Systems, Ltd. (collectively, the "UK Guarantors") to, concurrently with the date hereof, execute and deliver to Silicon a guaranty, in form and substance acceptable to Silicon in its sole discretion, pursuant to which the UK Guarantors shall guarantee the obligations of the Borrower (the "UK Guaranty"). Borrower

shall cause such UK Guaranty to continue in full force and effect while any obligations remain outstanding.

Borrower:
HATHAWAY CORPORATION

By /s/ Richard D. Smith
Vice President

By /s/ Susan M. Chiarmonte
Secretary

Borrower:
HATHAWAY PROCESS INSTRUMENTATION
CORPORATION

By /s/ Richard D. Smith
Vice President

By /s/ Susan M. Chiarmonte
Secretary

Borrower:
HATHAWAY INDUSTRIAL AUTOMATION, INC.

By /s/ Richard D. Smith
Vice President

By /s/ Susan M. Chiarmonte
Secretary

Borrower:
EMOTEQ CORPORATION

By /s/ Richard D. Smith
Vice President

By /s/ Susan M. Chiarmonte
Secretary

Borrower:
HATHAWAY SYSTEMS CORPORATION

By /s/ Richard D. Smith
President

By /s/ Susan M. Chiarmonte
Secretary

Borrower:
HATHAWAY MOTION CONTROL CORPORATION

By /s/ Richard D. Smith
Vice President

By /s/ Susan M. Chiarmonte
Secretary

Borrower:
COMPUTER OPTICAL PRODUCTS, INC.

By /s/ Richard D. Smith
Vice President

By /s/ Susan M. Chiarmonte
Secretary

Borrower:
TATE INTEGRATED SYSTEMS, INC.

By /s/ Richard D. Smith
Vice President

By /s/ Susan M. Chiarmonte
Secretary

Silicon:
SILICON VALLEY BANK

By /s/ Chris Hill
Title Vice President

AMENDMENT NO. 1

TO THE

HATHAWAY CORPORATION

1989 INCENTIVE AND NON-QUALIFIED STOCK OPTION PLAN

THIS AMENDMENT is made this 13th day of August, 1998, by Hathaway Corporation, a Colorado corporation (the "Corporation").

WHEREAS, the Corporation entered into and executed the 1989 Incentive and Non-Qualified Stock Option Plan of Hathaway Corporation (the "Plan"); and

WHEREAS, Article 16 of the Plan provides that the Board of Directors of the Corporation "may amend or discontinue this Plan at any time..."; and

WHEREAS, the Corporation desires to amend the Plan.

NOW THEREFORE, the Corporation hereby amends the Plan as follows:

1. A new Section 13.4 hereby is added to the Plan to read in its entirety as follows:

13.4 ACCELERATION OF VESTING IN APPROVED TRANSACTIONS: In the event of any Approved Transaction, notwithstanding any contrary waiting period or vesting schedule in any stock option agreement, any outstanding option granted under the Plan and held, as of the date of such Approved Transaction, by an Optionee whose employment with the Corporation or a Subsidiary is affected in such Approved Transaction, shall become exercisable in full (100% vested) in respect of the aggregate number of shares covered thereby as of the date of the Approved Transaction. An Approved Transaction will include (a) the acquisition directly or indirectly by any Person (other than the Corporation, any Subsidiary, or any employee stock ownership plan or other employee benefit plan of the Corporation) during any period of 12 consecutive months of beneficial ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as in effect on the date of this Agreement) of voting stock of any Subsidiary representing in the aggregate more than 50% of the total voting power of all voting stock of the Subsidiary; (b) the sale, exchange or other disposition (other than by reason of the pledge or assignment of such assets as security for a loan) of all or substantially all of the assets of any Subsidiary or any division of the Corporation or a Subsidiary, if immediately after such transaction substantially all of such assets are not owned by the Corporation, any Subsidiary, or any employee stock ownership plan or other employee benefit plan of the Corporation. A "division" means any operating or business unit designated by the Corporation, in its discretion, as constituting a division of the Corporation or of a Subsidiary. An Optionee's employment with the Corporation or a Subsidiary is affected in an Approved Transaction if such employment is terminated by the Corporation or Subsidiary solely as a result of the Approved

HATHAWAY CORPORATION AMENDMENT NO. 1 TO THE 1989 INCENTIVE AND NON-QUALIFIED
STOCK OPTION PLAN

Transaction, if such employment is transferred to any employer other than the Corporation or a Subsidiary, or if the Optionee remains employed with a Subsidiary which is no longer a Subsidiary of the Corporation as a result of the Approved Transaction. The Corporation will determine whether any Optionee's employment is affected by any Approved Transaction.

2. Except as provided above, the Corporation hereby reaffirms and readopts each and every other provision of the Plan, to the extent not inconsistent with this amendment.

3. The effective date of this amendment shall be August 1, 1998, and shall apply to all currently outstanding stock option agreements and all future stock options granted under the Plan.

IN WITNESS WHEREOF, the officers of the Corporation, having been duly authorized by the Board of Directors of the Corporation, have signed this amendment as of the date first written above.

HATHAWAY CORPORATION

By: /s/ Richard D. Smith

President

ATTEST:

/s/ Susan M. Chiaromonte

Secretary

HATHAWAY CORPORATION
1991 INCENTIVE & NONSTATUTORY
STOCK OPTION PLAN
AS AMENDED

ARTICLE 1
Purpose

THIS 1991 INCENTIVE & NONSTATUTORY STOCK OPTION PLAN (the "Plan") is adopted this 19th day of September, 1991, and amended by First Amendment effective November 29, 1993, by Second Amendment effective October 24, 1996 and by Third Amendment effective August 1, 1998, by Hathaway Corporation (the "Company") in order that selected officers, directors, and certain employees of the Company and its present and future subsidiaries (as defined in Section 424(f) of the Code) who are responsible for the conduct and management of the Company's business or who are involved in endeavors significant to its success may be given an inducement to acquire a proprietary interest in the Company, to gain an added incentive to advance the interests of the Company, and to remain affiliated with the Company. Accordingly, the Company will offer to sell shares of Common Stock as provided in this Plan to such Qualified Individuals as are designated in accordance with the provisions of the Plan.

ARTICLE 2
Definitions

2.1 "Board" means the board of directors of the Company.

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

2.3 "Common Stock" means authorized but unissued shares or treasury shares, or any combination thereof, of Common Stock, without par value, of the Company.

2.4 "ERISA" means the Employee Retirement Income Security Act.

2.5 "Fair Market Value" of a share of Common Stock on any date shall be the average of the closing bid and asked price in the over-the-counter market, as reported by the National Associate of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") for the date in question, or such other system then in use. If no sale of the Common Stock shall have been made on that day, the determination of Fair Market Value shall be made as stated above on the next preceding day on which there was a sale of Common Stock or, if on any such date the shares of Common Stock are not quoted by any such organization, the average of the closing bid and asked price as furnished by a professional market maker making a market in the Common Stock selected by the Committee. In the event the Common Stock is not traded in the over-the-counter market or no market maker is making a market in the Common Stock, the Fair Market Value of a share of Common Stock on any date shall be determined in good faith by the Committee.

2.6 "Option Stock" or "Optioned Stock" means shares of Common Stock for which options to purchase have been granted under the Plan.

2.7 "Participant" means a Qualified Individual to whom a Stock Option is granted.

2.8 "Plan" means the Hathaway Corporation 1991 Incentive and Nonstatutory Stock Option Plan.

2.9 "Qualified Individual" means a director, officer, or employee of the Company whose judgement, initiative, and continued efforts are expected to contribute to the successful conduct of the business of the Company, as determined by the Committee.

2.10 "Stock Option" means the right granted under the Plan to a Participant to purchase, at such time or times and at such price or prices (the "Stock Option Price"), as determined by the Committee and as specified in his or her Stock Option Agreement, the number of shares of Common Stock specified in his or her Stock Option Agreement.

2.11 "1934 Act" means the Securities Exchange Act of 1934, as amended.

ARTICLE 3
Incentive Stock Options and Non-Statutory Stock Options

3.1 The Stock Options granted under the Plan may be either:

- a) Incentive Stock Options ("ISOs") which are intended to be "Incentive Stock Options," as that term is defined in Code Section 422; or
- b) Non-Statutory Stock Options ("NSOs") which are intended to be options that do not qualify as "Incentive Stock Options" under Code Section 422.

3.2 All Stock Options granted under this Plan shall be ISOs unless the agreement evidencing such Stock Options (the "Stock Option Agreement") designates the Stock Options granted thereunder, or a specified portion thereof, as NSOs. Subject to the other provisions of the Plan, a Participant may receive ISOs and NSOs at the same time, provided that the ISOs and NSOs are designated as such. Except as otherwise provided herein, all of the provisions and requirements of the Plan relating to Stock Options shall apply to ISOs and NSOs.

ARTICLE 4
Administration

4.1 Committee. The Plan shall be administered either by the Board or by

one or more committees of two or more persons appointed by the Board (any such committee the "Committee"). References to Committee shall mean any committee so appointed or, if none, the Board.

4.2 Authority of Committee. The Committee shall have full authority to

administer the Plan, including authority to interpret and construe any provision of the Plan and to adopt such rules and regulations for administering the Plan as it may deem necessary in order to comply with the requirement of the Plan, or in order to conform to any regulation or to any change in any law or regulation applicable thereto. In addition, the Committee is authorized to:

- a) direct the grant of Stock Options;
- b) determine which Qualified Individuals shall be granted Stock Options, when such grant shall be made, and the number of shares of Option Stock to be covered by such Stock Options;
- c) determine the Fair Market Value of the Option Stock covered by each Stock Option;
- d) determine the nature and amount of consideration for the Option Stock;

e) determine the manner and the times at which the Stock Options shall be exercisable, including the discretion to accelerate the time of the exercise of such Stock Options;

f) determine other conditions and limitation, if any, on each Stock Option granted under the Plan (which need not be identical);

g) prescribe the form or forms of the instruments evidencing the Stock Options and any restrictions imposed on the Option Stock and of any other instruments required under the Plan and to change such forms from time to time;

h) waive compliance (either generally or in any one or more particular instances) by a Participant with the requirements of any rule or regulation with respect to a Stock Option, subject to the Plan provisions or other applicable requirement;

i) waive any restrictions imposed with respect to the transferability of shares acquired by the exercise of Stock Options; and

j) decide all questions and settle all controversies and disputes which may arise in connection with the Plan.

4.3 Actions of Committee. All actions taken and all interpretations and determinations made by the Committee in good faith (including determinations of Fair Market Value) shall be final and binding upon all Participants, the Company, and all other interested persons.

4.4 Indemnification. In addition to any other rights of indemnification, the Company shall provide indemnification, either directly or indirectly through insurance policies or otherwise, for directors, Committee members, employees and former employees against liabilities and expenses they incur with respect to this Plan in connection with holding such positions, in each case to the fullest extent permitted by law. Whenever such a person seeks indemnification by the Company against any liability or expenses incurred in any threatened, pending or completed proceeding in which such person is a party because he or she holds or has held any such position, the Company shall proceed diligently and in good faith to make a determination, in a manner permitted by the Colorado Corporation Code, whether indemnification is permissible in the circumstances. If indemnification is determined to be permissible, the Company shall indemnify such persons to the fullest extent permissible, provided that any indemnification for expenses shall be limited to the amount found to be reasonable by an evaluation conducted in a manner permitted by the Colorado Corporation Code, and this authorization shall include reimbursement for reasonable expenses incurred in advance of final disposition of the proceeding. This Section shall not be interpreted to limit in any manner any indemnification the Company may be required to pay pursuant to the Colorado Corporation Code, any court order, or any contract, resolution or other commitment which is legally valid.

ARTICLE 5
Option Shares for Directors

5.1 Shares Available. No more than 30% of the shares of Stock for which Stock Options may be granted and which may be sold pursuant to Article 6 may be granted as Stock Options to non-employee directors of the Company and no non-employee director may be granted Stock Options to purchase more than 80,000 shares of Option Stock. The sum of (i) the aggregate number of shares sold to non-employee directors under the Plan and (ii) the aggregate number of shares subject to outstanding Stock Options granted to non-employee directors shall not exceed the limit on the number of shares specified for non-employee directors under this Article (after any adjustment pursuant to Article 8). All shares for which a Stock Option is granted under this Article and which for any reason are released from such Stock Option shall be available for the granting of further Stock Options under this Agreement to any Optionee, including non-employee directors.

5.2 Other Terms. Stock Options granted to directors under this Article 5

shall be exercisable in cumulative annual installments as follows: one-third of the Stock Options granted may be exercised on or after the first anniversary of the date of grant; an additional one-third of the Stock Options granted may be exercised on or after the second anniversary of the date of grant; and the final one-third of the Stock Options granted may be exercised on or after the third anniversary of the date of grant. In the case of any Stock Options granted under this Article or that were previously granted under this Article which are subsequently cancelled prior to their expiration and for which replacement Stock Options are granted in immediate substitution thereof, such replacement Stock Options will retain the same cumulative annual installment exercise schedule as the Stock Options which were so cancelled and replaced. To the extent unexercised, each Stock Option granted under this Article 5 shall expire seven (7) years from the date of grant, unless earlier terminated pursuant to this Plan. All of the remaining terms and conditions of this Plan, including, without limitation, its provisions respecting the date of grant, form of agreement, and manner of exercise, shall be fully applicable to the grant of Stock Options to directors. The provision of Article 6 relating to the number of shares subject to the grant of Stock Options under the Plan shall be qualified by this Article 5 in the case of directors. Despite their common provisions, the arrangements set forth in this Article for the granting of Stock Options to directors shall be regarded as separate and distinct from the arrangements set forth in other Articles for the granting of Stock Options to other Participants.

ARTICLE 6

Participation, Stock Option Price, and Stock Option Limitations

6.1 Stock Subject to Plan. Subject to Article 8, the number of shares

available for issued under the Plan shall not exceed 900,000 shares of Common Stock (including Options granted under Article 5). All shares for which a Stock Option is granted under this Plan, which for any reason are released from such Stock Option, shall be available for the granting of further Stock Options under this Plan. A total of 200,000 shares available for issue under the Plan are reserved for Stock Options which may be granted to key employees of any companies acquired after August 15, 1996 who are Qualified Individuals.

6.2 Participation. ISOs shall not be granted to non-employee Directors.

Qualified Individuals who have been granted Stock Options may, if otherwise eligible, be granted an additional Stock Option or Stock Options.

6.3 Stock Option Price. The Stock Option Price for an ISO shall be the

Fair Market Value of the Common Stock on the date the Stock Option is granted; provided, however, if, at the time an ISO is granted, the person to whom the

Option is granted owns more than 10% of the total combined voting power of all classes of stock of the Company, the Stock Option Price of such ISO may not be less than 110% of the Fair Market Value of the Stock Option. The Stock Option Price for NSOs shall be determined by the Committee, but in no event may the Stock Option Price be less than 85% of Fair Market Value of the Common Stock on the date of grant.

6.4 Grant of Stock Option. For all purposes, the date of grant of a

Stock Option under the Plan shall be the date on which the Committee makes the determination granting such Stock Option, or the date of shareholder approval of the Plan if later, and no grant shall be deemed effective prior to such date. Each Stock Option shall be evidenced by a written Stock Option Agreement containing such terms and provisions as the Committee may determine, subject to the provisions of this Plan.

6.5 Period of Grant. No Stock Option shall be granted under this Plan

after ten years from the date this Plan is adopted by the Board.

6.6 Other Limitations The Committee may impose such other limitations

upon the exercise of a Stock Option as the Committee shall deem appropriate, in its discretion, including but not limited to Stock Option vesting provisions, periods for exercise of Stock Options, limitations on transferability of Stock Options, and manner of exercise of Stock Options, and any such limitations shall be provided in the Stock Option Agreement for such Stock Option.

6.7 Maximum Option Value for ISO. In any calendar year, no Qualified

Individual may be granted ISOs for which the Fair Market Value (determined as of the time the ISO is granted) of the Stock with respect to which ISOs are

exercisable for the first time by the Qualified Individual (under all such plans of the Company) shall exceed \$100,000. This Section 6.7 shall be applied by taking ISOs into account in the order in which the ISOs were granted.

ARTICLE 7
Exercise of Stock Options

7.1 Time of Exercise. Stock Options granted under this Plan shall be

exercisable at the time prescribed in the Stock Option Agreement, as determined by the Committee, and may be exercised at any time from the date prescribed in the Stock Option Agreement until the expiration of ten (10) years from the date of the grant of such Stock Option, unless such Stock Option is terminated earlier, as provided in this Plan. Upon the expiration of ten years from the date of the grant of a Stock Option, any such unexercised Stock Option shall be deemed to have been forfeited, shall terminate and may not thereafter be exercised; provided, however, if at the time an ISO is granted, the Qualified

Individual to which the ISO is granted owns more than 10% of the total combined voting power of all classes of stock of the Company, the ISO may not be exercisable after the expiration of five (5) years from the date such ISO is granted.

7.2 Manner of Exercise. Each exercise of a Stock Option granted shall be

made as provided in the Stock Option Agreement.

7.3 Issuance of Stock. On the exercise date specified in the notice of

exercise as provided in the Stock Option Agreement, the Company shall deliver, or cause to be delivered to the Participant, stock certificates for the number of shares with respect to which the Stock Option is being exercised, providing that payment has been made therefor. Delivery of the shares may be made at the office of the Company or at the office of a transfer agent appointed for the transfer of shares of the Company, as the Company shall determine. Shares shall be registered in the name of the Participant or his or her legal representative, as the case may be. In the event of any failure to take and pay, on the dated stated, for the full number of shares specified in the notice of exercise, the Stock Option shall become inoperative only as to those shares which are taken, but shall continue with respect to any remaining shares subject to the Stock Option as to which exercise has not yet been made.

7.4 Payment for Stock. Common Stock subject to a Stock Option shall be

issued only upon receipt by the Company of full payment in consideration for such stock, as set forth in the Stock Option Agreement. The Committee, in its sole discretion, may permit a Participant to surrender to the Company shares of Common Stock previously acquired by the Participant as part or full payment for the exercise of a Stock Option. Such surrendered shares shall be valued at their Fair Market Value on the date of exercise. Notwithstanding the above, the Company shall not be obligated to deliver any Optioned Stock unless and until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, nor, in the event the Common Stock is at the time listed upon any stock exchange, unless and until the shares to be delivered have been listed or authorized to be added to the list upon official notice of issuance upon such exchange, nor unless or until all other legal matters in connection with the issuance and delivery of such Option Stock have been approved by the Company's counsel. Without limiting the generality of the foregoing, the Company may require from the Participant such investment representation or such agreement, if any, as counsel for the Company may consider necessary in order to comply with the Securities Act of 1933 and may require that the Participant agree that any sale of the Option Stock obtained by exercise of a Stock Option will be made only in such manner as is permitted by the Committee and that he or she will notify the Company when he or she makes any disposition of the Option Stock whether by sale, gift, or otherwise. The Company shall use its best efforts to effect any such compliance and listing and the Participant shall take any such action reasonably requested by the Company. A Participant shall have the rights of a shareholder only as to shares actually acquired by him under the Plan.

7.5 Termination of Employment Before Exercise. If a Participant's

employment with the Company (or, in the case of a director, the directorship of the Company) shall terminate for any reason other than the Participant's disability (as defined in Code Section 22(e)(3)) or death, any Stock Option then held by the Participant, to the extent then exercisable under the applicable Stock Option Agreement(s), shall be cancelled on the effective date of the Participant's termination of employment (or directorship). If a Participant's employment with the Company (or, in the case of a director, the directorship of the Company) shall terminate because of the disability (as defined in Code Section 22 (e)(3)) of the Participant, any Stock

Option then held by the Participant, to the extent then exercisable under the applicable Stock Option Agreement(s), shall remain exercisable for 3 months from the date of such termination of employment or directorship because of the Participant's disability. If a Participant's employment with the Company (or, in the case of a director, the directorship of the Company) shall terminate because of the death of the Participant any Stock Option then held by the Participant, to the extent then exercisable under the applicable Stock Option Agreement(s), shall remain exercisable for 6 months from the date of such termination of employment or directorship because of the Participant's death. Notwithstanding the above, no Stock Option may be exercised after the expiration of the Stock Option, as provided in the Stock Option Agreement.

7.6 Disposition of Forfeited Stock Options. Any shares of Common Stock

subject to Stock Options forfeited by a Participant shall not thereafter be eligible for purchase by the Participant but may be made subject to Stock Options granted to other Participants.

7.7 Bonuses. The Committee, in conjunction with any NSOs granted under

this Plan, but not including any option granted to a director, may grant a cash bonus to any Participant to pay in whole or in part for any portion of the exercise price or any tax liability incurred by his/her exercise of such NSO. In no event may any bonus exceed the difference between the Fair Market Value of the Stock (as determined using the procedures found in Section 2.5 of this Plan) and the exercise price. The amount of any bonus and the time of payment shall be determined in the sole discretion of the Committee and shall be included in any Stock Option Agreement in conjunction with which a bonus is to be granted.

ARTICLE 8
Capital Changes

8.1 Stock Changes. In the event of a change to the shares of Common

Stock by reason of recapitalization, stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure or otherwise, appropriate adjustments shall be made in:

- a) the number of shares of Common Stock theretofore made subject to Stock Options and in the purchase price of said shares; and
- b) the aggregate number of shares which may be made subject to Stock Options.

Such adjustment shall be made by the Committee, in its sole discretion. If any of the foregoing adjustments shall result in a fractional share, the fraction shall be disregarded, and the Company shall have no obligation to make any cash or other payment with respect to such a fractional share.

8.2 Acquisition Event. As used in Section 8.3, "Acquisition Event"

means:

- a) any merger or consolidation of the Company with one or more other corporations, whether or not the Company is the surviving corporation;
- b) any sale or other disposition of all or substantially all of the assets of the Company pursuant to a plan which provides for the liquidation of the Company;
- c) any exchange by the holders of more than 50% of the outstanding shares of Common Stock for securities issued by another entity, or in whole or in part for cash or other property, pursuant to a plan of exchange approved by the holders of a majority of such outstanding shares; or
- d) a change in the majority of members of the Board of Directors of the Company other than by voluntary resignation; or

e) any transaction to which Code Section 424(a) applies and to which the Company is a party.

8.3 Acceleration, Substitution or Cancellation Upon Acquisition.

a) In connection with any Acquisition Event and upon such terms and conditions as the Committee may establish, the Participant may be given the opportunity to make a final settlement for the entire unexercised portion of any Stock Option granted under this Plan, including any portion not then currently exercisable, in any one or more of the following manners:

1) Surrender such unexercised portion for cancellation in exchange for the payment in cash of an amount not less than the difference between the value per share of Common Stock as measured by the value to be received by the holders of the outstanding shares of Common Stock pursuant to the terms of the Acquisition Event, as determined by the Committee in its discretion and the price at which such Stock Option is or would become exercisable, multiplied by the number of shares represented by such unexercised portion.

2) Exercise such Stock Option, including any portion not then otherwise currently exercisable, prior to the Acquisition Event, so that the Participant would be entitled, with respect to shares thereby acquired, to participate in the Acquisition Event as a holder of Common Stock.

3) Surrender such Stock Option for cancellation in exchange for a substitute Stock Option, providing substantially equal benefits are granted or are to be granted by an employer corporation, or a parent or subsidiary of such an employer corporation, which corporation after the Acquisition Event, is expected to continue to conduct substantially the same business as that acquired from the Company pursuant to the Acquisition Event.

b) If the Participant is given one or more of such opportunities with respect to the entire unexercised portion of any Stock Option granted under this Plan, the Stock Option may be cancelled by the Company upon the occurrence of the Acquisition Event and thereafter the Participant will be entitled only to receive the appropriate benefit pursuant to clause (1), (2) or (3) above, whichever may be applicable.

c) The provisions of this Article are not intended to be exclusive of any other arrangements that the Committee might approve for settlement of all outstanding Stock Options in connection with an Acquisition Event or otherwise.

8.4 Post-Effective Rights. Upon the occurrence of a corporate merger,

consolidation, sale of all or substantially all of the Company's assets, change in the ownership of a majority of the outstanding shares of the Company, or a change in the majority of members of the Board of Directors of the Company, other than by voluntary resignation, or other reorganization, or a liquidation of the Company ("Change in Control"), each Participant who holds an unexercised option under this Plan regardless of whether his right to exercise has vested in whole, in part, or not at all on the date of such occurrence, shall be entitled to exercise his option in whole or in part at any time within sixty (60) days following such occurrence and to receive upon such exercise those shares, securities, assets or payments that he would have received had the option been exercised prior to such occurrence and had the Participant been a stockholder of the Company with respect to such shares. Notwithstanding any other provision of this Plan, any unexercised option under this Plan shall expire at 5:00 o'clock p.m., Denver time, on the sixtieth (60th) day following such Change in Control.

8.5 Acceleration of Vesting in Approved Transactions. In the event of any

Approved Transaction, notwithstanding any contrary waiting period or vesting schedule in any Stock Option Agreement, any outstanding Stock Option granted under the Plan and held, as of the date of such Approved Transaction, by a Participant whose employment with the Company or a subsidiary of the Company (as defined in Code Section 424(f) and hereafter referred to as a "Subsidiary") is affected in such Approved Transaction, shall become exercisable in full (100% vested) in respect of the aggregate number of shares covered thereby as of the date of the Approved Transaction. An Approved Transaction will include (a) the acquisition directly or indirectly by any Person (other than the Company, any Subsidiary, or any employee stock ownership plan or other employee

benefit plan of the Company) during any period of 12 consecutive months of beneficial ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as in effect on the date of this Agreement) of voting stock of any Subsidiary representing in the aggregate more than 50% of the total voting power of all voting stock of the Subsidiary; (b) the sale, exchange or other disposition (other than by reason of the pledge or assignment of such assets as security for a loan) of all or substantially all of the assets of any Subsidiary or any division of the Company or a Subsidiary, if immediately after such transaction substantially all of such assets are not owned by the Company, any Subsidiary, or any employee stock ownership plan or other employee benefit plan of the Company. A "division" means any operating or business unit designated by the Company, in its discretion, as constituting a division of the Company or of a Subsidiary. An Optionee's employment with the Company or a Subsidiary is affected in an Approved Transaction if such employment is terminated by the Company or Subsidiary solely as a result of the Approved Transaction, if such employment is transferred to any employer other than the Company or a Subsidiary, or if the Optionee remains employed with a Subsidiary which is no longer a Subsidiary of the Corporation as a result of the Approved Transaction. The Committee will determine whether any Optionee's employment is affected by any Approved Transaction.

ARTICLE 9
No Contract of Employment

Nothing in this Plan shall confer upon the Participant the right to continue in the employ of the Company, nor shall it interfere in any way with the right of the Company to discharge the Participant at any time for any reason whatsoever, with or without cause. Neither the existence of the Plan nor the grant of any Stock Option hereunder shall be taken into account in determining any damages to which a Qualified Individual may be entitled upon his or her termination of employment.

ARTICLE 10
No Rights as a Shareholder

A Participant shall have no rights as a shareholder with respect to any shares of Common Stock subject to Stock Options granted him under the Plan. Except as provided in Article 8, no adjustment shall be made in the number of shares of Common Stock issued to a Participant, or in any other rights of the Participant upon exercise of a Stock Option by reason of any dividend, distribution, or other right granted to shareholders for which the record date is prior to the date of exercise of the Participant's Stock Option.

ARTICLE 11
Transferability

No Stock Option, Option Stock, nor any other rights acquired by a Participant under this Plan, shall be assignable or transferable by a Participant, other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of ERISA, or the rules thereunder, and are exercisable, during his or her lifetime, only by the Participant. In the event of the Participant's death, the Stock Option may be exercised by the personal representative of the Participant's estate or, if no personal representative has been appointed, by the successor or successors in interest determined under the Participant's will or under the applicable laws of descent and distribution. Any such assignment, transfer, pledge, hypothecation or other disposition of any Stock Option contrary to the provisions of the Plan, and any levy of any attachment or similar process upon a Stock Option will be without effect, and the Committee may, in its discretion, upon the occurrence of such an event, terminate the Stock Option.

ARTICLE 12
Amendment

The Company may from time to time alter, amend, suspend, or discontinue the Plan, including, where applicable, any modifications or amendments as it shall deem advisable in order that ISOs will be classified as incentive stock options under the Code, or in order to conform to any regulation or to any change in any law or regulation applicable thereto: provided, however, that no such action

shall adversely affect the rights and obligations with respect to Stock Options at any time outstanding under the Plan; and provided further that no such action shall, without the approval of the shareholders of the Company:

- a) increase the maximum number of shares of Common Stock that may be made subject to Stock Options (unless necessary to effect the adjustments required by Article 8);
- b) extend the term of the Plan beyond the period provided in Section 6.5; or
- c) materially modify the requirements as to eligibility for participation in the Plan.

ARTICLE 13
Withholding Taxes

The Company may take such steps as it may deem necessary or appropriate for the withholding of any taxes which the Company is required by any law or regulation of any governmental authority, whether federal, state, or local, domestic or foreign, to withhold in connection with any Stock Option or Stock Appreciation Right, including, but not limited to, the withholding of issuance of shares of Common Stock to be issued upon the exercise of any Stock Option, until the Participant pays the Company the amount the Company is required to withhold with respect to such taxes, or cancelling any portion of such payment or issuance in any amount sufficient to pay the amount the Company is required to withhold.

ARTICLE 14
Effective Date

This Plan was adopted by the Board of Directors and became effective on September 19, 1991, and was approved by the Company's shareholders on October 24, 1991. The First Amendment was adopted by the Board of Directors on September 16, 1993 and was approved by the Company's shareholders on November 29, 1993, the Second Amendment was adopted by the Board of Directors and approved by the Company's shareholders on October 24, 1996 and the Third Amendment was adopted by the Board of Directors on August 13, 1998.

1,000

YEAR

JUN-30-1998

JUL-01-1997

JUN-30-1998

3,443

0

6,999

599

3,649

15,435

9,259

7,529

17,820

5,499

1,245

0

0

100

10,976

17,820

41,317

41,317

26,379

26,379

0

136

148

(2,161)

184

(1,977)

0

0

0

(1,977)

(0.46)

(0.46)

Presented gross