SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended June 30, 1996

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number

0-4041

HATHAWAY CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Colorado | 84-0518115 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| | |
|---|---|
| 8228 Park Meadows Drive<br>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)

Common Stock (No Par Value)
(Title of Class)

The check mark below indicates 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average bid and asked prices of such stock, as of August 29, 1996 was: $10,936,000.

The number of shares outstanding of the registrant's only class of common stock, as of August 29, 1996, was: 4,235,817.

Documents incorporated by reference:

Portions of the Registrant's definitive Proxy Statement dated September 19, 1996 are incorporated by reference in Part III of this Report. The Registrant's Fiscal Year 1996 Annual Report is incorporated by reference in Parts I and II of this Report.

Hathaway Corporation
Form 10-K
For the Year Ended June 30, 1996

Table of Contents

PART I

Item 1. Business.

INTRODUCTION

Hathaway Corporation (the Company) was organized under the laws of Colorado in 1962. At the end of fiscal year 1996 (ended June 30, 1996), the Company had two wholly-owned subsidiaries, Hathaway Systems Corporation (HSC) and subsidiaries and Computer Optical Products, Inc. As used herein, the "Company" refers to both the Company and its wholly-owned subsidiaries. The Company's executive offices are located at 8228 Park Meadows Drive, Littleton, Colorado 80124.

PRINCIPAL BUSINESSES

The Company is engaged in the business of designing, manufacturing and selling advanced electronic instrumentation products to the worldwide power and process industries, as well as motion control products to a broad spectrum of customers throughout the world.

Power and Process Instrumentation. Power monitoring and control systems are comprised of systems and instrumentation used to monitor and control the operations of power generating, transmission and distribution facilities of electric utility and process control companies, to provide the means to remotely monitor and control power utility substations, and to test circuit breakers and calibrate instruments used by electric utility and process control companies.

HSC operates three product divisions - Hathaway Systems (located in Denver, Colorado), Hathaway Automation Technology (located in Seattle, Washington), and Hathaway Process Instrumentation (located in Dallas, Texas). HSC also operates three subsidiaries - Hathaway, Inc. (located in Toronto, Canada), Hathaway Systems Limited (HSL) and Hathaway Instruments Limited (HIL). Both HSL and HIL are located in the United Kingdom. The subsidiaries and divisions of HSC are engaged in the development, manufacturing and marketing of power monitoring and control systems and process instrumentation.

The power instrumentation products group manufactures fault and disturbance monitoring and circuit breaker testing systems which provide a graphic waveform record of the performance of electric power systems during periods of recovery from faults and disturbances. These fault recording systems are sold primarily to electric utility companies who use the data obtained to assure the proper operation and reliability of the power system. The group also manufactures Remote Terminal Units (RTUs) for Supervisory Control and Data Acquisition (SCADA) systems and Energy Management Systems (EMS). RTUs are located in power substations or on utility poles and electronically report power system measurements and status to a central computer system. The primary mission of these systems is to present the state of the power system to power dispatch personnel, and to allow them to remotely effect changes in its configuration or operation to maintain efficient and continuous delivery of power.

Effective June 30, 1996 the net assets and substantially all operations of HIL were transferred to HSL. Since September, 1992 HIL, located in Hoddesdon, England, had been responsible for the design, manufacture and sale of fault location instruments to power utility companies located throughout the world. In connection with the asset transfer, substantially all operations of HIL will be combined with the operations of HSL. The consolidation of the operations of HSL and HIL is aimed at reducing costs and enhancing productivity and efficiency.

To further increase productivity and efficiency and gain additional cost savings, the Company decided in the first quarter of 1997 to consolidate its U.S. power products manufacturing operations located in Denver and Seattle into one manufacturing facility located in Seattle. The consolidation of the U.S. power manufacturing operations will take place in the second quarter of fiscal 1997.

The process instrumentation products group manufactures and markets monitoring systems which provide either visual annunciation and/or printed messages whenever a monitored "point" changes from an existing state. These systems are called visual annunciators and sequential event recorders (SER's). Visual annunciators and SER's are sold to electric utility companies and the process industry in general. Visual annunciators provide both visual and audible alert signals whenever a process variable goes into an alarm state. SER's provide a printed message whenever a monitored "point" changes state.

The group also manufactures and sells combined annunciator/SER systems with distributed architecture (which significantly reduces installation costs) for power plant applications and is engaged in the design, manufacture and sale of power transducers which are sold to the process and power utility industries, as well as calibrators and signal conditioning products which are sold to the process industry.

In order to gain cost savings and efficiencies, as of June 30, 1996 the Company had decided to combine the operations of Hathaway, Inc and Hathaway Process Instrumentation. Accordingly, all operations of Hathaway, Inc. will be moved to Dallas, Texas in fiscal 1997.

The Company 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. The Company's joint venture interests in Kehui and Si Fang were acquired in fiscal 1994. The Company's joint venture interest in HPMS was acquired in the first quarter of fiscal 1996 upon approval of the joint venture by the Chinese government. 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. HPMS will design, manufacture and sell, under a license from the Company, instrumentation products designed by the Company, to electric power companies in China.

Motion Control Instrumentation. The Company's motion control products include direct current (brush and brushless) motors, optical encoders, servo amplifiers and fiber optic encoders which suit a wide range of applications in the industrial, medical, military and aerospace sectors. The products are also used by manufacturers of analytical instruments and computer peripherals.

The Company's motion control business is organized into two divisions and one subsidiary: Hathaway Motion Control Division, Hathaway Motors and Instruments Division and Computer Optical Products, Inc., respectively.

The Hathaway Motion Control Division provides brushless direct current motors, servo amplifiers and related system components to industrial, medical, automotive and military/aerospace markets in a diverse range of applications.

The Hathaway Motors and Instruments Division in Tulsa, Oklahoma, manufactures precision direct-current fractional horsepower motors with .8" to 4.0" diameters 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.

Optical encoders are manufactured by Computer Optical Products, Inc., in Chatsworth, California. An optical encoder determines the speed of various mechanical parts within computer printers and plotters and analytical instruments. In plotters, the encoder is used to control the position of the x and y axis pins. The primary markets for the optical encoders are industrial, medical and computer peripheral manufacturers.

In order to optimize the profitability of the motor/encoder assemblies, the Company also manufactures encoder-compatible precision direct-current fractional horsepower motors from in its Computer Optical Products, Inc. facility. The 1" to 4" diameter motors are sold separately or are combined with optical encoders for sale as an assembly. The primary markets are computer peripheral manufacturers, instrumentation and industrial equipment manufacturers and military applications.

The Fiberoptics Division of Computer Optical Products designs, manufactures and markets fiber optic-based encoders with characteristics suited for industrial, aerospace and military environments. Fiber optical encoders are immune to radio frequency interference and electromagnetic pulses and will tolerate temperatures to 300(degree)C. Applications include airborne navigational systems, anti-lock braking transducers, missile flight surface controls and high temperature process control equipment.

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.

SEASONALITY OF THE BUSINESS

The Company's business is not of a seasonal nature.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company considers all of its operations to be in one industry segment - electronic instrumentation.

PRODUCT DISTRIBUTION AND OTHER INFORMATION

Product Distribution and Principal Markets. 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.

Historically, the principal market for the Company's products has been the power and process industries. Since fiscal year 1991, however, with the acquisition of subsidiaries, development of new products and the expansion of existing products to other industrial applications, the Company has penetrated a variety of markets. 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. The Company believes it is the world's leading manufacturer of electric power fault recording equipment, with approximately 30% of the world market in the last fiscal year. 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.

Two significant changes in the power industry have recently had an impact on the domestic and European power instrumentation markets. In October of 1992, the Energy Policy Act of 1992 became law in the United States and is causing increased competition among the domestic electric utility companies. The Act requires power companies to transmit competitors' power across their own power networks and allows them to compete with each other for sales to major customers across the United States. In March of 1990, the government owned utility company in the United Kingdom was privatized in order to increase competition throughout the United Kingdom power industry (a major foreign market of the Company). The Energy Policy Act in the United States and privatization in the United Kingdom has led to downsizing and cost reductions by most utility companies and, accordingly, a reduction in demand for power instrumentation products. It is uncertain how long this trend will continue, but the Company believes that utilities will have to increase purchases of instrumentation that protect and monitor their systems in order to maintain the high quality of power provided to the consumer. The Company is developing new technology that will allow power companies to automate their systems, which will both reduce the cost of operation and improve the reliability of the power supply.

Government Sales from Continuing Operations. Approximately $63,000 of the Company's backlog from continuing operations as of June 30, 1996 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.

Sales to Large Customers. During fiscal 1996, no single customer accounted for more than 10% of the Company's consolidated revenue from continuing operations.

Export Sales from Continuing Domestic Operations and Foreign Operations. The information required by this item is set forth in pages 13 and 17 of the Company's 1996 Annual Report and is incorporated herein by reference.

Sales Backlog. The backlog of the Company's continuing operations at June 30, 1996 consisted of sales orders totaling approximately $10,094,000. The Company expects to ship goods filling $9,982,000 of those purchase orders within fiscal 1997. This compares to a backlog from continuing operations of $8,878,000 at June 30, 1995, of which $8,314,000 was scheduled for shipment is fiscal 1996.

The Company's expenditures on engineering and development for continuing operations were $3,722,000 in fiscal 1996, $3,616,000 in fiscal 1995 and $4,111,000 in fiscal 1994. Of these expenditures, no material amounts were charged directly to customers.

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.

No 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.

As of the end of fiscal 1996, the Company had approximately 382 full-time employees.

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.

Executive Officers. The Executive Officers of the Company are:

Mr. Eugene E. Prince, 64, has been President of the Company since October 1975, was appointed Chief Executive Officer in September 1976, and was appointed Chairman of the Board of Directors in January 1981.

Mr. Richard D. Smith, 49, has been the Company's Treasurer and Chief Financial Officer since June 1983. From June 1983 until March 1986, Mr. Smith was the Company's Secretary, and from March 1986 to January 1990 he was the Company's Assistant Secretary. Since January 1990, Mr. Smith has resumed the responsibilities of Secretary. Mr. Smith also served as the Company's Vice President of Finance from June 1983 until August 1993. In August 1993, Mr. Smith was made an Executive Vice President of the Company. In August 1996, Mr. Smith became a Director of the Company.

Each of the above officers is elected for a term of one year.

Item 2. Properties.

The Company's corporate administration offices, the corporate office of HSC and the principal office and main plant facility of the Hathaway Systems Division of HSC is located at 8228 Park Meadows Drive, Littleton, Colorado, and contains 31,152 square feet. The lease expires in October 1996 and has an option to renew for an additional five-year term.

The Hathaway Automation Technology Division of HSC leases 16,155 square feet of office and manufacturing facility at 7661 South 180th Street, Kent, Washington. The four-year lease term commenced July 1, 1995 and expires June 30, 1999.

The Process Instrumentation Division leases 28,585 square feet of office and manufacturing space at 1840 Hutton Drive, Carrollton, Texas. This lease expires on February 28, 1999.

Hathaway, Inc. leases 16,189 square feet of office and manufacturing/warehouse space located at 370 Tapscott Road, Scarborough, Ontario, Canada. The lease expires on January 31, 1997.

Hathaway Systems Limited has leased 17,300 square feet of administration, sales, engineering and manufacturing space at Wildflower Way/Apollo Road in Belfast for a 20-year term which expires in 2012.

During fiscal 1993, HIL took over Hathaway Systems Limited's office lease on Brewery Road in Hoddesdon, Hertfordshire, England. This lease for 2,800 square feet expires in 2007. Although substantially all operations of HIL were moved to Belfast as of June 30, 1996, this facility will be maintained as a branch sales office.

The Motors and Instruments Division has a lease for approximately 7,650 square feet of office and manufacturing space located at 10816 East Newton Street, Tulsa, Oklahoma. The current lease term expires December 31, 1996. Management believes this lease can be renewed on terms and conditions similar to the current lease.

The Motion Control Division leases 12,555 square feet of office and manufacturing space located at 10002-B East 43rd Street South, Tulsa, Oklahoma. The two-year lease term commenced August 1, 1995 and expires July 31, 1997, with an option to renew on similar terms for three more years.

Computer Optical Products, Inc. leases one facility in Chatsworth, California. In May 1994, the subsidiary entered into a three-year lease commencing June 1, 1994 with two one-year renewal options. The 10,560 square feet at 9305/09 Eton Avenue houses Computer Optical Products, including the Fiberoptics Division.

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, except as noted.

Item 3. Legal Proceedings.

The Company has been named as a defendant in certain actions that have arisen out of the ordinary course of business. Management, based upon the advice of the Company's legal counsel, believes the actions are without merit and will not have a significant adverse effect on the Company's consolidated financial position.

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

No matter was submitted to a vote of the security holders of the Company during the fourth quarter of fiscal 1996.

PART II

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

Hathaway Corporation's common stock is traded on the National Association of Securities Dealers Automated Quotation System (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 29, 1996 was 732.

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.

| | Dividends Per Share | Price Range High | Price Range Low |
|---|---|---|---|
| FISCAL 1995 | | | |
| First Quarter | $0.12 | $4.13 | $3.13 |
| Second Quarter | --- | 3.88 | 2.75 |
| Third Quarter | --- | 3.13 | 2.25 |
| Fourth Quarter | --- | 3.13 | 2.38 |
| FISCAL 1996 | | | |
| First Quarter | $0.10 | $3.13 | $2.50 |
| Second Quarter | --- | 2.88 | 1.88 |
| Third Quarter | --- | 2.56 | 1.81 |
| Fourth Quarter | --- | 4.00 | 1.69 |

The Bid and Asked quotations as published by NASDAQ reflect interdealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Item 6. Selected Financial Data.

The following table summarizes data from the Company's annual financial statements for the years 1992 through 1996 and notes thereto; the Company's complete annual financial statements and notes thereto for the current fiscal year appear in the 1996 Annual Report. See Item 1 in the Business section of this report and Notes 2 and 3 to Consolidated Financial Statements in the 1996 Annual Report for discussion of acquisitions and dispositions of business operations.

| For the fiscal years ended | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | | |
| Net income (loss) from continuing operations | $(1,013) | $ 842 | $ 955 | $ 23 | $ 2,064 |
| Net income (loss) from operations of divested segment and divested operation | --- | --- | 885 | 958 | (323) |
| Gain on sale of segment | --- | --- | 4,023 | --- | --- |
| Net income (loss) | (1,013) | 842 | 5,863 | 981 | 1,741 |
| Net revenues from continuing operations | 35,411 | 39,838 | 43,028 | 45,741 | 42,806 |
| Fully diluted earnings (loss) per share: | | | | | |
| Continuing operations | (0.24) | 0.19 | 0.19 | --- | 0.45 |
| Operations of divested segment and divested operation | --- | --- | 0.18 | 0.21 | (0.07) |
| Sale of segment | --- | --- | 0.81 | --- | --- |
| Net income (loss) | (0.24) | 0.19 | 1.18 | 0.21 | 0.38 |
| Cash dividends: | | | | | |
| Per share | 0.10 | 0.12 | 0.205 | --- | --- |
| Total amount paid | 426 | 536 | 992 | --- | --- |
| Total assets at June 30 | 21,139 | 23,312 | 24,432 | 28,326 | 27,763 |
| Total long-term debt at June 30 | 1,777 | 2,144 | 2,298 | 5,819 | 6,953 |

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

The information required by this item is set forth in pages 4 through 6 of the Company's 1996 Annual Report and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The information required by this item is included in pages 7 through 20 of the Company's 1996 Annual Report and is incorporated herein by reference.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Hathaway Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Hathaway Corporation's 1996 Annual Report incorporated by reference in this Form 10-K, and have issued our report thereon dated July 31, 1996. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The supplemental Schedule II is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Denver, Colorado,
July 31, 1996.

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 Officers" (page 3) and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" (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 8) 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, 1995, 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.

I. FINANCIAL STATEMENTS. The information required by this item and detailed below is included in the 1996 Annual Report (pages 7 through 20) and is incorporated herein by reference.

Consolidated Balance Sheets as of June 30, 1996 and June 30, 1995.

Consolidated Statements of Operations for each of the years in the three-year period ended June 30, 1996.

Consolidated Statements of Cash Flows for each of the years in the three-year period ended June 30, 1996.

Consolidated Statements of Stockholders' Investment for each of the years in the three-year period ended June 30, 1996.

Notes to Consolidated Financial Statements.

Report of Independent Public Accountants.

## II. FINANCIAL STATEMENT SCHEDULES

The following financial statement schedule is included in this report:

| Schedule | Subject |
|---|---|
| II | Valuation and Qualifying Accounts |

Financial statement schedules, other than those listed above, are omitted because they are either not applicable or not required, or because the information sought is included in the Consolidated Financial Statements or the Notes thereto within the 1996 Annual Report.

## III. EXHIBITS

Exhibit Index, regarding exhibits filed in accordance with Item 601, is at Page 10, hereof.

## IV. REPORTS ON FORM 8-K.

The registrant did not file any reports on Form 8-K during the fourth quarter of fiscal year 1996.

EXHIBIT INDEX

| 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 | Amendment No. 1 to Warrant to Purchase Common Stock of Hathaway Corporation granted to Household Commercial Financial Services, Inc., dated as of June 15, 1987. Incorporated by reference to Exhibit 10c(iii) to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989. | * |
| 10.2 | Amendment No. 1 to Warrant to Purchase Common Stock of Hathaway Corporation granted to Ford Motor Credit Company, dated as of June 15, 1987. Incorporated by reference to Exhibit 10c(iv) to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989. | * |
| 10.3 | Severance Agreement dated June 15, 1989 between Hathaway Corporation and Eugene E. Prince. Incorporated by reference to Exhibit 10n(i) to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989. | * |
| 10.4 | 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. | * |
| 10.5 | Lease Agreement between Circuits and Systems Design Limited and Department of Economic Development (Northern Ireland) dated April 7, 1992. Incorporated by reference to Exhibit 10(iii)D to the Company's 1992 Annual Report and Form 10-K for the fiscal year ended June 30, 1992. | * |
| 10.6 | The Hathaway Corporation Amended 1980 Non-Incentive Stock Option Plan. Incorporated by reference to the Company's Form S-8 filed August 3, 1981. | * |
| 10.7 | 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. | * |
| 10.8 | 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. | * |
| 10.9 | The 1989 Incentive and Non-Qualified Stock Option Plan dated August 10, 1989. Incorporated by reference to the Company's Form S-8 filed October 25, 1990. | * |
| 10.10 | The 1991 Incentive and Non-Statutory Stock Option Plan dated September 19, 1991. Incorporated by reference to the Company's Form S-8 filed January 8, 1992. | * |
| 10.11 | 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. | * |

| Exhibit No. | Subject | |
| --- | --- | --- |
| 10.12 | Employment Agreement between Hathaway Corporation and Eugene E. Prince, dated July 1, 1993. Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended June 30, 1994. | * |
| 10.13 | 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. | * |
| 10.14 | Loan and Security Agreement dated August 2, 1993 between Hathaway Corporation, certain subsidiaries of Hathaway Corporation and Marine Midland Business Loans, Inc. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended June 30, 1993. | * |
| 10.15 | Loan Facility Agreement dated August 2, 1993 between CSD Hathaway Limited and Forward Trust Limited. Incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the fiscal year ended June 30, 1993. | * |
| 10.16 | Reimbursement Agreement dated August 2, 1993 between CSD Hathaway Limited and Marine Midland Business Loans, Inc. Incorporated by reference to Exhibit 10.20 to the Company's Form 10-K for the fiscal year ended June 30, 1993. | * |
| 10.17 | Promissory Note from Richard D. Smith to Hathaway Corporation, dated October 26, 1993. Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the fiscal year ended June 30, 1994. | * |
| 10.18 | 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. | * |
| 10.19 | Assignment and Assumption of Lease Agreement, Letter Agreement, Collateral Assignment and Amendment to Lease Agreement between Trammel Crow Company No. 91, Petula Associates, Ltd., Symantec Corporation and Hathaway Systems Corporation-Beta Products Division, dated June 1, 1994. Incorporated by reference to Exhibit 10.27 to the Company's Form 10-K for the fiscal year ended June 30, 1994. | * |
| 10.20 | 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. | * |
| 10.21 | 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. | * |
| 10.22 | 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. | * |

| Exhibit No. | Subject | Page |
| --- | --- | --- |
| 10.23 | 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. | * |
| 10.24 | Management Incentive Bonus Plan for the fiscal year ending June 30, 1997. | |
| 13 | 1996 Annual Report. | |
| 21 | List of Subsidiaries. | 12 |
| 22 | Definitive Proxy Statement, dated September 19, 1996 for the Registrant's 1996 Annual Meeting of Shareholders. | * |
| 23 | Consent of ARTHUR ANDERSEN LLP. | 13 |
| 27 | Financial Data Schedule | |

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

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SUBSIDIARIES OF HATHAWAY CORPORATION

1) Hathaway Systems Corporation, a Colorado corporation.

2) Computer Optical Products, Inc., a Colorado corporation.

3) Hathaway, Inc., a Canadian corporation.

4) Hathaway Systems Limited, a Northern Ireland corporation.

5) Hathaway Instruments Limited, a United Kingdom corporation.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated July 31, 1996 incorporated by reference 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 Statement on Form S-8 (No. 3344997) of the 1991 Incentive and Non-Statutory Stock Option Plan of Hathaway Corporation dated January 8, 1992.

ARTHUR ANDERSEN LLP

Denver, Colorado,
September 19, 1996.

## 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/ Eugene E. Prince
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Eugene E. Prince
President, Chief Executive Officer and Chairman of the Board of Directors

Date: September 19, 1996

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/ Eugene E. Prince<br>Eugene E. Prince | President, Chief Executive Officer, and Chairman of the Board of Directors | September 19, 1996 |
| /s/ Richard D. Smith<br>Richard D. Smith | Executive Vice President, Treasurer, Secretary, Chief Financial Officer (Chief Accounting Officer) and Director | September 19, 1996 |
| /s/ George J. Pilmanis<br>George J. Pilmanis | Director | September 19, 1996 |
| /s/ Marvin J. Fein<br>Marvin J. Fein | Director | September 19, 1996 |
| /s/ Chester H. Clarridge<br>Chester H. Clarridge | Director | September 19, 1996 |
| /s/ Graydon D. Hubbard<br>Graydon D. Hubbard | Director | September 19, 1996 |

HATHAWAY CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

| | Balance at Beginning of Period | Charged to Costs and Expenses | Deductions from Reserves` | Balance at End of Period |
|---|---|---|---|---|
| Year Ended June 30, 1996: | | | | |
| Reserve for bad debts .................. | $ 305,000 | $ 87,000 | $71,000 | $ 321,000 |
| Year Ended June 30, 1995: | | | | |
| Reserve for bad debts .................. | 394,000 | 46,000 | 135,000 | 305,000 |
| Year Ended June 30, 1994; | | | | |
| Reserve for bad debts .................. | 463,000 | 158,000 | 227,000 | 394,000 |

Exhibit 10.24

# HATHAWAY CORPORATION

## Management Incentive Bonus Plan for the Fiscal Year Ending June 30, 1997

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OBJECTIVE:

The objective of this Incentive Compensation Plan (the "Plan") is to provide an incentive to certain Executives of Hathaway Corporation (the "Company") to increase profits to the Company by offering these individuals an opportunity to participate in a fund which is to be established by the Company from a portion of its operating profits and/or is cash flow. A fund will be established for each group, division and/or subsidiary based on its forecasted profitability for 1997 and its past fiscal year's financial results, with certain executives of each division participating in their respective funds.

ELIGIBILITY:

Executives eligible for participation are officers or executive level employees as the President may select and the Board of Directors of the Company (the "Board") shall approve. Eligibility shall not confer any vested rights, however, it being understood that being an eligible executive shall mean only that such executive may potentially receive an award pursuant to the Board's final determination referred to below. It is the intention of the Board that such individuals be designated and approved as early in the fiscal year as possible.

TERM:

This Plan shall be effective for the fiscal year ending June 30, 1997, unless modified by the Board,

ADMINISTRATION OF THE PLAN:

The Plan will be administered by the President, under the direction of the Board, which will retain the option to modify the Plan from time-to-time, retroactively, as well as prospectively, and whose decision shall be final and binding on all parties.

ESTABLISHMENT OF THE FUNDS

For the purpose of making incentive payments, separate funds (the "Funds") will be established for each group, division and/or subsidiary, in accordance with the attached schedules. The Funds will be established out of a portion of each group, division, and/or subsidiary's Adjusted Plan Income, as hereinafter defined.

> Adjusted Plan Income is income for each group, division, and/or subsidiary for the fiscal year ending June 30, 1997, before; (1) provision for federal and state income taxes, (2) minority interest in net income of subsidiaries, (3) extraordinary credits or losses, (4) provisions for the Employee's Stock Ownership Plan and Trust and Cash Bonus Plan, (5) provision for amounts set aside for the Funds and (6) such other amounts as the Board determines to provide management incentives to

accomplish the goals and objectives of the Company. The Adjusted Plan Income for each group, division, and/or subsidiary shall include all intercompany charges and credits, including interest charged for intercompany loans and/or the corporate asses charge, as defined by the President.

ADDING OR DELETING PARTICIPANTS DURING THE PLAN YEAR:

An individual designated to participate in the Plan who leaves the employ of the Company prior to the date of distribution shall not be entitled to participate in the Fund. However, the portion of the Fund that would otherwise have been allocated to such employee shall revert back to the Company and shall not be reallocated to the remaining participants. The intent is that the remaining employees will not benefit from or be detrimentally affected by the termination of other employees, and the amount of the Fund that would otherwise be distributed to the remaining employees shall remain the same.

An individual hired during the Plan Year that replaces an executive designated to participate in the Plan, or who is a new addition (not replacing a designated participant), and who is employed for a minimum of 90 days prior to June 30, 1997, will be entitled to participate in the respective Fund for the pro-rata portion of the year that such new employee is employed by the Company.

If an individual is a replacement of a participating employee who terminates, then the portion of the Fund, or a part thereof, that would have otherwise been allocated to the terminated employee and which reverted back to the Company shall be reallocated to the replacement employee. The amount that will be distributed to the replacement employee on the date of distribution will be the lesser of; (A) the amount which reverted back to the Company that would have been allocated to the terminated employee had such employee stayed the full plan year or, (B) the amount computed by multiplying the amount of the Fund times the ratio of the replacement employee's actual salary earned during the 12 months ending June 30, 1997 multiplied times the individual's salary multiple, to the total annual salaries of all participants on August 16, 1996 (excluding the replacement employee's salary), including the employee whose employment terminated, multiplied by each employee's salary multiple.

If the individual is a new addition, then a portion of the Fund that would have otherwise been allocated to all other participants will be allocated to the new employee. The amount that will be distributed to each eligible participant on the date of distribution will be computed by multiplying the amount of the Fund times the ratio of the participant's salary multiplied times his/her salary multiple to the total of the salaries of all participants, including the new employee, multiplied times each employee's salary multiple. The salaries of the participants used to determine the numerator and denominator of such ratio shall be determined by multiplying the monthly salary being paid on August 16, 1996 times the number of months the individual was employed during the fiscal year ending June 30, 1997, multiplied times their salary multiple.

DISTRIBUTION OF THE FUND

Following the close of the fiscal year ending June 30, 1997, the President will present to the Board his determination of the amount to be set aside for the Fund and his recommendations regarding awards to be made to eligible executives. The amount will have been audited and confirmed to be in agreement with the Plan by the Company's independent auditors. For distributions of the group, division, and/or subsidiary, Funds that are based on the salaries of the participants, the salaries that are to be used in calculating such distribution shall be the current rate of salary being paid on August 16, 1996, multiplied times their salary multiples.

At the first meeting of the Board of Directors, following completion of the audit for the fiscal year ending June 30, 1997, by the Company's independent auditors, the Board of Directors will consider the recommendations of the President and make a final determination as to the awards to be made to eligible executives. The Board's determination may vary from the President's recommendations and may make total awards of more or less than the amount to be set aside as set forth above. The Board may also choose to make no awards. The payment will be made to the participants immediately following the Board Meeting.

[LETTERHEAD OF HATHAWAY APPEARS HERE]

1996
ANNUAL
REPORT

================================================================================
## CORPORATE PROFILE

Headquartered in Denver, Colorado, Hathaway designs, manufactures and sells advanced electronic instrumentation and systems to the worldwide power and process industries, as well as motion control products to a broad spectrum of customers throughout the world. With subsidiaries in the United States, United Kingdom and Canada and joint venture investments in China, Hathaway is the world's leading manufacturer of electronic power fault recording equipment and a leader in process calibration technology and motion control products.

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This Annual Report is presented in a cost-effective manner which exemplifies Hathaway's commitment to reduce spending without compromising the information which shareholders need to assess the state of the Company. We have also departed from our practice of mailing quarterly reports to shareholders, but the Company's Form 10-Q, filed quarterly with the Securities and Exchange Commission, is available upon request or by accessing the filing through the SEC's EDGAR system on the Internet's World Wide Web.

## FINANCIAL HIGHLIGHTS

| In thousands, except per share data | For the years ended June 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| REVENUES FROM CONTINUING OPERATIONS | $35,411 | $39,838 | $43,028 |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | (1,013) | 842 | 955 |
| NET INCOME FROM OPERATIONS OF DIVESTED SEGMENT | -- | -- | 885 |
| GAIN ON SALE OF SEGMENT | -- | -- | 4,023 |
| NET INCOME (LOSS) | $(1,013) | $ 842 | $ 5,863 |
| FULLY DILUTED EARNINGS (LOSS) PER SHARE: | | | |
| Continuing operations | $ (0.24) | $ 0.19 | $ 0.19 |
| Operations of divested segment | -- | -- | 0.18 |
| Gain on sale of segment | -- | -- | 0.81 |
| Net income (loss) | $ (0.24) | $ 0.19 | $ 1.18 |
| CASH DIVIDENDS PER SHARE: | | | |
| Annual dividend | $ 0.10 | $ 0.12 | $ 0.105 |
| Special dividend | -- | -- | 0.100 |
| Total dividends | $ 0.10 | $ 0.12 | $ 0.205 |
| TOTAL DIVIDENDS PAID | $ 426 | $ 536 | $ 992 |

| In thousands, except per share data | As of June 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES | $ 5,438 | $ 7,132 | $ 8,818 |
| TOTAL ASSETS | $21,139 | $23,312 | $24,432 |
| TOTAL DEBT | $ 1,777 | $ 2,144 | $ 2,298 |
| STOCKHOLDERS' INVESTMENT | $14,282 | $15,873 | $16,610 |
| NET BOOK VALUE PER COMMON SHARE OUTSTANDING | $3.36 | $3.72 | $3.60 |
| TOTAL SHARES ISSUED AND OUTSTANDING | 4,249 | 4,266 | 4,615 |

Dear Fellow Stockholders:

What a year!? We ended a very challenging fiscal 1996 with a $1,013,000 loss. Despite this, our stock price increased by 43% over a year ago. These seemingly conflicting facts are an indication of the constantly changing business environment that the Company currently faces.

## STOCK PERFORMANCE

The Company's stock generated a lot of investor interest in May through July of 1996, as evidenced by significant increases in the stock trading volume on NASDAQ and in the stock price. On June 30, 1996, the closing bid price on the Company's stock was $3.75, compared to $2.63 on June 30, 1995. The increase in the stock price was primarily due to a new investor purchasing Hathaway stock during this time. The investor indicated that he purchased the stock because it met his investment criteria of a company operating in a temporarily depressed industry, with a strong balance sheet and a low stock price.

## POWER INDUSTRY IN TURMOIL

Deregulation, competition, mergers, reorganization, reengineering, downsizings and power failures describe the trends in the power industry today. In its efforts to prepare for impending competition, the industry has implemented numerous cost reduction initiatives. One of those initiatives has been a significant reduction in the purchase of electronic instrumentation, particularly for transmission systems. "While indecision about the outcome of competition reigns, utilities' investment in transmission gear has nearly dried up," a recent Business Week article stated. The effect on Hathaway has been severe - sales of the Company's power instrumentation products decreased 31% in 1996 from the prior year, much more of a decrease than we had anticipated.

In 1996 the industry was also plagued by numerous and far-reaching power outages. This fact has led many experts to question whether the power outages and the industry's cost-cutting efforts are in any way related. What is not being questioned, however, is the fact that utilities need major investments in technology to provide accurate, up-to-date information, improve the reliability of the power supply and prevent major power failures in the future.

We are positioning Hathaway to provide utilities with solutions to the problems brought on by deregulation. We have focused on developing technology that will allow power companies to automate their systems, which will both reduce the cost of operation and improve the reliability of the power supply. In order to sustain the ongoing full-scale engineering and development efforts, we have not reduced spending in this area.

Because we serve a global marketplace, Hathaway's product development effort now represents a collaboration of the best talent from all divisions within the power instrumentation products group. We have also continued to downsize and reorganize our power group to cut costs as well as to better align the interests of all the divisions within the power group, consolidate operations, and improve efficiency.

## RESTRUCTURING

We have put in place several initiatives aimed at reducing costs and enhancing productivity and efficiency. In the fourth quarter of fiscal 1996, the Company recorded a $338,000 pretax charge to reorganize its Canadian and U.K. operations. Effective June 30, 1996 the net assets 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. The Company has also decided to close its Toronto, Canada facility and to combine substantially all of its operations with the operations of our Hathaway Process Instrumentation division in Dallas.

We determined that it is necessary to restructure the U.S. manufacturing operations of our power products. In the second quarter of fiscal 1997, we will consolidate our Denver and Seattle manufacturing operations into one manufacturing facility located in Seattle.

## CHINESE JOINT VENTURES

We have now invested in three joint ventures in China, which are all producing products for the Chinese power market.  Because almost 50% of the world's power expansion is in China, the opportunities that exist there for our joint ventures are significant.  We are still confident that our Chinese joint ventures provide excellent long-term potential.

## MESSAGE TO STOCKHOLDERS

### MOTION CONTROL ... A SHOOTING STAR

Sales of our motion control products increased 48% in 1996 over the prior year. This was the third consecutive growth year. The motion control products group now represents 34% of the Company's sales. Its products include specialty brushless motors with related drive electronics and optical encoders. The group has a broad base of customers including semi-conductor manufacturers as well as industrial, medical and computer test equipment suppliers. To help ensure our ability to keep up with demand in this product group, we are significantly expanding production capacity and continuing new product development. We expect growth in Motion Control to continue into the future.

### FISCAL 1996 FINANCIAL RESULTS

Hathaway recognized a net loss of $1,013,000, or $.24 per share, for the year ended June 30, 1996, compared to net income of $842,000, or $.19 per share, for the year ended June 30, 1995. Revenues for the year decreased 11% from $39,838,000 in fiscal 1995 to $35,411,000 in fiscal 1996. Our balance sheet is strong with $5,438,000 in cash and investments and a current ratio of 3.63.

### DIVIDENDS / STOCK REPURCHASES

The Board of Directors did not declare a dividend this year due to the fiscal 1996 loss. Also, the Company's loan agreement currently does not allow the Company to pay dividends because the Company has failed to meet a loan covenant related to cash flow since September 30, 1995. Although the bank has waived its rights pursuant to the non-compliance, the Company may not, among other things, pay dividends until compliance is achieved. Since 1993 the Company has paid out approximately 50% of its net income in dividends to shareholders. We intend to continue paying dividends at this level in the future, as long as net income and compliance with all loan covenants is achieved.

The Company's public stock repurchase program (to purchase stock through the NASDAQ National Market System) was terminated effective June 30, 1995 to conserve cash for investment in the Company and potential acquisitions of complementary companies and products.

### LOOKING FORWARD

Our many years of experience in servicing domestic and international markets, along with the close working relationships we have developed with our customers, will allow Hathaway to meet the challenges of the evolving power markets and to further develop the motion control markets.

We do not know how much longer the deregulation of the power industry will have an adverse effect on Hathaway. However, we believe that as a result of our reorganization and product development efforts, Hathaway will be in a good position to meet new demands as they evolve. While having an adverse effect on us now, we believe the deregulation of the power industry provides significant opportunities for us in the future.

In the Motion Control area, Hathaway's customer relationships and expanding production capacity have positioned the Company to continue to benefit from rapidly rising demand and to take advantage of the opportunities currently present in this market.

We also continue to search for products and companies that could be acquired that complement the industries in which we are currently operating.

Our appreciation goes to our customers, suppliers and employees, who are important in achieving our goals, and to our stockholders for their ongoing support.

/s/ Gene Prince
Eugene E. Prince
Chairman of the Board, President
and Chief Executive Officer

/s/ Richard D. Smith
Richard D. Smith
Executive Vice President,Treasurer,
Secretary and Chief Financial Officer

OPERATING RESULTS

The Company generated a net loss from continuing operations of $1,013,000 in fiscal year 1996, compared with net income from continuing operations of $842,000 and $955,000 for 1995 and 1994, respectively. Net loss for the current year was $1,013,000 compared with net income of $842,000 and $5,863,000 for fiscal years 1995 and 1994, respectively. Fiscal year 1994 net income includes a $4,023,000 net after tax gain on the January 31, 1994 sale of the Company's Application Software Segment, Global Software, Inc. (Global) and net income from discontinued operations of $885,000 generated by Global. See further discussion under Divested Segment.

Revenues from continuing operations decreased 11% in 1996 to $35,411,000 from $39,838,000 in 1995. This decrease represents a 31% decrease in sales of the Company's power instrumentation products and a 2% decrease in sales of process instrumentation products, offset by a 48% increase in sales of the Company's motion control products. Revenues from continuing operations decreased 7% in 1995 from $43,028,000 in 1994. This decrease represented a 12% decrease in sales of the Company's power instrumentation products and a 4% decrease in process instrumentation products, offset by a 10% increase in sales of the Company's motion control products.

The decreases in power instrumentation product sales are mainly attributable to the changing power utility market conditions in the world. In October of 1992, the Energy Policy Act of 1992 became law in the U.S. The Act's purpose is to increase competition among the domestic electric utility companies. Worldwide, many foreign countries are privatizing their power utility companies, creating an increasingly competitive environment.

Motion control products recorded its third consecutive year of sales growth and now represents 34% of overall company sales. Motion control serves a broad base of customers including semiconductor manufacturers as well as industrial, medical and computer test equipment suppliers. 83% of its market is within the U.S.

Sales to international customers decreased to $12,820,000, or 36% of sales from continuing operations, in fiscal 1996 compared to $14,646,000, or 37% of sales from continuing operations, in fiscal 1995 and $13,863,000, or 32% of sales from continuing operations, in fiscal 1994. Export sales from continuing domestic operations were $6,753,000, $7,265,000, and $6,838,000 in 1996, 1995 and 1994, respectively. Sales to domestic customers from continuing operations totalled $22,591,000, $25,192,000 and $29,165,000 in fiscal 1996, 1995 and 1994, respectively. Sales backlog for continuing operations was $10,094,000 at June 30, 1996, compared with $8,878,000 and $8,868,000 at June 30, 1995 and 1994, respectively.

Cost of products sold represented 62% of revenues in 1996 compared to 57% in 1995 and 55% in 1994. The increases have occurred primarily because of price reductions implemented in response to competitive pressures, as well as changes in the mix of products sold.

Selling, general and administrative and engineering and development expenses decreased from $17,526,000 in 1994 to $15,489,000 and 14,671,000 in 1995 and 1996, respectively, representing annual decreases of 12% and 5% in 1995 and 1996, respectively. The decreases have been primarily due to overall cost reduction efforts and reduced commissions.

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 Hoddeston, 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 will be combined with the operations of HSL. In addition, the Company has 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 are aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision is primarily comprised of estimated costs for employee severance benefits and fixed asset writeoffs. While these actions have been initiated, due to the timing of the payouts, a majority of the charge remains to be paid. The Company currently anticipates that the remaining balance will be expended by the end of fiscal 1997.

Other income was $210,000 in 1996, whereas other expenses were $76,000 in 1995 and $438,000 in 1994. The large increase in 1996 is due primarily to $165,000 of income recorded in the first quarter of 1996. In July, 1995 the Company consummated an agreement with Global (see Divested Segment below) and management of Global. Under the terms of the agreement, the Company received $165,000 in exchange for consenting to Global's proposed disposition of certain assets acquired after the Company's sale of Global on January 31, 1994. In addition, the Company agreed to acknowledge that the disposition would not violate the terms of the original sale agreement. The change between 1995 and 1994 was due primarily to certain expenses for non-recurring items incurred in 1994.

DIVESTED SEGMENT

Effective January 31, 1994, the Company sold Global Software, Inc. to the senior management of Global. The sale resulted in a net after tax gain of $4,023,000. The Company received a cash payment of $6,803,000, of which a portion was used to repay $3,000,000 of the Company's long-term debt and to pay a special $.10 per share dividend to shareholders totaling $495,000. The remaining proceeds were used to pay the expenses and income taxes which resulted from the sale and for other general operating activities. The Company obtained a fairness opinion supporting the sale price and stockholder approval of the sale.

Global's net income for the seven months ended January 31, 1994 has been reflected as Net Income from Operations of Divested Segment in the accompanying Consolidated Statements of Operations. For the seven months ended January 31, 1994, Global generated revenues of $14,053,000 and net income after income taxes of $885,000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity position as measured by cash and cash equivalents decreased $666,000 during the year to a balance of $5,237,000 at June 30, 1996. Operating activities used $179,000 in fiscal 1996 compared to generating $1,253,000 and $2,187,000 in fiscal years 1995 and 1994, respectively. The decreased cash from operations in 1996 is primarily the result of an operating loss of $1,013,000, offset by a decrease in receivables caused by the decrease in sales volume. The decrease in cash from operations in 1995 was primarily due to $1,070,000 generated by Global in 1994 prior to its sale.

Cash of $376,000 was generated by investing activities in fiscal 1996 compared to $1,049,000 used in fiscal 1995 and $1,159,000 generated in fiscal 1994. The increase from 1995 to 1996 was primarily due to proceeds of $1,000,000 from maturities of marketable securities. The decrease from 1994 to 1995 was primarily due to $1,743,000 used by Global in 1994 prior to its sale. In addition, 1994 cash from investing activities included proceeds from the sale of Global.

Financing activities used $828,000, $1,887,000 and $6,774,000 in fiscal years 1996, 1995 and 1994, respectively. The decrease in cash used for financing activities from 1995 to 1996 is due primarily to an additional $1,168,000 used in fiscal 1995 for the purchase of treasury stock. The Board of Directors' fiscal 1996 decision to discontinue the public stock repurchase program was the primary reason for the lower volume of stock repurchase activity in 1996. The decrease from 1995 to 1994 was due primarily to certain non-recurring events in 1994, primarily the $11,877,000 repayment of long-term debt, offset by new borrowings of $7,227,000 under the Company's financing agreement (Agreement) with Marine Midland Business Loans, Inc. (Midland).

At June 30, 1996, the Company had $1,777,000 of debt, compared with $2,144,000 at June 30, 1995, a reduction of $367,000. As of June 30, 1996 the Company could borrow an additional $1,722,000 (up to the current borrowing limit of $3,499,000, subject to availability of the borrowing base, which is based on certain asset levels) under its Agreement with Midland. The line bears interest at Midland's prime borrowing rate plus 1% (9.25% at June 30, 1996).

The Agreement with Midland requires that the Company maintain compliance with certain covenants related to tangible net worth, cash flow coverage and currrent ratios. The Company failed to meet the quarterly-calculated cash flow coverage covenant in each quarter of fiscal 1996. In February, 1996 the Company received from Midland a waiver of compliance with the cash flow coverage covenant requirement from September 30, 1995 through December 31, 1996. In August, 1996 Midland extended the waiver of compliance through June 30, 1997. In connection with obtaining the aforementioned waiver, the Company has agreed to certain conditions, including limiting the assets against which the Company may borrow to certain accounts receivable and requiring the Company to maintain higher tangible net worth and achieve certain annual operating results. Also, as long as the Company is in violation of the cash flow coverage covenant, the Company may not, without the prior written consent of Midland, pay cash dividends, purchase treasury stock (except for limited amounts from employees), or make investments in other than investment grade securities. As of July 31, 1996, the Company had complied with all conditions contained in the waiver, as well as with all the other covenants contained in the Agreement.

There can be no assurance that the Company will not require additional waivers in the future or, if required, that Midland will grant them.  Furthermore, in the event that management determines that, based on its projections, it is probable that the Company will not be able to comply with any covenant contained in the Agreement within twelve months after the balance sheet date for which compliance with the covenant has been waived, the entire balance of the long-term debt would have to be reclassified as short-term debt. Starting in August, 1997 the Company may repay the entire debt balance with Midland with no prepayment penalty.

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. HPMS will design, manufacture and sell, under a license from Hathaway, instrumentation products designed by Hathaway, to electric power companies in China. Due to the uncertainty of realization of these joint venture investments, they have been fully reserved for by the Company. There are no future commitments relating to these investments.

No major commitments for capital expenditures existed at year end. The Company's current capital needs can be supplied from operations and from cash and cash equivalents of $5,237,000, marketable securities of $201,000 scheduled to mature in August, 1996 and the $1,722,000 available under the line of credit with Midland.

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 its 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 will continue to minimize the effects of any foreseeable inflation and other price pressures from the industries in which it operates. As the Company's manufacturing activities mainly utilize semi-skilled labor, which is relatively plentiful in the areas surrounding the Company's production facilities, the Company does not anticipate substantial inflation-related increases in the wages of the majority of its employees.

## CONSOLIDATED BALANCE SHEETS

| In thousands, except share data | June 30, 1996 | June 30, 1995 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 5,237 | $ 5,903 |
| Marketable securities, current | 201 | 1,029 |
| Trade receivables, net of allowance for doubtful accounts of $321 and $305 at June 30, 1996 and 1995, respectively | 6,293 | 7,486 |
| Inventories, net | 4,972 | 4,469 |
| Current deferred income taxes | 893 | 738 |
| Prepaid expenses and other | 857 | 575 |
| Total current assets | 18,453 | 20,200 |
| Marketable securities, non-current | -- | 200 |
| Property and equipment, net | 1,727 | 1,798 |
| Cost in excess of net assets acquired, net | 623 | 777 |
| Other | 336 | 337 |
| Total assets | $21,139 | $23,312 |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 1,309 | $ 1,308 |
| Accrued liabilities | 2,907 | 2,721 |
| Income taxes payable | 405 | 765 |
| Product service reserve | 459 | 501 |
| Total current liabilities | 5,080 | 5,295 |
| Long-term debt (Note 4) | 1,777 | 2,144 |
| Total liabilities | 6,857 | 7,439 |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| STOCKHOLDERS' INVESTMENT: | | |
| Preferred stock, par value $1.00 per share, authorized 5,000,000 shares; no shares outstanding | -- | -- |
| Common stock, at aggregate stated value, authorized 50,000,000 shares; 5,307,143 issued at June 30, 1996 and 1995 | 100 | 100 |
| Additional paid-in capital | 9,712 | 9,767 |
| Loan receivable for stock (Note 12) | (133) | (133) |
| Loan receivable from Leveraged Employee Stock Ownership Plan and Trust (Note 5) | (102) | (102) |
| Retained earnings | 8,247 | 9,686 |
| Cumulative translation adjustments (Note 1) | 163 | 218 |
| Treasury stock, at cost; 1,058,046 and 1,041,560 shares at June 30, 1996 and 1995, respectively (Note 10) | (3,705) | (3,663) |
| Total stockholders' investment | 14,282 | 15,873 |
| Total liabilities and stockholders' investment | $21,139 | $23,312 |

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

CONSOLIDATED STATEMENTS OF OPERATIONS

| In thousands, except per share data | For the years ended June 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| REVENUES | $35,411 | $39,838 | $43,028 |
| OPERATING COSTS AND EXPENSES: | | | |
| Cost of products sold | 21,926 | 22,834 | 23,584 |
| Selling | 6,269 | 7,037 | 7,762 |
| General and administrative | 4,680 | 4,836 | 5,653 |
| Engineering and development | 3,722 | 3,616 | 4,111 |
| Amortization of intangibles | 215 | 246 | 243 |
| Restructuring charge (Note 11) | 338 | -- | -- |
| Total operating costs and expenses | 37,150 | 38,569 | 41,353 |
| Operating income (loss) from continuing operations | (1,739) | 1,269 | 1,675 |
| OTHER INCOME (EXPENSES), NET: | | | |
| Interest and dividend income | 325 | 332 | 315 |
| Interest expense | (194) | (204) | (277) |
| Other income (expenses), net | 210 | (76) | (438) |
| Total other income (expenses), net | 341 | 52 | (400) |
| Income (loss) from continuing operations before income taxes | (1,398) | 1,321 | 1,275 |
| Benefit (provision) for income taxes (Note 8) | 385 | (479) | (320) |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | (1,013) | 842 | 955 |
| NET INCOME FROM OPERATIONS OF DIVESTED SEGMENT, NET OF INCOME TAXES OF $453 (Notes 3 and 8) | -- | -- | 885 |
| GAIN ON SALE OF SEGMENT, NET OF INCOME TAXES OF $900 (Notes 3 and 8) | -- | -- | 4,023 |
| NET INCOME (LOSS) | $(1,013) | $ 842 | $ 5,863 |

PER SHARE AMOUNTS(Note 1)

| For the years ended June 30, | 1996 | 1995 | 1994 |
|---|---|---|---|
| PRIMARY: | | | |
| Net income (loss) per share from continuing operations | $ (0.24) | $ 0.19 | $ 0.20 |
| Net income per share from operations of divested segment | -- | -- | 0.18 |
| Gain per share from sale of segment | -- | -- | 0.82 |
| NET INCOME(LOSS) PER SHARE | $ (0.24) | $ 0.19 | $ 1.20 |
| FULLY DILUTED: | | | |
| Net income (loss) per share from continuing operations | $ (0.24) | $ 0.19 | $ 0.19 |
| Net income per share from operations of divested segment | -- | -- | 0.18 |
| Gain per share on sale of segment | -- | -- | 0.81 |
| NET INCOME (LOSS) PER SHARE | $ (0.24) | $ 0.19 | $ 1.18 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| In thousands | For the years ended June 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | $(1,013) | $ 842 | $ 5,863 |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | | |
| Gain on sale of segment, net of income taxes | -- | -- | (4,023) |
| Depreciation and amortization | 960 | 970 | 1,564 |
| Allowances on joint venture investments | -- | 140 | 208 |
| Provision for doubtful accounts | 16 | (96) | (73) |
| Other | (165) | (96) | 33 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in - | | | |
| Receivables | 1,177 | (580) | (240) |
| Inventories | (503) | 247 | (489) |
| Prepaid expenses and other | (282) | (26) | 223 |
| Current deferred income taxes | (155) | (6) | 390 |
| Increase (decrease) in - | | | |
| Accounts payable | 1 | (138) | (388) |
| Accrued liabilities | 187 | (429) | (719) |
| Product service reserve | (42) | 65 | 38 |
| Income taxes payable | (360) | 360 | (603) |
| Deferred software service income | -- | -- | 403 |
| Net cash from operating activities | (179) | 1,253 | 2,187 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property and equipment, net | (719) | (934) | (969) |
| Investments in joint ventures (Note 2) | (70) | (115) | (177) |
| Purchase of marketable securities | -- | -- | (1,288) |
| Proceeds from maturity of marketable securities | 1,000 | -- | -- |
| Proceeds from sale of segment, net of expenses of $1,681 | -- | -- | 5,122 |
| Cash retained by segment sold | -- | -- | (1,050) |
| Other | 165 | -- | (479) |
| Net cash from investing activities | 376 | (1,049) | 1,159 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayments on line of credit and long-term debt | (360) | (460) | (11,877) |
| Borrowings on line of credit and long-term debt | -- | 276 | 7,227 |
| Cash paid for loan costs | -- | -- | (448) |
| Dividends paid to stockholders | (426) | (536) | (992) |
| Proceeds from exercise of stock options, net of loans | -- | 43 | 617 |
| Purchase of treasury stock | (42) | (1,210) | (1,301) |
| Net cash from financing activities | (828) | (1,887) | (6,774) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH | (35) | 39 | 84 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (666) | (1,644) | (3,344) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 5,903 | 7,547 | 10,891 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 5,237 | $ 5,903 | $ 7,547 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 177 | $ 194 | $ 290 |
| Income taxes | 173 | 108 | 986 |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Tax benefit from disqualifying stock dispositions | $ -- | $ 23 | $ 72 |
| Repayment of LESOP* loan receivable | -- | 55 | -- |

*Leveraged Employee Stock Ownership Plan and Trust

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT

| In thousands, except share data | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Loans Receivable (Notes 5 & 12) | Retained Earnings | Treasury Stock Shares | Treasury Stock Amount |
|---|---|---|---|---|---|---|---|
| BALANCES, JUNE 30, 1993 | 4,944,087 | $100 | $8,824 | $(157) | $ 4,509 | 272,088 | $(1,152) |
| Exercise of stock options and issuance of notes (Note 12) | 345,556 | -- | 750 | (673) | -- | -- | -- |
| Repayment of notes for exercise of stock options (Note 12) | -- | -- | -- | 540 | -- | -- | -- |
| Long-term incentive plan bonus (Note 10) | -- | -- | 71 | -- | -- | -- | -- |
| Tax benefit from disqualifying stock dispositions | -- | -- | 72 | -- | -- | -- | -- |
| Purchase of treasury stock (Note 10) | -- | -- | -- | -- | -- | 402,497 | (1,301) |
| Dividend paid to stockholders ($.105 per share) | -- | -- | -- | -- | (497) | -- | -- |
| Special dividend paid to stockholders from gain on sale of segment ($.10 per share) | -- | -- | -- | -- | (495) | -- | -- |
| Net income | -- | -- | -- | -- | 5,863 | -- | -- |
| BALANCES, JUNE 30, 1994 | 5,289,643 | $100 | $9,717 | $(290) | $ 9,380 | 674,585 | $(2,453) |
| Exercise of stock options | 17,500 | -- | 43 | -- | -- | -- | -- |
| Long-term incentive plan bonus (Note 10) | -- | -- | (16) | -- | -- | -- | -- |
| Repayment of LESOP* loan receivable (Note 5) | -- | -- | -- | 55 | -- | -- | -- |
| Tax benefit from disqualifying stock dispositions | -- | -- | 23 | -- | -- | -- | -- |
| Purchase of treasury stock (Note 10) | -- | -- | -- | -- | -- | 366,975 | (1,210) |
| Dividend paid to stockholders ($.12 per share) | -- | -- | -- | -- | (536) | -- | -- |
| Net income | -- | -- | -- | -- | 842 | -- | -- |
| BALANCES, JUNE 30, 1995 | 5,307,143 | $100 | $9,767 | $(235) | $ 9,686 | 1,041,560 | $(3,663) |
| Long-term incentive plan bonus (Note 10) | -- | -- | (55) | -- | -- | -- | -- |
| Purchase of treasury stock (Note 10) | -- | -- | -- | -- | -- | 16,486 | (42) |
| Dividend paid to stockholders ($.10 per share) | -- | -- | -- | -- | (426) | -- | -- |
| Net loss | -- | -- | -- | -- | (1,013) | -- | -- |
| BALANCES, JUNE 30, 1996 | 5,307,143 | $100 | $9,712 | $(235) | $ 8,247 | 1,058,046 | $(3,705) |

* Leveraged Employee Stock Ownership Plan and Trust

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Hathaway Corporation (the Company) is engaged in the business of designing, manufacturing and selling electronic instrumentation products 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, Europe and Canada and has three joint venture investments in China (Note 2). As more fully discussed in Note 11, the Company is in the process of restructuring its operations in the United Kingdom and Canada to achieve cost savings and improve productivity and efficiency.

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 2).

CASH AND CASH EQUIVALENTS

Cash equivalents consist primarily of certificates of deposit and high grade commercial paper with original maturities of three months or less, and are stated at amortized cost. Certificates of deposit totaling $312,000 and $398,000 at June 30, 1996 and 1995, respectively, serve as collateral for letters of credit issued on behalf of the Company.

MARKETABLE SECURITIES

Marketable securities consist of debt securities which have been categorized as held-to-maturity, and as a result are stated at amortized cost. Marketable securities consist of the following (in thousands):

| | June 30, 1996 | June 30, 1995 |
|---|---|---|
| Corporate bond, matured March, 1996 | $ -- | $1,029 |
| U.S. Treasury note, matures August, 1996 | 201 | 200 |
| | $ 201 | $1,229 |

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

| | June 30, 1996 | June 30, 1995 |
|---|---|---|
| Parts and raw materials, net | $2,689 | $2,898 |
| Finished goods and work-in process, net (including material costs, labor and manufacturing overhead) | 2,283 | 1,571 |
| | $4,972 | $4,469 |

Reserves established for anticipated losses on excess or obsolete inventories were approximately $1,689,000 and $1,059,000 at June 30, 1996 and 1995, respectively.

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

| | Useful Lives | June 30, 1996 | June 30, 1995 |
|---|---|---|---|
| Machinery, equipment, tools and dies | 2-8 years | $ 5,763 | $ 5,707 |
| Furniture, fixtures and other | 3-10 years | 2,074 | 2,129 |
| | | 7,837 | 7,836 |
| Less accumulated depreciation and amortization | | (6,110) | (6,038) |
| | | $ 1,727 | $ 1,798 |

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.

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 five to ten years. Cost in excess of net assets acquired as of June 30, 1996 and 1995 consists of $1,505,000 of original costs, and $882,000 and $728,000, respectively, of accumulated amortization. The Company continually reviews the cost in excess of net assets acquired for possible impairment by comparing the unamortized balance of the cost in excess of net assets acquired to the related subsidiaries' estimated undiscounted net income over the remaining life of the asset.

ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

| | June 30, 1996 | June 30, 1995 |
|---|---|---|
| Compensation and fringe benefits | $1,012 | $ 858 |
| Commissions | 539 | 567 |
| Professional fees | 239 | 311 |
| Other accrued expenses | 1,117 | 985 |
| | $2,907 | $2,721 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

STATEMENTS OF CASH FLOWS

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.

EARNINGS PER SHARE

Earnings per share is calculated using the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the period, including the effects of options and warrants granted when such adjustment has a dilutive effect on earnings per share. Shares used in the computations for the periods reported are as follows (in thousands):

| | Primary | Fully Diluted |
|---|---|---|
| 1996 | 4,271 | 4,309 |
| 1995 | 4,422 | 4,422 |
| 1994 | 4,875 | 4,949 |

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, 1996 | June 30, 1995 |
|---|---|---|
| Cumulative Translation Adjustments, beginning of period | $218 | $156 |
| Translation adjustments | (55) | 62 |
| Cumulative Translation Adjustments, end of period | $163 | $218 |

Foreign currency transaction gains and losses and translation gains and losses on intercompany balances are recognized in Other income (expenses) in the accompanying Consolidated Statements of Operations as follows (in thousands):

| For the Years Ended June 30, | 1996 | 1995 | 1994 |
|---|---|---|---|
| Unrealized foreign exchange gains | $ -- | $ 43 | $ 38 |
| Realized foreign exchange losses | (25) | (56) | (79) |
| Foreign exchange losses | $ (25) | $ (13) | $ (41) |

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

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

NEW ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board (FASB) issued SFAS No.121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," which requires losses to be recorded on long-lived assets used in operations when indications of impairment are present and the undiscounted cash flows estimated to be generated in the future by those assets are less than the assets' carrying amount. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement No. 121 in the first quarter of fiscal 1997 and, based on current circumstances, does not believe the effect of adoption will be material.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which establishes financial accounting and reporting standards for stock-based compensation, including stock-based employee compensation plans. The Statement defines a fair value-based method of accounting for an employee stock option or similar equity instrument. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting in Opinion No. 25 must make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in the Statement had been applied. The Company will be required to adopt SFAS No. 123 for its year ended June 30, 1997. As allowed by SFAS 123, the Company will continue to apply the accounting provisions of Opinion No. 25 and will make the required pro forma disclosures.

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## 2. INVESTMENTS IN JOINT VENTURES

In fiscal year 1994 the Company made investments in two joint ventures. In December 1993, the Company acquired 25% of Zibo Kehui Electric Company Ltd. (Kehui), located in Zibo, China, for approximately $100,000. Kehui designs, manufactures and sells cable and overhead line fault location and other test instruments within the China market and the Company sells these products outside of China.

During the third quarter of fiscal 1994, the Company acquired 25% of Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), located in Beijing, China, for a capital contribution of approximately $175,000. 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 June 1995, the Company committed to acquire a 40% interest in Hathaway Power Monitoring Systems Company, Ltd. (HPMS), located in Wuhan, China for $140,000. The Company completed the acquisition in the first quarter of fiscal 1996 upon approval of the joint venture by the Chinese government. HPMS will design, manufacture and sell, under a license from Hathaway, instrumentation products designed by Hathaway, to electric power companies in China.

Due to the uncertainty of realization of these joint venture investments, they have been fully reserved for by the Company.

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## 3. SALE OF APPLICATION SOFTWARE SEGMENT

Effective January 31, 1994, the Company sold its Application Software Segment, Global Software, Inc. (Global), to the senior management of Global. The sale resulted in a net after tax gain of $4,023,000. The Company received a cash payment of $6,803,000, of which a portion was used to repay $3,000,000 of the Company's long-term debt and to pay a special $.10 per share dividend to stockholders totaling $495,000. The remaining proceeds were used to pay the expenses and income taxes which resulted from the sale and for other general operating activities. The Company obtained stockholder approval of the sale and a fairness opinion supporting the sale price.

Global's software products and services included perpetual licenses for the right to use its software, maintenance and customer support services, training and installation services, and professional consulting and customization services.

Global's net income for the seven months ended January 31, 1994 has been reflected as Net Income from Operations of Divested Segment in the accompanying Consolidated Statements of Operations.

In July, 1995 the Company consummated an agreement with Global and management of Global. Under the terms of the agreement, the Company received $165,000 in exchange for consenting to Global's proposed disposition of certain assets acquired after the Company's sale of Global on January 31, 1994. In addition, the Company agreed to acknowledge that the disposition would not violate the terms of the original sale agreement. The gain realized on the transaction in fiscal year 1996 is included in Other Income in the Consolidated Statements of Operations.

## 4. DEBT

On August 2, 1993, the Company entered into a new long-term financing agreement (Agreement) with Marine Midland Business Loans, Inc. (Midland). Under the Agreement, the Company borrowed approximately $7,000,000 and repaid its prior long-term financing agreement. The Agreement is a Reducing Revolving Line of Credit with an initial borrowing limit of $7,000,000, which is reduced monthly over the seven year term of the loan. As a result of the sale of Global (Note 3), the borrowing limit was reduced by $2,000,000. Borrowings on the line are restricted to the lesser of an amount based on certain asset levels or the borrowing limit, which is subject to monthly reductions. As of June 30, 1996, the Company could borrow an additional $1,722,000 up to the current borrowing limit of $3,499,000. The line bears interest at Midland's prime borrowing rate plus 1% (9.25% at June 30, 1996). 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, cash flow coverage and current ratios.

The Company failed to meet the quarterly-calculated cash flow coverage covenant in each quarter of fiscal 1996. In February, 1996 the Company received from Midland a waiver of compliance with the cash flow coverage covenant requirement from September 30, 1995 through December 31, 1996. In August, 1996 Midland extended the waiver of compliance through June 30, 1997. In connection with obtaining the aforementioned waiver, the Company has agreed to certain conditions, including limiting the assets against which the Company may borrow to certain accounts receivable and requiring the Company to maintain higher tangible net worth and achieve certain annual operating results. Also, as long as the Company is in violation of the cash flow coverage covenant, the Company may not, without the prior written consent of Midland, pay cash dividends, purchase treasury stock (except for limited amounts from employees), or make investments in other than investment grade securities. As of July 31, 1996, the Company had complied with all conditions contained in the waiver, as well as with all the other covenants contained in the Agreement.

There can be no assurance that the Company will not require additional waivers in the future or, if required, that Midland will grant them. Furthermore, in the event that management determines that, based on its projections, it is probable that the Company will not be able to comply with any covenant contained in the Agreement within twelve months after the balance sheet date for which compliance with the covenant has been waived, the entire balance of the long-term debt would have to be reclassified as short-term debt. Starting in August, 1997 the Company may repay the entire debt balance with Midland with no prepayment penalty.

Long-term debt maturities as of June 30, 1996 are as follows (in thousands):

| | |
|---|---|
| 1997 | $ -- |
| 1998 | -- |
| 1999 | 636 |
| 2000 | 978 |
| 2001 | 163 |
| Thereafter | -- |
| | $1,777 |

## 5. LEVERAGED EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

The Company has established a Leveraged Employee Stock Ownership Plan and Trust (the Plan), which allows eligible Company employees to participate in ownership of the Company. In June 1989, the Company loaned the Plan $500,000 which the Plan used to acquire 114,285 newly issued shares of the Company's common stock directly from the Company. The note bears interest at 9.23% per annum and matures May 31, 2004.

The terms of the Plan require the Company to make a contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in 1996, 5% in 1995 and 0% in 1994) or ii) the annual interest payable on the note. Contributions to the Plan were $9,000, $70,000, and $15,000 for the years ended June 30, 1996, 1995, and 1994, respectively. The contributions represented principal repayments on the loan of $55,000 in 1995 and interest on the loan of $9,000, $15,000, and $15,000 in 1996, 1995, and 1994, respectively. The remaining loan balance as of June 30, 1996 was $102,000.

## 6. STOCK OPTIONS AND WARRANTS

On June 15, 1987, the Company entered into a long-term financing agreement which was fully repaid in fiscal year 1994. Warrants to purchase 300,000 shares of the Company's common stock were issued to the lender in connection with the issuance of this debt; the current exercise price is $6.39 per share (subject to adjustments up to $6.46 per share). The warrants remain outstanding and are exercisable through June 1997.

At June 30, 1996, 610,121 shares of common stock were available for grant under the Company's stock option plans (Note 14). 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. All options become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant. Option activity in fiscal years 1995 and 1996 was as follows:

| | Number of Shares | Option Price Range Per Share |
|---|---|---|
| Outstanding June 30, 1994 | 320,356 | $2.313 - $3.813 |
| Granted | 88,500 | $ 3.00 - $3.75 |
| Exercised | (17,500) | $ 2.313 - $3.00 |
| Canceled/Forfeited | (28,500) | $ 2.375 - $3.75 |
| Outstanding June 30, 1995 | 362,856 | $ 2.313 - $3.75 |
| Granted | 22,500 | $ 2.66 - $2.813 |
| Canceled/Forfeited | (52,500) | $ 2.375 - $3.50 |
| Outstanding June 30, 1996 | 332,856 | $ 2.313 - $3.75 |
| Total Exercisable at June 30, 1996 | 250,856 | $ 2.313 - $3.75 |

## 7. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected Quarterly Financial Data for each of the four quarters in 1996 and 1995 is as follows (in thousands):

| 1996 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Revenues | $ 7,511 | $ 9,678 | $8,274 | $ 9,948 |
| Operating income (loss) | (1,105) | 121 | (694) | (61) |
| Net income (loss) | (751) | 7 | (507) | 238 |
| Primary and fully diluted net income (loss) per share | $ (0.18) | $ (0.00) | $(0.12) | $ 0.06 |

| 1995 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Revenues | $ 9,418 | $10,408 | $9,405 | $10,607 |
| Operating income | 68 | 240 | 297 | 664 |
| Net income | 90 | 188 | 245 | 319 |
| Primary and fully diluted net income per share | $ 0.02 | $ 0.04 | $ 0.06 | $ 0.07 |

## 8. INCOME TAXES

Effective July 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109), which requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets, liabilities and carryforwards is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will more likely than not be realized. Income tax expense is the current tax payable or refundable for the period plus or minus the net change in deferred tax assets and liabilities.

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Domestic | $(1,160) | $ 948 | $1,169 |
| Foreign | (238) | 373 | 106 |
| Income (loss) from continuing operations before income taxes | $(1,398) | $1,321 | $1,275 |

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Current benefit (provision): | | | |
| Domestic | $222 | $(414) | $(183) |
| Foreign | 8 | (74) | 111 |
| Deferred benefit (provision): | | | |
| Domestic | 155 | 9 | (235) |
| Foreign | -- | -- | (13) |
| Benefit (provision) attributable to continuing operations | $385 | $(479) | $(320) |

The benefit (provision) for income taxes is attributable to continuing operations, operations of divested segment and gain on sale of segment as follows (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Benefit (provision) attributable to continuing operations | $385 | $(479) | $(320) |
| Provision allocated to operations of divested segment | -- | -- | (453) |
| Provision allocated to gain on sale of segment | -- | -- | (900) |
| Total benefit (provision) for income taxes | $385 | $(479) | $(1,673) |

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Tax benefit (provision) computed at statutory rate | $475 | $(449) | $(434) |
| State tax, net of federal benefit | (2) | (25) | (61) |
| Nondeductible expenses | (90) | (69) | (71) |
| Income tax credits | (72) | 73 | -- |
| Non-benefitted losses of | | | |

| | | | |
|---|---|---|---|
| foreign subsidiaries | (33) | (5) | (39) |
| Recovery of prior year foreign taxes paid | 84 | -- | -- |
| Change in valuation allowance | 37 | (11) | 270 |
| Other | (14) | 7 | 15 |
| Benefit (provision) for income taxes | $385 | $(479) | $(320) |

The tax effects of significant temporary differences and credit carryforwards that give rise to the net deferred tax asset as of June 30, 1996 and 1995 under SFAS 109 are as follows (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Allowances and other accrued liabilities | $1,401 | $1,242 |
| Tax credit carryforwards | 88 | 160 |
| Net operating loss carryforwards | 31 | -- |
| Valuation allowance | (627) | (664) |
| Net deferred tax asset | $ 893 | $ 738 |

At June 30, 1996, the Company has paid foreign advance corporation tax of $88,000 which may be utilized to reduce future foreign taxes due and has a foreign loss carryforward of $93,000 which can be carried forward indefinitely.

## 9. GEOGRAPHIC SEGMENT DATA

The Company's foreign subsidiaries are based in Europe and Canada and are included in the continuing operations in the accompanying consolidated financial statements. Financial information for the four wholly-owned foreign subsidiaries, since their formation or acquisition by the Company, is summarized below (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues | $7,261 | $8,879 | $8,437 |
| Income (loss) before income taxes | (238) | 373 | 106 |
| Identifiable assets | 4,636 | 5,744 | 6,027 |

The Company's export sales from continuing domestic operations were approximately $6,753,000 in 1996, $7,265,000 in 1995 and $6,838,000 in 1994, each representing 24%, 23%, and 20%, respectively, of total sales from continuing domestic operations. The profitability of domestic sales is approximately the same as that of export sales, and the Company foresees no unusual risks associated with its export sales.

## 10. COMMITMENTS AND CONTINGENCIES

### LEASES

At June 30, 1996, the Company maintained leases for certain facilities and equipment. Minimum future rental commitments under all noncancelable operating leases, net of minimum rental receivables totaling $33,000 under related subleases, are as follows (in thousands):

| Fiscal Year | Amount |
|---|---|
| 1997 | $ 741 |
| 1998 | 476 |
| 1999 | 369 |
| 2000 | 143 |
| 2001 | 139 |
| Thereafter | 1,469 |
| | $3,337 |

Net rental expense was $822,000, $1,035,000, and $951,000 in 1996, 1995 and 1994, respectively.

### LITIGATION

The Company has been named as a defendant in certain actions that have arisen out of the ordinary course of business. Management, based upon the advice of the Company's legal counsel, believes the actions are without merit and will not significantly affect the Company's consolidated financial position or results of operations.

### 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 acquiror 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 $1,689,000 as of June 30, 1996.

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

EMPLOYMENT AGREEMENTS

Effective July 1, 1993, the Company entered into five year employment agreements with two of its executive officers. 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 to be paid based on the achievement of specified returns on equity and share price growth plus dividends paid over a three year performance period, 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 of certain subsidiaries and divisions of the Company.

The annual bonus, which is payable in cash following each fiscal year-end, amounted to zero in 1996 and 1995 and $95,000 in 1994.

For the three year performance period ending June 30, 1996, the long-term incentive bonus was payable at the end of the performance period in up to 210,000 shares of Company common stock. At the employee's election, such payout could have been taken in cash up to 40% of the fair market value of the total shares to be issued. The Company recognized $71,000, ($16,000), and ($55,000) of compensation expense (reversal of expense) in 1994, 1995 and 1996, respectively, related to the long-term incentive plan. The amounts are reflected as adjustments to Additional paid-in capital in the accompanying balance sheets. Because the specified performance targets for the three year performance period were not met, no long-term incentive bonus was paid for the three year performance period ending June 30, 1996.

On August 15, 1996 the Board of Directors approved the issuance of stock options to the executive officers to replace the expired long-term incentive plan (Note 14).

As of June 30, 1996, the maximum amount that could be required to be paid under the termination clause of these agreements was approximately $766,000.

INTERNAL REVENUE SERVICE REVIEW

The Company has filed amended tax returns for fiscal years 1992 through 1994 to change the tax treatment of certain intercompany transactions with foreign subsidiaries. The Internal Revenue Service is currently reviewing the affected tax returns. The Company anticipates that the outcome of these reviews will not have a material adverse effect on the Company's financial position or results of operations.

STOCK REPURCHASE PROGRAMS

During fiscal 1994, the Board of Directors approved a public stock repurchase program whereby the Company could use up to $500,000 to repurchase its common stock from stock available on the NASDAQ National Market System. Effective June 30, 1995, the Board of Directors discontinued the public stock repurchase program. As of June 30, 1995, 64,778 shares had been repurchased under this program for approximately $196,000.

Also in fiscal 1994, the Board of Directors approved an employee stock repurchase program whereby the Company may use up to $1,000,000 to repurchase its common stock from its employees at the current market value. As of June 30, 1996, the Company had repurchased 256,106 shares for approximately $839,000, with $161,000 available for future employee stock repurchases. The Company's Agreement with Midland limits employee stock repurchases to $170,000 in calendar year 1996 and $120,000 per calendar year thereafter, as long as the Company is in violation of the cash flow coverage covenant contained in the Agreement (Note 4). As of June 30, 1996, $131,000 was available under the calendar year 1996 limit.

During the first quarter of fiscal 1995, the Board of Directors approved two special stock repurchases. The Company purchased 141,000 shares of the Company's common stock from a significant non-affiliated shareholder at a price equal to the then fair market value, which totaled approximately $441,000. The Company also repurchased 132,000 shares from a non-employee director of the Company at a price equal to the then fair market value which totaled approximately $478,000.

All repurchased stock is being retained by the Company in its treasury. Combined with previous purchases, the Company held treasury stock with a total cost of $3,705,000 as of June 30, 1996.

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 which have never been issued.

## 11. RESTRUCTURING OF OPERATIONS

In the fourth quarter of fiscal 1996, the Company recorded a $338,000 pretax charge 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 will be combined with the operations of HSL. In addition, the Company has decided to close its Toronto, Canada facility and to combine substantially all of its operations with the operations of Hathaway Process Instrumentation, the Dallas, Texas division. The initiatives are aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision is primarily comprised of estimated costs for employee severance and other benefits and fixed asset writeoffs. While these actions had been initiated as of June 30, 1996, due to the timing of the payouts, a majority of the charge remains to be paid. The Company currently anticipates that the remaining balance will be expended by the end of fiscal 1997.

## 12. RELATED PARTY TRANSACTIONS

During fiscal year 1994 and in accordance with the Officer and Director Loan Plan which was approved by stockholders on October 26, 1989, the Company made loans of $504,000 to certain executive officers and members of the Board of Directors. The proceeds of these loans were used to buy stock under stock options which had been granted to the officers and directors in prior periods. The loans have remaining unpaid balances of $133,000 at June 30, 1996 and are presented in the Stockholders' Investment section in the Consolidated Balance Sheets. The loans are full recourse, due on demand but no later than five years from the date of issue, and accrue interest at the applicable federal rate.

During the second quarter of fiscal year 1995, the Board of Directors approved a loan of up to $35,000 to be made by the Company after November 30, 1994 to a non-employee director. The loan will be made for the purpose of purchasing Hathaway common stock from stock available on the NASDAQ National Market System. The loan had not been made as of June 30, 1996.

## 13. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, 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 long-term debt approximates fair value because the underlying instrument is a variable rate note that reprices frequently. The carrying value of marketable securities approximates fair value obtained from quoted market prices.

## 14. SUBSEQUENT EVENT (UNAUDITED)

On August 15, 1996 the Board of Directors approved a grant of 148,500 stock options at an exercise price equal to the fair market value of $2.8125 at the grant date to the Company's two executive officers. 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.

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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, 1996 and 1995, 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, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 30, 1996 in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Denver, Colorado,
July 31, 1996.

# OFFICERS AND DIRECTORS/INVESTOR INFORMATION

## BOARD OF DIRECTORS

Eugene E. Prince
Chairman of the Board,
President and Chief Executive Officer

Richard D. Smith
Executive Vice President, Treasurer,
Secretary and Chief Financial Officer

Marvin J. Fein
Private Investor

Chester H. Clarridge
Consultant

Graydon D. Hubbard
Retired Partner, Arthur Andersen LLP

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

## INVESTOR INFORMATION

Annual Meeting
The Annual Meeting of Shareholders of Hathaway Corporation will be held at 2:30 p.m., on Thursday, October 24, 1996 at 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 Accountants
ARTHUR ANDERSEN LLP
Denver, Colorado

| Stock Data | High | Low |
|---|---|---|
| First Quarter | 3 1/8 | 2 1/2 |
| Second Quarter | 2 7/8 | 1 7/8 |
| Third Quarter | 2 9/16 | 1 13/16 |
| Fourth Quarter | 4 | 1 11/16 |

## CORPORATE OFFICERS

Eugene E. Prince
Chairman of the Board,
President and Chief Executive Officer

Richard D. Smith
Executive Vice President, Treasurer,
Secretary and Chief Financial Officer

Herbert Franson
Assistant Treasurer, Corporate Controller
and Assistant Secretary

Susan M. Chiarmonte
Assistant Secretary

## SUBSIDIARIES AND DIVISIONS

Domestic Subsidiaries and Divisions

Computer Optical Products, Inc.
Chatsworth, California

Hathaway Motion Control
Tulsa, Oklahoma

Hathaway Motors and Instruments
Tulsa, Oklahoma

Hathaway Power Instrumentation
Littleton, Colorado

Hathaway Process Instrumentation
Carrollton, Texas

Hathaway Automation Technology
Kent, Washington

International Subsidiaries

Hathaway, Inc.
Toronto, Canada

Hathaway Systems Limited
Belfast, Northern Ireland

Hathaway Instruments Limited
Hoddesdon, England

[LOGO OF HATHAWAY APPEARS HERE]

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Fax: (303) 799-8880
(NASDAQ/NMS: HATH)

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YEAR
JUN-30-1996
JUL-01-1995
JUN-30-1996
5,237
201
6,614
321
4,972
18,453
7,837
6,110
21,139
5,080
1,777
0
0
100
14,182
21,139
35,411
35,411
21,926
21,926
0
87
194
(1,398)
(385)
(1,013)
0
0
0
(1,013)
(0.24)
(0.24)

Presented gross