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HATHAWAY CORPORATION INDEX

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

Form 10-Q

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

For the Quarter Ended March 31, 2002 (Unaudited)	Commission File Number 0-4041

HATHAWAY CORPORATION

(Incorporated Under the Laws of the State of Colorado)

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

84-0518115
(IRS Employer Identification Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days. Yes ☒ No o

Number of Shares of the only class of Common Stock outstanding:
(4,665,688 as of March 31, 2002)

HATHAWAY CORPORATION
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HATHAWAY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2002	June 30, 2001
Assets		

Current Assets:		
Cash and cash equivalents	$ 3,788	$ 1,911
Restricted cash	458	346
Trade receivables, net of allowance for doubtful accounts of $479 and $496 at March 31, 2002 and June 30, 2001, respectively	6,854	7,708
Inventories, net	5,210	4,931
Deferred income taxes	567	229
Prepaid expenses and other	841	486
Total current assets	17,718	15,611
Property and equipment, net	1,981	1,781
Investment in joint ventures, net	129	2,459
Other	345	352
Total Assets	$ 20,173	$ 20,203
Liabilities and Stockholders' Investment		
Current Liabilities:		
Line-of-credit	$ —	$ 553
Accounts payable	1,724	1,583
Accrued liabilities and other	3,276	3,345
Income taxes payable	539	380
Product warranty reserve	432	514
Total Liabilities	5,971	6,375
Commitments and Contingencies		
Stockholders' Investment:		
Preferred stock, par value $1.00 per share, authorized 5,000 shares; no shares outstanding	—	—
Common stock, at aggregate stated value, authorized 50,000 shares; 5,788 and 5,719 shares issued at March 31, 2002 and June 30, 2001, respectively	100	100
Additional paid-in capital	11,400	11,230
Loans receivable for stock	(133)	(160)
Retained earnings	6,931	6,787
Accumulated comprehensive income	(119)	(152)
Treasury stock, at cost; 1,122 shares	(3,977)	(3,977)
Total Stockholders' Investment	14,202	13,828
Total Liabilities and Stockholders' Investment	$ 20,173	$ 20,203

HATHAWAY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For the three months ended March 31,		For the nine months ended March 31,	
	2002	2001	2002	2001
Revenues	$ 11,388	$ 11,313	$ 31,152	$ 35,812
Cost of products sold	6,762	7,218	19,658	22,374
Gross margin	4,626	4,095	11,494	13,438
Operating costs and expenses:				
Selling, general and administrative	3,153	2,837	8,545	8,776
Engineering and development	1,175	1,189	3,425	3,452
Restructuring charge	—	85	—	526
Total operating costs and expenses	4,328	4,111	11,970	12,754
Operating income (loss)	298	(16)	(476)	684
Other income (expenses), net:				
Equity income from investment in joint ventures	—	421	—	771
Gain on sale of investment in joint ventures	—	—	674	—
Interest and dividend income	9	23	56	69

Interest expense	—	(13)	(10)	(67)
Other expenses, net	(43)	(97)	(189)	(150)
Total other (expenses) income, net	(34)	334	531	623
Income before income taxes	264	318	55	1,307
Benefit (provision) for income taxes	43	(58)	89	(267)
Net income	$ 307	$ 260	$ 144	$ 1,040
Basic net income per share	$ 0.07	$ 0.06	$ 0.03	$ 0.23
Diluted net income per share	$ 0.06	$ 0.05	$ 0.03	$ 0.21
Basic weighted average shares outstanding	4,663	4,484	4,636	4,476
Diluted weighted average shares outstanding	4,795	4,769	4,782	4,844

HATHAWAY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the nine months ended March 31,	
	2002	**2001**
Cash Flows From Operating Activities:		
Net income	$ 144	$ 1,040
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	559	704
Provision for doubtful accounts	81	45
Provision for obsolete inventory	238	247
Equity income from investment in joint venture, net of dividend	—	(578)
Gain on sale of investment in joint venture	(674)	—
Deferred income tax (benefit) provision	(338)	(73)
Other	14	40
Changes in assets and liabilities:		
(Increase) decrease in—		
Restricted cash	(109)	(69)
Trade receivables	790	(221)
Inventories	(515)	(1,388)
Other current assets	(367)	(271)
Increase (decrease) in—		
Accounts payable	139	66
Accrued liabilities and other	2	1,066
Net cash (used in) provided by operating activities	(36)	608
Cash Flows From Investing Activities:		
Purchase of property and equipment, net	(777)	(806)
Proceeds from sale of investment in joint venture	3,020	—
Net cash provided by (used in) investing activities	2,243	(806)
Cash Flows from Financing Activities:		
Repayments on line of credit	(553)	(1,124)
Borrowings on line of credit	—	110
Repayments from loan to employee stock ownership plan	27	74
Sale of stock to employee stock ownership plan	106	—
Sales of stock to employees through stock purchase plan	69	—
Proceeds from exercise of stock options	9	48
Net cash used in financing activities	(342)	(892)
Effect of foreign exchange rate changes on cash	12	(54)
Net increase (decrease) in cash and cash equivalents	1,877	(1,144)
Cash and cash equivalents at beginning of year	1,911	2,928

Cash and cash equivalents at March 31	$ 3,788	$ 1,784

HATHAWAY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Preparation and Presentation

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

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

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

It is suggested that the accompanying condensed interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the June 30, 2001 Annual Report and Form 10-K previously filed by the Company.

2. Inventories

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

	March 31, 2002	June 30, 2001
Parts and raw materials, net	$ 3,551	$ 3,251
Finished goods and work-in process, net	1,659	1,680
	$ 5,210	$ 4,931

3. Basic and Diluted Earnings Per Share

For the three and nine months ended March 31, 2002, 131,639 and 145,533 shares of common stock, respectively, were included in the calculation of diluted earnings per share based upon options outstanding as converted under the treasury stock method. For the three and nine months ended March 31, 2001, 284,938 and 367,805 shares of common stock, respectively, were included in the calculation of diluted earnings per share based upon options outstanding as converted under the treasury stock method.

4. Segment Information

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

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

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

	For the three months ended March 31,				For the nine months ended March 31,			
	2002		2001		2002		2001	
	Power and Process	Motion Control	Power and Process	Motion Control	Power and Process	Motion Control	Power and Process	Motion Control
Revenues from external customers	$ 7,337	$ 4,051	$ 5,481	$ 5,832	$ 19,233	$ 11,919	$ 18,676	$ 17,136
Gain on sale of investment in joint venture	—	—	—	—	674	—	—	—
Equity income from investments in joint ventures	—	—	421	—	—	—	771	—
Income (loss) before income taxes	132	174	(1,064)	1,046	(890)	612	(2,568)	3,206

	As of March 31, 2002	As of June 30, 2001

	Power and Process	Motion Control	Power and Process	Motion Control
Identifiable assets	$ 10,277	$ 6,450	$ 12,142	$ 6,532

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

	For the three months ended March 31,		For the nine months ended March 31,	
	2002	2001	2002	2001
Segments' income (loss) before income taxes	$ 306	$ (18)	$ (278)	$ 638
Corporate activities	(42)	336	333	669
Consolidated income before income taxes	$ 264	$ 318	$ 55	$ 1,307

	As of March 31, 2002	As of June 30, 2001
Segments' identifiable assets	$ 16,727	$ 18,674
Corporate assets and eliminations	3,446	1,529
Consolidated total assets	$ 20,173	$ 20,203

Sales to international customers were $3,382,000 and $3,499,000 for the three months ended March 31, 2002 and 2001, respectively and $9,804,000 and $11,423,000 for the nine months ended March 31, 2002 and 2001, respectively.

5. Comprehensive Income

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

Comprehensive income is computed as follows (in thousands):

	For the three months ended March 31,		For the nine months ended March 31,	
	2002	2001	2002	2000
Net income	$ 307	$ 260	$ 144	$ 1,040
Translation adjustment	(60)	(138)	33	(175)
Comprehensive income	$ 247	$ 122	$ 177	$ 865

6. Investment in Joint Ventures

On July 5, 2001, the Company completed the sale of its 20% equity interest in Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang) for $3,020,000 in cash. The sale became effective upon receipt of the net proceeds in U.S. dollars and the required approvals from the State Administration of Foreign Exchange in China. The Company sold its interest to Beijing Si Fang Tongchuang Protection and Control Co., Ltd. (Tongchuang), a Chinese company. Prior to the sale, Tongchuang held a 22% interest in Si Fang.

The Company recorded a pretax gain on the sale, net of selling costs, of $674,000, or $.14 per diluted share, in the nine months ending March 31, 2002 and equity income of $771,000, or $.16 per fully diluted share in the nine months ending March 31, 2001. These amounts are included in other income in the Company's consolidated financial statements.

7. Recently Issued Accounting Standards

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

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets and requires that goodwill no longer be amortized but be tested for impairment at least annually at the reporting unit level in accordance with SFAS No. 142. Goodwill must also be reviewed for impairment when certain events indicate that the goodwill may be impaired. Recognized intangible assets should, generally, be amortized over their useful life and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Because the Company is a noncalendar year-end company, the FASB has allowed adoption of SFAS No. 142 either in fiscal year 2002 or fiscal year 2003, except for provisions related to the nonamortization and amortization of goodwill and intangible assets acquired after June 30, 2001, which will be subject immediately to the provisions of SFAS No. 142. The Company will adopt SFAS No. 142 on July 1, 2002. The Company has not yet quantified the effects of adopting SFAS No. 142 on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121. SFAS No. 121 did not address the accounting for a segment of a business accounted for as a discontinued operation which resulted in two accounting models for long-lived assets to be disposed of. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS No. 144 on July 1, 2002, and has not yet quantified the effects of adopting SFAS No. 144 on its financial position or results of operations.

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

All statements contained herein that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word "believe," "anticipate," "expect," "project," "intend," "will continue," "will likely result," "should" or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results of the Company to differ materially from the forward-looking statements. These risks and uncertainties include, among others, the following: international, national and local general business and economic conditions in the Company's motion control, process and power markets, introduction of new technologies, products and competitors, the ability to protect the Company's intellectual property, the ability of the Company to sustain, manage or forecast its growth and product acceptance, the continued success of the Company's customers to allow the Company to realize revenues from its order backlog and to support the Company's expected delivery schedules, the continued viability of the Company's customers and their ability to adapt to changing technology and product demand, the ability of the Company to meet the technical specifications of its customers, the continued availability of parts and components, increased competition and changes in competitor responses to the Company's products and services, changes in government regulations, availability of financing, the ability of the Company's lenders and financial institutions to provide additional funds if needed and the ability to attract and retain qualified personnel who can design new applications and products for the motion control and power industries. Deregulation and changes in demographic patterns and weather conditions have changed the product needs and requirements of the power industry and new products are being introduced on a regular basis. They are often products for improving the efficiency and reliability of the power systems and include products that automate and improve the availability of information regarding the performance of the power system. The Company's ability to compete in this market depends upon its capacity to anticipate the need for new products, and to continue to design and market those products to meet customers' needs in a competitive world.

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

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

OPERATING RESULTS

Consolidated Results

For the third quarter ended March 31, 2002, the Company recognized net income of $307,000, or $.06 per fully diluted share, compared to net income of $260,000, or $0.05 per fully diluted share, for the same period last year. Last year's third quarter net income includes a pretax restructuring charge of $85,000. Excluding the restructuring charge, net income for the third quarter last year was $304,000 or $.06 per fully diluted share.

For the nine months ended March 31, 2002, the Company recognized net income of $144,000, or $.03 per fully diluted share, compared to net income of $1,040,000, or $.21 per fully diluted share, for the same period last year. Last year's net income for the first nine months includes a pretax restructuring charge of $526,000. Excluding the restructuring charge, net income for the first nine months last year was $1,416,000 or $.29 per fully diluted share.

Total revenues for the third quarter fiscal year 2002 increased 1% to $11,388,000 from $11,313,000 during the same quarter of last fiscal year. Total revenues for the first nine months ended March 31, 2002 decreased 13% to $31,152,000 from $35,812,000 for the same period last year. Factors contributing to lower revenues are described below in the discussion of segment results.

Total gross product margin as a percentage of revenues during the third quarter this year increased to 41% from 37% last year. Total gross product margin as a percentage of revenues during the first nine months this year decreased to 37% from 38% last year. Changes are primarily due to changes in the mix of products sold. The decrease for the nine month period is also due to the decrease in sales volume resulting in less favorable absorption of fixed costs.

Selling, general and administrative expenses for the quarter increased 12% to $3,153,000 from $2,837,000 last year primarily due to a pretax power instrumentation management incentive bonus accrual of $221,000 recorded during the third quarter this year compared to no bonus recorded last year. For the nine months ended March 31, 2002, selling, general and administrative expenses decreased 2% to $8,545,000 from $8,776,000 for the same period last year due to savings this year from continued cost reduction efforts by the Company, partially offset by the bonus accrual.

Engineering and development expenses decreased 1% to $1,175,000 from $1,189,000 for the quarter ended March 31, 2002 and 2001, respectively while remaining constant at $3,425,000 and $3,452,000 for the first nine months of this year and last year, respectively.

In the quarter ended March 31, 2002, the Company recognized a benefit from income taxes of $43,000 compared to a $58,000 income tax provision for the same period last year. In the first nine months of fiscal 2002, the company recognized a benefit from income taxes of $89,000 compared to a $267,000 income tax provision for the same period last year. The effective rate used to calculate income taxes on an interim basis is based on projected income for the year. The effect of changes in estimated effective rates is included in the period the change is identified. The amounts differ from U.S. statutory amounts primarily due to reductions in previously recorded valuation allowances because of utilization of tax loss and credit carry forwards that have not been previously benefited as well as effective rate differences on foreign income.

Motion Control Segment Results

Pretax profit for Motion Control for the third quarter fiscal 2002 was $174,000 compared to $1,046,000 for the same period last year. For the first nine months of fiscal 2002 pretax profit was $612,000 compared to $3,206,000 for the same period last year.

Revenues from Motion Control decreased 30% to $4,051,000 for the third quarter this year from $5,832,000 for the third quarter last year. Revenues from Motion Control for the nine months also decreased 30% to $11,919,000 this year from $17,136,000 for the nine months last year.

The decrease in profits and revenues from the Motion Control segment is primarily attributable to the adverse effects of the continued economic slowdown, especially in the telecommunication and semiconductor processing industries.

Power and Process Segment Results

Power and Process reported a pretax profit of $132,000 for the quarter ended March 31, 2002 compared to a $979,000 pretax loss before a restructuring charge of $85,000 for the third quarter last year. For the nine months ended March 31, 2002, Power and Process reported a pretax loss of $890,000 compared to $2,042,000 pretax loss before the restructuring charge of $526,000 for the same period last year. The current year's nine months results include a $674,000 pretax gain from the sale of the Company's interest in Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), compared with $771,000 equity income from Si Fang included in the first nine months last year. Without the income from the China joint venture or the restructuring charge, the Power and Process segment reported a pretax loss of $1,564,000 for the first nine months of fiscal 2002 compared with a pretax loss of $2,813,000 for the first nine months of fiscal 2001.

During the first quarter of the current fiscal year, the Company completed the sale of our 20% equity interest in Si Fang, the largest of our Chinese joint venture investments. The sale price for our investment was $3,020,000. Si Fang had begun the process of becoming a publicly traded company in the Chinese stock market and was encountering difficulties with a successful IPO due to the foreign ownership by the Company. In addition, Si Fang had begun developing product lines and engaging in business transactions which were not compatible with Hathaway's business. Accordingly, the largest owner in Si Fang made an offer to buy out Hathaway's interest and the Company felt this was the appropriate time and structure to dispose of the investment. The proceeds received from the sale will be used to look for other opportunities to expand the Company, including investing in internal growth as well as pursuing complementary acquisitions.

Power and Process revenues for the third quarter of fiscal 2002 were $7,337,000 compared to $5,481,000 for the same period last year and for the nine months were $19,233,000 compared to $18,676,000 for the same period last year. The 3% increase in Power and Process revenues for the first nine months this year compared to last year reflects a decline in revenues from systems automation products offset by a 21% increase in revenues from the power instrumentation products. The decrease in systems revenues is a result of the Company's decision to shift the focus of the systems automation business to power generation and transmission automation systems and away from industrial automation applications.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity position as measured by cash and cash equivalents (excluding restricted cash) increased $1,877,000 during the first nine months of fiscal 2002 to $3,788,000 at March 31, 2002, compared to a decrease of $1,144,000 in the first nine months of fiscal 2001. This difference is largely due to differences in activities from our Si Fang joint venture and debt repayments. During this year's first nine months, $3,020,000 was received from the sale of our 20% ownership in Si Fang, compared to $193,000 dividend received last year. Repayments to pay off the Company's line of credit totaled $553,000 during the first nine months compared to $1,014,000 net repayments in the same period last year. Excluding the Si Fang activities and net repayments on the line of credit, cash used in the first nine months of fiscal 2002 was $408,000 compared to $323,000 used during the same period last year.

The Company expects to fund its remaining fiscal 2002 working capital, capital expenditure and debt service requirements from the existing cash balance of $3,788,000 and the $1,942,000 available under the financing agreement at March 31, 2002. The Company believes that such amounts are sufficient to fund operations and working capital needs for at least the next twelve months. The Company's financing agreement with Silicon Valley Bank matures on May 7, 2003 and will continue for successive additional terms of one year unless either party gives notice of termination at least sixty days before the maturity date. The Company has not received notice of termination and does not anticipate receiving or giving such notice, however, if such notice was received, the Company would pursue other lenders to meet its long-term financing needs. Although the Company believes it would be successful in its efforts to obtain alternate financing, there are no assurances that it would be successful in doing so. An inability to obtain such alternate financing may have a material adverse effect on the Company's results of operations and financial condition and could require the Company to implement various strategic alternatives.

OUTLOOK

The Company's total sales order backlog at March 31, 2002 was $17,484,000, which is down 30% from March 31 last year; however 65% of the decrease resulted from the cancellation of a $4,750,000 Motion Control order that was received in March 2001 to supply motors and optical encoders to a customer in the fiber optic telecommunications industry over an 18 month period. While the Company's products are still designed into the customer's products, deliveries of our products have been halted by the customer due to excess inventories and the economic downturn. The company believed it was important to have the order cancelled and obtain reimbursement for the current inventory exposure and have the customer release new orders at the time they are ready to start accepting deliveries. Currently, the Company is delivering products to this customer under other orders and hopes to receive new orders as the economy recovers and the customer begins accelerating delivery of its products.

At March 31, 2002, backlog for Motion Control orders was $9,246,000, down 34% from the same time last year, due to the cancellation of the $4,750,000 telecommunications order described above. Other than the effect from the order cancellation, backlog for the quarter and year to date has increased 6% and 11%, respectively. The Company believes that when deliveries of tunable lasers and spectrum analyzers that use our products begin to accelerate, we should be able to obtain new orders with higher margins. Additionally, the Company has recently been successful in winning new orders for Motion Control products from the military, medical, automotive and industrial automation markets and will continue to explore other opportunities to expand into new industry sectors and posture the Motion Control business for a quick recovery as the economy strengthens.

Sales order backlog for Power and Process orders was $8,238,000 at March 31, 2002 which is down 23% from the same time last year, but up slightly from December 31, 2001. The Company continues to be a leading supplier of products and systems that provide solutions to the new challenges being faced by the electric power companies and generator owners; however, the new power systems business is not accelerating as quickly as the completion of the industrial projects backlog. While the Company will continue to selectively pursue industrial projects, the future growth in revenues for our systems business is highly dependent on the continued growth in the power applications side of this business. Power and Process continues to build momentum and future opportunities with successful installations of its evaluation systems into the transmission substations of major power companies.

During the second quarter of this fiscal year, the Company announced it had been selected as the Lead Bidder to acquire the business and related assets of the Industrial Devices Division (IDC) of Automation Solutions International LLC (ASI), located in Petaluma, California which was being sold pursuant to a bankruptcy proceding. The bankruptcy sales procedures called for an auction on February 5, 2002 where other bids were entertained. The Company was outbid during the auction process and therefore received a break-up fee of $140,000. The Company will continue to explore other opportunities to enhance the motion control business through acquisition opportunities as well as additional focus on growing our existing motion control product lines.

The continued economic slowdown has adversely affected the Company's revenues and profits, especially in the motion control segment, and continued general economic softness may result in future adverse impacts on the Company's revenue and profits. The Company responded quickly to the market conditions by reducing costs and developing applications for the motion control products into new markets and broader segments of existing markets. The Company believes it is well positioned for growth as the economy strengthens and demand for our customers' products accelerates. We will continue to actively seek new opportunities to mitigate the effects of the economy on our business.

The Company's power and process segment has not been as affected by changes in the state of the economy. The power instrumentation business has experienced a growth in revenues and profits this year over last year. However, the segment's backlog has declined due to a significant decrease in systems automation backlog as a result of our decision to shift the focus of the systems automation business to power generation and transmission automation systems and away from industrial automation applications. Recent successful installations of our technology in evaluation systems have created momentum and growth opportunities. We continue to generate new opportunities for expansion of our products into the power industry and are striving to bring those opportunities to fruition.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10. Agreement for Assignment of Equity Interest in Hathaway Si Fang Protection and Control Co., Ltd. *

13. Annual Report containing Notes to Consolidated Financial Statements in the Registrant's June 30, 2001 Annual Report to Stockholders. *

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

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the nine months ended March 31, 2002:

1. Form 8-K dated July 5, 2001 reporting the sale of the Company's 20% equity interest in Hathaway Si Fang Protection and Control Co., Ltd. (Si Fang) for $3,020,000 in cash.

2. Amendment No. 1 to Form 8-K dated August 31, 2001 presenting unaudited pro forma financial information to give effect to the sale of the Company's joint venture investment in Si Fang as if it had occurred on July 1, 1999. The financial statements included were the unaudited pro forma consolidated balance sheet as of March 31, 2001 and the unaudited pro forma consolidated statements of operations for the year ended June 30, 2000 and the nine months ended March 31, 2001.

3. Form 8-K dated December 19, 2001, reporting the Company's announcement that it has been selected as the Lead Bidder to acquire the business and related assets of the Industrial Devices Division (IDC) of Automation Solutions International LLC (ASI), located in Petaluma, California.

4. Form 8-K dated February 6, 2002, reporting the Company's announcement that it was not successful in acquiring the business and related assets of the Industrial Devices Division (IDC) of Automation Solutions International LLC (ASI), located in Petaluma, California.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HATHAWAY CORPORATION

DATE: May 14, 2002

By: /s/ RICHARD D. SMITH

Chief Executive Officer and Chief Financial Officer