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

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to ________________.

Commission file number: 0-4041

HATHAWAY CORPORATION

(Exact name of registrant as specified in its charter)

Colorado	84-0518115
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8228 Park Meadows Drive Littleton, Colorado	80124
(Address of principal executive offices)	(Zip Code)

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

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

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

____

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

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

As of September 9, 1999, the aggregate market value of voting stock held by non-affiliates of the Registrant, computed by reference to the average bid and asked prices of such stock approximated $6,368,000.

____

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated September 23, 1999 are incorporated by reference in Part III of this Report.

____

Table of Contents

		Page
Part I.		
Item 1.	Business	1
Item 2.	Properties	4
Item 3.	Legal Proceedings	4
Item 4.	Submission of Matters to a Vote of Security Holders	4
Part II.		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	4
Item 6.	Selected Financial Data	5
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	6
Item 8.	Financial Statements and Supplementary Data	12
	Report of Independent Public Accountants	13
Item 9.	Disagreements on Accounting and Financial Disclosure	33
Part III.		
Item 10.	Directors and Executive Officers of the Registrant	33
Item 11.	Executive Compensation	33
Item 12.	Security Ownership of Certain Beneficial Owners and Management	33
Item 13.	Certain Relationships and Related Transactions	33
Part IV.		
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	34
	Signatures	37
	Financial Statement Schedule	38

PART I

Item 1. Business.

Hathaway Corporation (the Company) was organized under the laws of Colorado in 1962. The Company is engaged in the business of designing, manufacturing and selling advanced systems and instrumentation to the worldwide power and process industries, as well as motion control products to a broad spectrum of customers throughout the world. The Company operates primarily in the United States and the United Kingdom and has three joint venture investments in China.

Power and Process Business

Power Instrumentation

Hathaway's complete line of power instrumentation products helps ensure that electric utilities provide high quality service to consumers of electricity. With manufacturing facilities in Seattle and Belfast, Northern Ireland, and sales and engineering functions in Seattle, Belfast and Denver, the power products group produces a comprehensive and cost-effective range of products designed exclusively for the power industry worldwide. Hathaway's equipment assists the electric power system operators in operating and maintaining proper system performance. The products, which are used to monitor and control the power generation, transmission and distribution processes, include fault recording products, fault location products, condition monitoring (circuit breaker) products and remote terminal units for Supervisory Control and Data Acquisition (SCADA) systems.

The Company also has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). The Company holds a 25% interest in Kehui, a 23% interest in Si Fang and a 40% interest in HPMS. Kehui designs, manufactures and sells cable and overhead fault location, SCADA systems and other test instruments in China. Si Fang designs, manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems in China. The Company will sell these products outside of China. HPMS manufactures and sells, under a license from the Company, instrumentation products designed by the Company, to electric power companies in China.

Process Instrumentation

The process instrumentation products group manufactures and markets products for the process and power industries including monitoring systems, calibration equipment and process measurement instrumentation. The monitoring systems, called visual anunciators and sequential event recorders, provide both visual and audible alarms and are used to control processes in various plants including, chemical, petroleum, food and beverage, pulp and paper, and textiles. Calibration equipment is used to test and adjust instrumentation for proper and accurate operation in measuring electricity, temperatures and pressure within the process industry. Process measurement instrumentation includes signal conditioning products and transducers used to measure such variables as temperature, voltage, current and power in various industrial applications.

Systems Automation

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

TIS has operated under the ownership of Hathaway Industrial Automation (HIA), a newly formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located near Baltimore, Maryland and is a full service supplier of process automation systems for industrial applications. HIA has developed a state-of-the-art software system for Supervisory Control and Data Acquisition (SCADA) and Distributed Control Systems (DCS). The HIA system has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company has been successful at teaming the HIA system with certain existing Hathaway products and targeting the combined product at substation automation and integration applications used in power transmission and distribution facilities.

Restructuring

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

Motion Control Business

The motion control group offers quality, cost-effective products that suit a wide range of applications in the industrial, medical, military and aerospace sectors, as well as in manufacturing of analytical instruments and computer peripherals. The end products using Hathaway technology include special industrial and technical products such as satellite tracking systems, MRI scanners, and high definition printers.

The motion control group is organized into one division and two subsidiaries, respectively, of Hathaway Motion Control Corporation, a wholly-owned subsidiary of the Company: Motors and Instruments Division (MI - Tulsa), Emoteq Corporation (Emoteq - Tulsa) and Computer Optical Products, Inc. (COPI- Chatsworth, CA).

Effective July 1, 1998, Emoteq Corporation acquired all of the outstanding shares of Ashurst Logistic Electronics Limited of Bournemouth, England (Ashurst) for $317,000. Ashurst manufactures drive electronics and position controllers for a variety of motor technologies as well as a family of static frequency converters for military and aerospace applications and has extensive experience in power electronics design and software development required for the application of specialized drive electronics technology. The acquired company was renamed Emoteq UK Limited.

The MI division manufactures precision direct-current fractional horsepower motors and certain motor components. Industrial equipment and military products are the major application for the motors. This division also supplies spare parts and replacement equipment for general-purpose instrumentation products.

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

Optical encoders are manufactured by COPI. They are used to measure rotational and linear movements of parts in diverse applications such as machine tools, robots, printers and medical equipment. The primary markets for the optical encoders are in the industrial, medical and computer peripheral manufacturing sectors. COPI also designs, manufactures and markets fiber optic-based encoders with special characteristics, such as immunity to radio frequency interference and high temperature tolerance, suited for industrial, aerospace and military environments. Applications include airborne navigational systems, anti-lock braking transducers, missile flight surface controls and high temperature process control equipment.

Product Distribution and Principal Markets

The Company maintains a direct sales force. In addition to its own marketing and sales force, the Company has developed a worldwide network of independent sales representatives and agents to market its various product lines.

The Company faces competition in all of its markets, although the number of competitors varies depending upon the product. The Company believes there are only a small number of competitors in the power and process markets, but there are numerous competitors in the motion control market. No clear market share data is available for the Company's other product areas. Competition involves primarily product performance and price, although service and warranty are also important.

Financial Information about Operating Segments

The information required by this item is set forth in Note 9 of the Notes to Consolidated Financial Statements on page 30 herein.

Availability of Raw Materials

All parts and materials used by the company are in adequate supply. No significant parts or materials are acquired from a single source.

Patents, Trademarks, Licenses, Franchises, and Concessions

The Company holds several patents and trademarks regarding components used by the various subsidiaries; however, none of these patents and trademarks are considered to be of major significance.

Seasonality of the Business

The Company's business is not of a seasonal nature, however, revenues derived from the power market may be influenced by customers' fiscal year ends and holiday seasons.

Working Capital Items

The Company currently maintains inventory levels adequate for its short-term needs based upon present levels of production. The Company considers the component parts of its different product lines to be readily available and current suppliers to be reliable and capable of satisfying anticipated needs.

Sales to Large Customers

During fiscal 1999, 1998 and 1997 no single customer accounted for more than 10% of the Company's consolidated revenue from continuing operations.

Sales Backlog

The Company's backlog at June 30, 1999 consisted of sales orders totaling approximately $18,260,000. The Company expects to ship goods filling $16,128,000 of those purchase orders within fiscal 2000. This compares to a backlog of $13,892,000 at June 30, 1998, of which $13,712,000 was scheduled for shipment in fiscal 1999.

Government Sales

Approximately $302,000 of the Company's backlog as of June 30, 1999 consisted of contracts with the United States Government. The Company's contracts with the government contain a provision generally found in government contracts which permits the government to terminate the contract at its option. When the termination is attributable to no fault of the Company, the government would, in general, have to pay the Company certain allowable costs up to the time of termination, but there is no compensation for loss of profits.

Engineering and Development Activities

The Company's expenditures on engineering and development were $4,466,000 in fiscal 1999, $4,411,000 in fiscal 1998 and $3,646,000 in fiscal 1997. Of these expenditures, no material amounts were charged directly to customers.

Environmental Issues

No significant pollution or other types of emission result from the Company's operations and it is not anticipated that the Company's proposed operations will be affected by Federal, State or local provisions concerning environmental controls. However, there can be no assurance that any future regulations will not affect the Company's operations.

Foreign Operations

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

Employees

As of the end of fiscal 1999, the Company had approximately 353 full-time employees.

Item 2. Properties.

The Company leases its administrative offices and manufacturing facilities as follows:

Description / Use	Location	Approximate square footage
Corporate headquarters and sales and engineering offices	Littleton, Colorado	14,000
Engineering and development facility	Evergreen, Colorado	3,000
Office and manufacturing facility	Carrolton, Texas	29,000
Office and manufacturing facility	Kent, Washington	21,000
Engineering, development and administrative office	Hunt Valley, Maryland	14,000
Office and manufacturing facility	Tulsa, Oklahoma	13,000
Office and manufacturing facility	Chatsworth, California	13,000
Office and manufacturing facility	Tulsa, Oklahoma	10,000
Office facility	Hoddesdon, England	3,000
Office and manufacturing facility	Belfast, Northern Ireland	17,000
Office and manufacturing facility	Bournemouth, England	2,100

The Company's management believes the above-described facilities are adequate to meet the Company's current and foreseeable needs. All facilities described above are operating at or near full capacity.

Item 3. Legal Proceedings.

The Company is involved in certain actions that have arisen out of the ordinary course of business. Management believes that resolution of the actions will not have a significant adverse effect on the Company's consolidated financial position or results of operations.

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

No matter was submitted to a vote of the security holders of the Company in the fourth quarter of fiscal year 1999.

PART II

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

Effective March 18, 1999, trading in Hathaway Corporation's common stock was moved from the Nasdaq National Market to the Nasdaq Small Cap Market System and continued trading under the symbol HATH. The number of holders of record of the Company's common stock as of the close of business on September 9, 1999 was 594. The Company did not pay or declare any dividends during fiscal years 1999 and 1998 as the Company's long-term financing agreement prohibits the Company from doing so without prior approval.

The following table sets forth, for the periods indicated, the high and low prices of the Company's common stock on the Nasdaq National Market (through March 18, 1999) and on the Nasdaq Small Cap Market System (after March 18, 1999), as reported by Nasdaq.

	Price Range	
	High	Low
Fiscal 1998		
First Quarter	$ 4.50	$ 2.63
Second Quarter	4.00	2.38
Third Quarter	2.94	2.13
Fourth Quarter	2.63	1.56
Fiscal 1999		
First Quarter	$ 2.06	$ 0.75
Second Quarter	2.31	0.75
Third Quarter	2.38	0.82
Fourth Quarter	2.00	1.38

Item 6. Selected Financial Data.

The following table summarizes data from the Company's annual financial statements for the fiscal years 1995 through 1999 and notes thereto; the Company's complete annual financial statements and notes thereto for the current fiscal year appear in Item 8 beginning on page 12 herein. See Item 1 in the Business section of this report and Note 2 to Consolidated Financial Statements on page 21 for discussion of business acquisitions completed in fiscal years 1999 and 1997.

	For the fiscal years ended June 30,				
	1999	1998	1997	1996	1995
	In thousands (except per share data)				
Statements of Operations Data:					
Net revenues	$41,691	$41,317	$39,946	$35,411	$39,838
Income (loss) before income taxes	$(1,317)	$(2,161)	$(2,192)	$(1,398)	$ 1,321
Benefit (provision) for income taxes	(208)	184	763	385	(479)
Net income (loss)	$(1,525)	$(1,977)	$(1,429)	$(1,013)	$ 842
Diluted net income (loss) per share	$ (0.36)	$ (0.46)	$ (0.34)	$ (0.24)	$ 0.19
Cash dividends:					
Per share	$ --	$ --	$ --	$ 0.10	$ 0.12
Total amount paid	$ --	$ --	$ --	$ 426	$ 536
Balance Sheet Data:					
Total assets at June 30	$16,398	$17,820	$20,477	$21,139	$23,312
Total current and long-term debt at June 30	$ 1,308	$ 1,245	$ 1,769	$ 1,777	$ 2,144

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

All statements contained herein that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause actual results to differ materially are the following: future financial performance may be impacted by the unavailability of sufficient capital on satisfactory terms to finance the Company's business plan, general business and economic conditions in the domestic and international markets, uncertainty in the viability of international markets, particularly the Asian market, and the impact of political unrest on market forces, the introduction of new technologies and competitors into the systems and instrumentation markets where the Company competes, uncertainties in acceptance of new products in the existing power and process market environment, increased competition and changes in competitor responses to the Company's products and services, continued uncertainty about the impact of deregulation of the power business on the Company's products, further adverse changes in the regulatory environment, availability of qualified personnel, and others. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes," "expects," "plans," "anticipates," "intends" or "should" to be uncertain and forward-looking. All cautionary statements made herein should be read as being applicable to all related forward-looking statements wherever they appear. In this connection, investors should consider the risks described herein.

OPERATING RESULTS

Fiscal year 1999 compared to fiscal year 1998

The Company recorded a net loss of $1,525,000 in fiscal year 1999, compared to a net loss of $1,977,000 in fiscal 1998. Revenues increased 1% from $41,317,000, in fiscal 1998 to $41,691,000 in fiscal 1999. The increase in revenues was due to a 4.5% increase in revenues from the Company's power and process instrumentation products partially offset by a 6.2% decrease in revenues from the Company's motion control products. The decrease in Motion Control revenues was primarily due to decreased orders as a result of the Asian economic crises and the slowdown in the semi-conductor industry partially offset by the addition of revenues from Emoteq UK. Motion Control orders, however, increased over the prior year, with the order rate progressively increasing over the last three quarters of fiscal 1999. At June 30, 1999 backlog for Motion Control orders was 24% higher than at June 30, 1998. This is a reflection of Motion Control's expansion into new markets and broader segments of its existing markets. The increased order rate and backlog indicate that the segment should achieve growth in sales and profitability in fiscal year 2000.

Sales to international customers decreased 8% from $13,955,000, or 34% of sales, in fiscal 1998, to $12,902,000, or 31% of sales, in fiscal 1999. Sales order backlog increased 31% from $13,892,000 at June 30, 1998 to $18,260,000 at June 30, 1999. Cost of products sold remained at 64% of revenues in fiscal 1998 and 1999.

Selling expenses decreased 11% from $7,857,000 in fiscal 1998 to $7,012,000 in fiscal 1999 resulting from savings due to the overall cost reduction efforts of the Company as well as from HIA's change in its primary focus to the deregulated power industry in 1999 from industrial markets in previous periods. General and administrative expenses increased 14% from $4,198,000 in fiscal 1998 to $4,798,000 in fiscal 1999 primarily due to bonuses paid to the management of profitable operations and the addition of Emoteq UK. Engineering and development expenses increased 1% from $4,411,000 in 1998 to $4,466,000 in 1999.

Amortization of intangibles and other assets decreased from $738,000 in 1998 to $481,000 in 1999. The decrease was primarily due to the $406,000 impairment write-off in fiscal 1998 of the unamortized portion of goodwill which resulted from the HIA acquisition, partially offset by the $249,000 impairment write-off in fiscal 1999 of the unamortized portion of goodwill from the 1991 acquisition of Hathaway Systems Limited (HSL), and fiscal 1999 amortization expense related to the Ashurst acquisition. (See further discussion under "Business Acquisition" below.)

As a result of its acquisition of HSL, the Company had previously recorded goodwill of $1,197,000. At June 30, 1999 and in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS No. 121), the Company determined that the unamortized cost in excess of net assets acquired from its acquisition of HSL was impaired; and, therefore, wrote-off the remaining unamortized balance of $249,000. The Company's determination was based on projections

of undiscounted cash flows of HSL, which were based on current marketplace conditions, low orders and continuing losses. Such undiscounted cash flow estimates were not sufficient to indicate realization of the related unamortized cost in excess of net assets acquired. Utilizing such projections and discounting the estimated cash flows, the Company determined that the entire unamortized amount was impaired. The current year amortization of $125,000 and impairment write-off of $249,000, totaling $374,000, is included in amortization of intangibles and other in the fiscal year 1999 consolidated statement of operations.

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 manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems and the Company will sell these products outside of China. HPMS manufactures and sells, under a license from Hathaway, instrumentation products designed by Hathaway, to electric power companies in China.

The Company has no future commitments relating to these investments, however Si Fang has requested additional capital from each joint venture partner to be invested in September 1999. The Company has agreed to sell 3% of its ownership interest for $143,000 and reinvest the proceeds plus an additional $143,000 in cash plus $139,000 of dividends. After the sale and capital contribution, the Company's ownership interest will be 20%.

The Company accounts for the Chinese joint ventures using the equity method of accounting. At the time of the original investments in the Chinese joint ventures and until fiscal 1998, the Company determined that due to the start-up nature of the entities, their untested products and political uncertainty in China, the realization of the initial investments and subsequent earnings (which were not significant) was uncertain; and, therefore, the Company fully reserved against the original investments and its share of any equity in income.

During fiscal years 1998 and 1999, Kehui and Si Fang's operations continued to mature, their products have gained significant acceptance and both companies have sustained profitability. Because of sustained positive operating results, offset by a certain amount of political and business uncertainty in China, the Company recognized a portion of its share of equity income from these two joint ventures, totaling $329,000 and $222,000 in fiscal years 1999 and 1998, respectively. These amounts are included in equity income from investments in joint ventures in the consolidated statements of operations. The amounts recognized represent management's best estimate of the future amounts that will be received from the joint ventures as of June 30, 1999. The Company will continue to recognize its share of equity in income (loss) from these two joint ventures to the extent it believes such amounts are realizable.

During fiscal 1999, the Company sold 2% of its investment in Si Fang for $57,000 in cash and recognized a $49,000 gain on the sale, which is included in other income in the accompanying statement of operations. The Company also invested an additional $92,000 in the joint venture and received $121,000 cash dividends during the fiscal year. At June 30, 1999, the Company has recorded a net investment in Si Fang and Kehui of $467,000 and $47,000, respectively, which is included in investment in joint ventures, net in the consolidated balance sheets.

Prior to June 30, 1999, the Company also had an 11.4% interest in a joint venture (JV) with KUB Holdings BHD, a Malaysian firm, acquired from TIS, which had a carrying value of $0. The JV was created for the purpose of marketing and selling the TIS-4000 system of HIA in certain Asian countries. As of June 30, 1998, the JV had ceased all operations due to unprofitability and the Asian economic downturn. During fiscal year 1999, the JV was dissolved and settled its existing obligations from its existing assets. The license to manufacture, market and sell the TIS-4000 system reverted back to the Company and the Company has no further obligations related to this JV.

In fiscal year 1999 the Company recognized a provision for income taxes of $208,000 compared to a benefit of $184,000 in fiscal year 1998. The effective tax rate was a provision of 16% in fiscal 1999 and a benefit of 9% in fiscal 1998. The difference is primarily due to a decrease in nondeductible expenses and goodwill amortization plus an increase in the valuation allowance against the deferred tax asset. The increase is also due to income taxes payable in local tax jurisdictions where the Company has no net operating losses. The valuation allowance was increased primarily due to the increased level of net operating losses being carried forward and the Company's continued operating losses. Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient United States federal taxable income (approximately $1,859,000) in future years to obtain

benefit from the reversal of net deductible temporary differences and from tax credit and net operating loss carryforwards. The Company's management believes that, on a more likely than not basis, the recorded net deferred tax asset is realizable. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future United States federal taxable income are changed.

Fiscal year 1998 compared to fiscal year 1997

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

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

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

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

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

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

As a result of its acquisition of HIA in fiscal 1997, the Company recorded goodwill of $624,000 primarily due to loss accruals on an in-process contract acquired by the Company. At June 30, 1998, and in accordance with SFAS No. 121, the Company determined that the unamortized cost in excess of net assets acquired from its acquisition of TIS was impaired; and, therefore, wrote-off the remaining unamortized balance of $406,000. The Company's determination was based on projections of undiscounted cash flows of HIA, which were based on current marketplace and competitive conditions and resulting low margins for the industrial applications of HIA's products. Such undiscounted cash flow estimates were not sufficient to indicate realization of the related unamortized cost in excess of net assets acquired. Utilizing such projections and discounting the estimated cash flows, the Company determined that the entire unamortized amount was impaired. The fiscal year 1998 amortization of $202,000 and impairment write-off of $406,000 is included in amortization of intangibles and other in the fiscal year 1998 consolidated statement of operations.

In fiscal 1998 the Company recognized $222,000 of equity income from its investment in two Chinese joint ventures, Kehui and Si Fang as compared to none recognized in 1997.

In fiscal year 1998 the Company recognized a benefit for income taxes of $184,000 compared to $763,000 in fiscal year 1997. The decrease is primarily due to an increase in nondeductible expenses and goodwill amortization plus an increase in the valuation allowance.

BUSINESS ACQUISITIONS

Ashurst Logistic Electronics Limited

Effective July 1, 1998, Emoteq Corporation, a wholly-owned subsidiary of the Company, acquired all the outstanding shares of Ashurst Logistic Electronics Limited of Bournemouth, England (Ashurst) for $317,000 in cash. Ashurst manufactures drive electronics and position controllers for a variety of motor technologies as well as a family of static frequency converters for military and aerospace applications and has extensive experience in power electronics design and software development required for the application of specialized drive electronics technology. The acquired company was renamed Emoteq UK Limited. The acquisition has been accounted for using the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition.

Tate Integrated Systems, Inc.

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

TIS has operated under the ownership of Hathaway Industrial Automation (HIA), a newly formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located in Hunt Valley, Maryland and is a full service supplier of process automation systems for industrial applications. HIA has developed a state-of-the-art software system for Supervisory Control and Data Acquisition (SCADA) and Distributed Control Systems (DCS). The HIA system has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, HIA's system is being marketed to the degregulated power utility industry. The Company is selling the HIA system together with certain other Hathaway products and targeting the combined product at substation automation and integration applications used in the generation, distribution and transmission of power.

The acquisition has been accounted for using the purchase method of accounting; and, accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition.

For the years ended June 30, 1999 and 1998 and the nine month post-acquisition period ended June 30, 1997, HIA had losses before income taxes of approximately $1.2 million, $2.7 million and $1.3 million, respectively. HIA's traditional business is highly dependent on sales to the industrial market which typically encompasses a long sales cycle, significant customization to specific customer requirements, long performance periods and large contract values which are subject to a high degree of scrutiny and negotiation with customers.

Consistent with the Company's strategy to develop applications for the HIA software for the deregulated power industry, the Company has continued to invest substantial resources in HIA. As evidenced by HIA's profitable fourth quarter in fiscal year 1999, the Company is beginning to successfully market HIA's products to the deregulated power industry. HIA's fourth quarter profitability was partially due to its completion of certification testing of one of its automation systems with the California Independent System Operator Corporation (California ISO). Certification allows the Company's system to be installed at generator sites throughout California. The Company's system is currently the only certified system available to California generators. Each system will sell for $38,000 to $102,000 per site, depending on the size and technical requirements of each site. There are approximately 900 power generators located at approximately 600 generation plants that supply electricity to consumers in the state of California. The automation system developed for California ISO will enable California ISO to measure and control the amount of electricity being put into the transmission system by generators to ensure reliable delivery of power to meet the demands of the consumers in California. A major feature of the system is its ability to use digital certificate and encryption technology to ensure data privacy and control security.

Also during the second half of fiscal 1999, HIA was awarded a $6.2 million contract to supply a control and automation system for the treatment plant which supplies all potable water to the Las Vegas region.

Management believes that the software products developed by HIA, as modified for the power industry and combined with other Company products, will provide power companies with automated and integrated systems

solutions that will both reduce their operating costs and improve the reliability of their power supply. However, there can be no assurance that such modifications will be successful and/or economically viable. Management believes that there is significant demand in the power industry for such solutions as a result of the business environment created by the recent industry deregulation.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity position as measured by cash and cash equivalents (excluding restricted cash) decreased $1,027,000 during the year to a balance of $2,416,000 at June 30, 1999. Fiscal 1999 operating activities used $81,000, compared to $1,450,000 generated in fiscal 1998 and $197,000 used in 1997. The amounts used to fund the operations of the HIA business in 1999, 1998 and 1997 was $1,379,000, $1,628,000 and $1,592,000, respectively, while the amounts generated from the operating activities of the Company's other businesses was $1,298,000, $3,078,000 and $1,395,000, respectively, for the same periods. The increased cash generated from operations during 1998 was primarily due to income tax refunds received.

Cash of $987,000, $914,000 and $1,313,000 was used by investing activities in fiscal 1999, 1998 and 1997, respectively. The 1999 cash used for investing activities includes $281,000, net of cash acquired, paid for the purchase of Emoteq UK Limited and $86,000 net cash received from investments in joint ventures. The 1998 and 1997 cash used for investing activities includes $229,000 and $863,000, respectively, paid for the interest acquired in TIS.

Financing activities generated $63,000 in fiscal year 1999, and used $526,000 and $32,000 in fiscal years 1998 and 1997, respectively. The increased cash used in financing activities in 1998 was due to repayments, net of borrowings, on the line of credit of $524,000.

At June 30, 1999, the Company had $1,308,000 of debt, compared with $1,245,000 at June 30, 1998, an increase of $63,000. The debt at June 30, 1999 represents borrowings on the Company's current long-term financing agreement (Agreement) with Silicon. The Agreement matures on May 7, 2000 and, accordingly, the $1,308,000 balance has been classified as a current liability as of June 30, 1999. The Agreement is subject to automatic and continuous annual renewal for successive additional terms of one year each unless either party notifies the other of its intention to terminate the Agreement at least sixty days before the next maturity date. Borrowings on the loan are restricted to the lesser of $3,000,000 or 85% of the Company's eligible receivables (Maximum Credit Limit). As of June 30, 1999, the Company could borrow an additional $1,265,000 up to the Maximum Credit Limit of $2,573,000.

The loan bears interest at Silicon's prime borrowing rate (prime rate) plus 2% (9.75% at June 30, 1999). The interest rate is adjustable on a quarterly basis to prime rate plus 1.5% if the Company achieves a net loss less than $750,000 for each previous twelve month rolling period. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to prime rate plus 2%. In addition to interest, the loan bears a monthly unused line fee at 0.125% of the Maximum Credit Limit less the average daily balance of the outstanding loan during a month. The unused line fee is also adjustable on a quarterly basis, if the Company achieves a net loss less than $750,000 for each previous twelve-month rolling period, the monthly unused line fee will be adjusted to 0.0625%. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to 0.125%.

The debt is secured by all assets of the Company. The Agreement requires that the Company maintain compliance with certain covenants related to tangible net worth. At June 30, 1999, the Company was in compliance with such covenants.

As in the three-year period ended June 30, 1999, the Company's fiscal 2000 working capital, capital expenditure and debt service requirements are expected to be funded from the existing cash balance of $2,416,000 and the

$1,265,000 available under the long-term financing agreement at June 30, 1999. The Company believes that such amounts are sufficient to fund operations and working capital needs for at least the next twelve months. As explained above, the Company's Agreement with Silicon matures on May 7, 2000 but will continue for successive additional terms of one each year unless either party gives notice of termination at least sixty days before the maturity date. The Company has not received notice of termination and does not anticipate receiving or giving such notice, however, if such notice was received, the Company would pursue other lenders to meet its long-term financing needs. Although the Company believes it would be successful in its efforts to obtain alternate financing, there are no assurances that it will be successful in doing so. An inability to obtain such alternate financing may have a material adverse effect on the Company's results of operations and financial condition.

The Company continues to explore all possible opportunities for increasing shareholder value including a possible spinoff of the power and process business as well as other alternatives.

YEAR 2000 COMPLIANCE

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

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

The Company has completed its assessment of its internal systems, processes and facilities for Year 2000 compliance and found them to be 97% compliant. The expected completion date to have all significant internal systems, processes and facilities compliant is October 31, 1999. The Company's assessment of its suppliers', service providers' and contractors' Year 2000 compliance is also ongoing and is expected to be completed by October 31, 1999. Alternative sources will be pursued for any non-compliant sources. Additionally, alternative sources will be identified and qualified for all compliant sources so that a secondary supplier will be available in the event that disruption in supply occurs from the primary supplier.

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

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

PRICE LEVELS AND THE IMPACT OF INFLATION

Prices of the Company's products have not increased significantly as a result of inflation during the past several years, primarily due to competition. The effect of inflation on the Company's costs of production has been minimized through production efficiencies and lower costs of materials. The Company anticipates that these factors will continue to minimize the effects of any foreseeable inflation and other price pressures from the industries in

which it operates. As the Company's manufacturing activities mainly utilize semi-skilled labor, which is relatively plentiful in the areas surrounding the Company's production facilities, the Company does not anticipate substantial inflation-related increases in the wages of the majority of its employees.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of the Company due to adverse changes in financial and commodity market prices and rates. The Company is exposed to market risk in the areas of changes in United States interest rates and changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to its normal operating and funding activities. Historically and as of June 30, 1999, the Company has not used derivative instruments or engaged in hedging activities.

Interest Rate Risk

The interest payable on the Company's line-of-credit is variable based on the prime rate, and, therefore, affected by changes in market interest rates. At June 30, 1999, approximately $1.3 million was outstanding with a weighted average interest rate of 9.75% (prime plus 2%). The line-of-credit matures in May 2000 and is subject to automatic and continuous annual renewal for successive annual terms of one year each unless either party notifies the other of its intention to terminate the Agreement at least sixty days before the next maturity date. The Company manages interest rate risk by investing excess funds in cash equivalents bearing variable interest rates which are tied to various market indices. Additionally, the Company monitors interest rates frequently and has sufficient cash balances to pay off the line-of-credit and any early termination penalties, should interest rates increase significantly. As a result, the Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company.

Foreign Currency Risk

The Company has wholly-owned subsidiaries located in Northern Ireland and England. Sales from these operations are typically denominated in British Pounds, thereby creating exposures to changes in exchange rates. The changes in the British/U.S. exchange rate may positively or negatively affect the Company's sales, gross margins and retained earnings. The Company does not believe that reasonably possible near-term changes in exchange rates will result in a material effect on future earnings, fair values or cash flows of the Company, and therefore, has chosen not to enter into foreign currency hedging instruments. There can be no assurance that such an approach will be successful, especially in the event of a significant and sudden decline in the value of the British Pound.

RECENTLY ISSUED ACCOUNTING STANDARDS

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). In general, SOP 98-1 requires that certain costs to develop software for internal use be capitalized. This statement is effective for fiscal years beginning after December 15, 1998. These requirements are to be applied prospectively from the date of adoption. The Company believes SOP 98-1 will not materially impact its financial statements.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5). SOP 98-5 provides guidance on the financial reporting of start-up and organization costs and requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 is effective for fiscal years beginning after December 15, 1998. These requirements are to be applied as a cumulative change in accounting principle. The Company believes SOP 98-5 will not materially impact its financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. SFAS 133 is effective for fiscal quarters and fiscal years beginning after June 15, 2000. Management believes that the adoption of SFAS 133 will not have a significant impact on the Company's financial condition and results of operations, as the Company has not historically utilized such instruments.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Hathaway Corporation:

We have audited the accompanying consolidated balance sheets of HATHAWAY CORPORATION (a Colorado corporation) AND SUBSIDIARIES as of June 30, 1999 and 1998, 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, 1999. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 30, 1999 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental Schedule II is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits 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 30, 1999.

HATHAWAY CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 1999	June 30, 1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,416	$ 3,443
Restricted cash	646	480
Trade receivables, net of allowance for doubtful accounts of $479 and $599 at June 30, 1999 and 1998, respectively	6,465	6,400
Inventories, net	3,316	3,649
Current deferred income taxes	632	779
Income tax refunds receivable, prepaid expenses and other	538	684
Total current assets	14,013	15,435
Property and equipment, net	1,720	1,730
Investment in joint ventures, net (Note 3)	514	222
Cost in excess of net assets acquired, net	126	374
Other	25	59
Total Assets	$16,398	$17,820
Liabilities and Stockholders' Investment		
Current Liabilities:		
Line-of-credit classified as current (Note 4)	$ 1,308	$ --
Accounts payable	1,570	2,027
Accrued liabilities	2,955	2,500
Income taxes and other current liabilities	560	497
Product service reserve	689	475
Total current liabilities	7,082	5,499
Line-of-credit (Note 4)	--	1,245
Total Liabilities	7,082	6,744
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; 5,405 shares issued	100	100
Additional paid-in capital	9,954	9,954
Loans receivable for stock (Note 7)	(235)	(235)
Retained earnings	3,316	4,841
Cumulative translation adjustments	154	389
Treasury stock, at cost; 1,122 shares	(3,973)	(3,973)
Total Stockholders' Investment	9,316	11,076
Total Liabilities and Stockholders' Investment	$16,398	$17,820

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

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

	For the fiscal years ended June 30,		
	1999	1998	1997
Revenues	$41,691	$41,317	$39,946
Operating costs and expenses:			
Cost of products sold	26,475	26,379	25,575
Selling	7,012	7,857	7,601
General and administrative	4,798	4,198	4,771
Engineering and development	4,466	4,411	3,646
Amortization of intangibles and other	481	738	402
Total operating costs and expenses	43,232	43,583	41,995
Operating loss	(1,541)	(2,266)	(2,049)
Other income (expense), net:			
Equity income from investments in joint ventures (Note 3)	329	222	--
Interest and dividend income	111	217	245
Interest expense	(146)	(148)	(173)
Other income (expense), net	(70)	(186)	(215)
Total other income (expense), net	224	105	(143)
Loss before income taxes	(1,317)	(2,161)	(2,192)
Benefit (provision) for income taxes (Note 5)	(208)	184	763
Net loss	$(1,525)	$(1,977)	$(1,429)
Basic and diluted net loss per share (Note 1)	$ (0.36)	$ (0.46)	$ (0.34)
Basic and diluted weighted average shares outstanding (Note 1)	4,283	4,284	4,259

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the fiscal years ended June 30, 1999	1998	1997
Cash Flows From Operating Activities:			
Net loss	$(1,525)	$(1,977)	$(1,429)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,220	1,490	1,199
Provision for bad debts	14	136	105
Equity income from investments in joint ventures (Note 3)	(329)	(222)	--
Deferred income tax provision	147	75	39
Other	(195)	201	241
Changes in assets and liabilities, net of effect in 1999 of purchase of Ashurst and in 1997 of purchase of Tate (Note 2):			
(Increase) decrease in -			
Restricted cash	(166)	(227)	59
Trade receivables	87	238	(344)
Inventories, net	333	742	1,174
Income tax refunds receivable, prepaid expenses and other	183	1,177	(827)
Increase (decrease) in -			
Accounts payable	(499)	184	(46)
Accrued liabilities	408	(94)	(649)
Income taxes and other current liabilites	27	(182)	274
Product service reserve	214	(91)	7
Net cash provided by (used in) operating activities	(81)	1,450	(197)
Cash Flows From Investing Activities:			
Purchase of property and equipment	(792)	(685)	(651)
Purchase of Ashurst, net of cash acquired (Note 2)	(281)	--	--
Purchase of Tate (Note 2)	--	(229)	(863)
Activities related to joint venture investments (Note 3)	86	--	--
Proceeds from maturity of marketable securities	--	--	201
Net Cash used in investing activities	(987)	(914)	(1,313)
Cash Flows From Financing Activities:			
Repayments on line-of-credit	(150)	(1,769)	(8)
Borrowings on line-of-credit	213	1,245	--
Proceeds from exercise of employee stock options	--	--	81
Purchase of treasury stock	--	(2)	(105)
Net cash provided by (used in) financing activities	63	(526)	(32)
Effect of foreign exchange rate changes on cash	(22)	2	48
Net increase (decrease) in cash and cash equivalents	(1,027)	12	(1,494)
Cash and cash equivalents at beginning of year	3,443	3,431	4,925
Cash and cash equivalents at end of year	$ 2,416	$ 3,443	$ 3,431
Supplemental disclosure of cash flow information:			
Net cash paid (received) during the year for:			
Interest	$ 123	$ 146	$ 167
Income taxes	(153)	(1,037)	4
Noncash investing and financing activities:			
Assets of Ashurst purchased, net of liabilities assumed and cash acquired (Note 2)	$ 281	$ --	$ --
Assets of Tate purchased, net of liabilities assumed (Note 2)	--	--	1,092
Acquisition of common stock as a result of stock option exercises (Note 6)	--	--	161

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
(In thousands)

	Common Stock		Additional Paid-in	Loans Receivable	Retained	Cumulative Translation	Compre-hensive	Treasury Stock	
	Shares	Amount	Capital	(Note 7)	Earnings	Adjustment	Loss	Shares	Amount
Balances, June 30, 1996	5,307	$100	$9,712	$(235)	$ 8,247	$ 163		1,058	$(3,705)
Purchase of treasury stock	--	--	--	--	--	--		25	(105)
Exercise of stock options	32	--	81	--	--	--		--	--
Acquisition of common stock as a result of stock option exercises (Note 6)	66	--	161	--	--	--		38	(161)
Foreign currency translation adjustment	--	--	--	--	--	197	$ 197	--	--
Net loss	--	--	--	--	(1,429)	--	(1,429)	--	--
Comprehensive loss	--	--	--	--	--	--	$(1,232)	--	--
Balances, June 30, 1997	5,405	100	9,954	(235)	6,818	360		1,121	(3,971)
Purchase of treasury stock	--	--	--	--	--	--		1	(2)
Foreign currency translation adjustment	--	--	--	--	--	29	$ 29	--	--
Net loss	--	--	--	--	(1,977)	--	(1,977)	--	--
Comprehensive loss	--	--	--	--	--	--	$(1,948)	--	--
Balances, June 30, 1998	5,405	100	9,954	(235)	4,841	389		1,122	(3,973)
Foreign currency translation adjustment	--	--	--	--	--	(235)	$ (235)	--	--
Net loss	--	--	--	--	(1,525)	--	(1,525)	--	--
Comprehensive loss	--	--	--	--	--	--	$(1,760)	--	--
Balances, June 30, 1999	5,405	$100	$9,954	$(235)	$ 3,316	$ 154		1,122	$(3,973)

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

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Hathaway Corporation (the Company) is engaged in the business of designing, manufacturing and selling advanced systems and instrumentation to the worldwide power and process industries, as well as motion control products to a broad spectrum of customers throughout the world. The Company operates primarily in the United States and Europe and has three joint venture investments in China (Note 3).

Principles of Consolidation

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

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include amounts which are readily convertible into cash (original maturities of three months or less) and which are not subject to significant risk of changes in interest rates. Cash flows in foreign currencies are translated using an average rate.

Restricted Cash

Restricted cash consists of certificates of deposit that serve as collateral for letters of credit issued on behalf of the Company.

Inventories

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

	June 30, 1999	June 30, 1998
Parts and raw materials, net	$ 2,227	$ 2,210
Finished goods and work-in-process, net	1,089	1,439
	$ 3,316	$ 3,649

Reserves established for anticipated losses on excess or obsolete inventories were approximately $1,675,000 and $1,742,000 at June 30, 1999 and 1998, respectively.

Property and Equipment

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

	Useful lives	June 30, 1999	June 30, 1998
Machinery, equipment, tools and dies	2-8 years	$ 7,574	$ 6,597
Furniture, fixtures and other	3-10 years	1,623	2,662
		9,197	9,259
Less accumulated depreciation and amortization		(7,477)	(7,529)
		$ 1,720	$ 1,730

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.

Depreciation expense was $788,000, $757,000 and $729,000 in fiscal years 1999, 1998 and 1997, respectively.

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

Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired represents the amount by which the purchase price of acquired companies exceeds the fair market value of net assets acquired, and is amortized using the straight-line method over the period estimated to be benefitted. Cost in excess of net assets acquired as of June 30, 1999 and 1998 consists of $195,000 and $1,197,000 of original costs, $10,000 and zero of effect of exchange rate changes, and $59,000 and $823,000 of accumulated amortization, respectively.

The Company reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For assets that are held and used in operations, the asset would be considered to be impaired if the undiscounted future cash flows related to the asset did not exceed the net book value. The amount of the impairment is assessed using the assets' fair market value, which is determined using discounted cash flows.

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

As discussed in Note 2, at June 30, 1998, the Company determined that the cost in excess of net assets acquired related to its acquisition of Tate Integrated Systems was impaired; and therefore, the unamortized balance was written off.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 1999	June 30, 1998
Compensation and fringe benefits	$1,377	$ 973
Commissions	541	474
Other accrued expenses	1,037	1,053
	$2,955	$2,500

Foreign Currency Translation

In accordance with SFAS No. 52, "Foreign Currency Translation", the assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates. Revenues and expenses are translated at average rates prevailing during the period. The resulting translation adjustments are recorded in the cumulative translation adjustments component of stockholders' investment in the accompanying consolidated balance sheets.

Revenue and Cost Recognition on Contracts

Hathaway Industrial Automation (HIA) undertakes contracts for the installation of integrated process control systems that use its proprietary software. The Company recognizes contract revenues by applying the percentage of completion achieved to the total contract sales price. The Company determines the percentage of completion for all contracts using the "cost-to-cost" method of measuring contract progress. Under this method, actual contract costs incurred to date are compared to total estimated contract costs to determine the estimated percentage of revenues to be recognized. To the extent these estimates prove to be inaccurate, the revenues and gross profits, if any, reported for the period during which work on the contract is ongoing may not accurately reflect the final results of the

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

contract, which can only be determined upon contract completion. Provisions for estimated losses on uncompleted contracts, to the full extent of the estimated loss, are made during the period in which the Company first becomes aware that a loss on a contract is probable. The Company's traditional businesses (other than HIA) generally recognize revenue when products are shipped.

Basic and Diluted Earnings per Share

Basic earnings (loss) per share is computed by dividing the net earnings or loss by the weighted average number of shares of common stock outstanding. Diluted earnings or loss per share is determined by dividing the net earnings or loss by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of outstanding warrants and stock options determined utilizing the treasury stock method. In fiscal years 1999, 1998 and 1997, stock options totaling 819,004, 648,204 and 708,704, respectively, (without regard to the treasury stock method) were excluded from the calculation of diluted earnings (loss) per share since the result would have been anti-dilutive.

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

	For the fiscal years ended June 30, 1999	1998	1997
Numerator:			
Net loss	$(1,525)	$(1,977)	$(1,429)
Denominator:			
Weighted average outstanding shares	4,283	4,284	4,259
Basic and Diluted net loss per share	$ (0.36)	$ (0.46)	$ (0.34)

Comprehensive Loss

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," (SFAS 130). SFAS 130 establishes standards for reporting and displaying comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. The Company adopted SFAS 130 in fiscal year 1999. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to shareholders.

Stock-Based Compensation

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

Fair Values of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, trade receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of the line-of-credit approximates fair value because the underlying instrument is a variable rate note that reprices frequently.

Use of Estimates

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

Reclassifications

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

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

Recently Issued Accounting Standards

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). In general, SOP 98-1 requires that certain costs to develop software for internal use be capitalized. This statement is effective for fiscal years beginning after December 15, 1998. These requirements are to be applied prospectively from the date of adoption. The Company believes SOP 98-1 will not materially impact its financial statements.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5). SOP 98-5 provides guidance on the financial reporting of start-up and organization costs and requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 is effective for fiscal years beginning after December 15, 1998. These requirements are to be applied as a cumulative change in accounting principle. The Company believes SOP 98-5 will not materially impact its financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. SFAS 133 is effective for fiscal quarters and fiscal years beginning after June 15, 2000. Management believes that the adoption of SFAS 133 will not have a significant impact on the Company's financial condition and results of operations, as the Company has not historically utilized such instruments.

2. BUSINESS ACQUISITIONS

Ashurst Logistic Electronics Limited

Effective July 1, 1998, a wholly-owned subsidiary of the Company acquired all the outstanding shares of Ashurst Logistic Electronics Limited of Bournemouth, England (Ashurst) for $317,000 in cash. Ashurst manufactures drive electronics and position controllers for a variety of motor technologies as well as a family of static frequency converters for military and aerospace applications and has extensive experience in power electronics design and software development required for the application of specialized drive electronics technology. The acquired company was renamed Emoteq UK Limited.

The acquisition has been accounted for using the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition. The final net purchase price allocation was as follows (in thousands):

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

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

Tate Integrated Systems, Inc.

Effective September 30, 1996, the Company acquired a 100% partnership interest in Tate Integrated Systems, L.P. and 100% of the stock of its sole general partner, Tate Integrated Systems, Inc. (collectively referred to as "TIS"). The ownership interests were acquired for an adjusted negotiated

2. BUSINESS ACQUISITIONS (CONTINUED)

price of $1,092,000, of which $718,000 was paid in cash at closing on October 10, 1996, $145,000 on June 30, 1997 and $229,000 when certain accounts receivable were collected during fiscal 1998.

TIS has operated under the ownership of HIA, a newly formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located near Baltimore, Maryland and is a full service developer and supplier of integrated process automation systems for industrial applications. HIA has developed a state-of-the-art software system, the TIS-4000, for Supervisory Control and Data Acquisition (SCADA) and Distributed Control Systems (DCS). The HIA system has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company is selling the HIA system together with other Hathaway products and targeting the combined product at substation automation and integration applications used in the generation, transmission and distribution of power.

The acquisition was accounted for using the purchase method of accounting; and accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition. The final net purchase price allocation was as follows (in thousands):

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

As a result of its acquisition of HIA, the Company recorded goodwill of $624,000 primarily due to loss accruals on an in-process contract acquired by the Company. As a result of continuing and expected near term losses from HIA at June 30, 1998 and in accordance with SFAS 121, the Company determined that the unamortized cost in excess of net assets acquired from its acquisition of TIS was impaired and, therefore, wrote-off the remaining unamortized balance of $406,000. The Company's determination was based on projections of undiscounted cash flows of HIA, which were based on current marketplace and competitive conditions and resulting low margins for the industrial applications of HIA's product. Such undiscounted cash flow estimates were not sufficient to indicate realization of the related unamortized cost in excess of net assets acquired. Utilizing such projections and discounting the estimated cash flows, the Company determined that the entire unamortized amount was impaired. The fiscal year 1998 amortization of $202,000 and impairment write-off of $406,000, totaling $608,000 is included in amortization of intangibles and other in the fiscal year 1998 consolidated statement of operations.

The results of operations of TIS have been included in the Company's fiscal 1999, 1998 and 1997 consolidated statement of operations starting on October 1, 1996. For the years ended June 30, 1999, 1998 and the nine month post-acquisition period ended June 30, 1997, HIA had losses before income taxes of approximately $1.2 million, $2.7 million and $1.3 million, respectively.

The following unaudited pro forma summary (in thousands, except per share data) combines the consolidated results of operations of the Company, Ashurst and TIS as if the acquisitions had occurred at the beginning of fiscal year 1998 for Ashurst and fiscal year 1997 for TIS after giving effect to certain pro forma adjustments related to such items as income taxes, depreciation, and amortization of cost in excess of net assets acquired. The pro forma results are shown for illustrative purposes only, and do not purport to be indicative of the actual results which would have occurred had the transaction been consummated as of the earlier date, nor are they indicative of results of operations which may occur in the future.

2. BUSINESS ACQUISITIONS (CONTINUED)

	For the year ended June 30, 1998 (Unaudited)	For the year ended June 30, 1997 (Unaudited)
Revenue	$ 41,859	$ 40,946
Net loss	(1,833)	(1,403)
Basic net loss per share	(0.43)	(0.33)

3. INVESTMENTS IN JOINT VENTURES

The Company has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). Kehui designs, manufactures and sells cable and overhead fault location systems, SCADA systems and other test instruments in China. Si Fang designs, manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems. Under a license from Hathaway, HPMS manufactures and sells instrumentation products designed by Hathaway, to electric power companies in China.

The Company accounts for the Chinese joint ventures using the equity method of accounting. At the time of the original investments in the Chinese joint ventures and until fiscal 1998, the Company determined that due to the start-up nature of the entities, their untested products and political uncertainty in China, the realization of the initial investments and subsequent earnings (which were not significant) was uncertain; and, therefore, the Company fully reserved against the original investments and its share of any equity in income.

During fiscal years 1998 and 1999, Kehui and Si Fang's operations have continued to mature, their products have gained significant acceptance, and both companies have sustained profitability. Because of sustained positive operating results, offset by a certain amount of political and business uncertainty in China, the Company recognized a portion of its share of equity in income from these two joint ventures, totaling $329,000 and $222,000 in fiscal years 1999 and 1998, respectively. These amounts are included in equity income from investments in joint ventures in the consolidated statements of operations. The amounts recognized represent management's best estimate of the future amounts that will be received from the joint ventures as of June 30, 1999. The Company will continue to recognize its share of equity in income (loss) from these two joint ventures to the extent it believes such amounts are realizable.

During fiscal 1999, the Company sold 2% of its investment in Si Fang for $57,000 in cash and recognized a $49,000 gain on the sale, which is included in other income in the accompanying 1999 consolidated statement of operations. The Company also invested an additional $92,000 in the joint venture and received $121,000 cash dividends during the fiscal year.

At June 30, 1999, the Company's investments and current ownership interests in these joint ventures are as follows (in thousands):

	Ownership Interest	Investment, net of sale	Cumulative Share of Equity Income	Cumulative Dividends Received	Cumulative Reserve	Balance at June 30, 1999
Si Fang	23%	$248	$ 839	$ (121)	$(499)	$467
Kehui	25%	100	216	(28)	(241)	47
HPMS	40%	140	--	$ --	(140)	--
		$488	$1,055	$ (149)	$(880)	$514

The Company has no future commitments relating to these investments, however Si Fang has requested additional capital from each joint venture partner to be invested in September 1999. The Company has agreed to sell 3% of its ownership interest for $143,000 and reinvest the proceeds plus an additional $143,000 in cash plus $139,000 of dividends. After the sale and capital contribution, the Company's ownership interest will be 20%.

3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

In accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," summarized financial information for Si Fang as of December 31, 1998 and 1997 (Si Fang is on a calendar fiscal year) is presented as follows (in thousands):

	As of and For the Year Ended December 31, 1998	As of and For the Year Ended December 31, 1997
Current assets	$16,864	$8,638
Non-current assets	1,745	1,498
Current liabilities	14,752	7,378
Non-current liabilities	--	--
Revenues	16,502	8,918
Gross profit	4,047	2,232
Net income before income taxes	1,706	1,525
Net income	1,367	1,525

Summarized financial information for Si Fang for the year ended December 31, 1996 and for Kehui and for HPMS for the years ended December 31, 1998, 1997, and 1996 is not presented because it is not significant relative to the Company's consolidated financial statements.

Prior to June 30, 1999, the Company also had an 11.4% interest in a joint venture (JV) with KUB Holdings BHD, a Malaysian firm. The JV was created for the purpose of manufacturing, marketing and selling the TIS-4000 system in certain Asian countries. As of June 30, 1998, the JV had ceased all operations due to unprofitability and the Asian economic downturn. During fiscal year 1999, the JV was dissolved and settled its existing obligations from its existing assets. The license to manufacture, market and sell the TIS-4000 system reverted back to the Company and the Company has no further obligations related to this JV.

4. DEBT

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

On May 7, 1998, the Company entered into a long-term financing agreement (Agreement) with Silicon Valley Bank (Silicon). The Agreement matures on May 7, 2000 and, accordingly, the $1,308,000 balance of the line-of-credit has been classified as a current liability as of June 30, 1999. The Agreement is subject to automatic and continuous annual renewal for successive additional terms of one year each unless either party notifies the other of its intention to terminate the Agreement at least sixty days before the next maturity date. Borrowings on this line-of-credit are restricted to the lesser of $3,000,000 or 85% of the Company's eligible receivables (Maximum Credit Limit). As of June 30, 1999, the Company could borrow an additional $1,265,000, up to the $2,573,000 Maximum Credit Limit.

The line bears interest at Silicon's prime borrowing rate (prime rate) plus 2% (9.75% at June 30, 1999). The interest rate is adjustable on a quarterly basis to prime rate plus 1.5% if the Company achieves a net loss less than $750,000 for each previous twelve month rolling period. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to prime rate plus 2%. In addition to interest, the line bears a monthly unused line fee at 0.125% of the Maximum Credit Limit less the average daily balance of the outstanding loan during a month. The unused line fee is also adjustable on a quarterly basis, if the Company achieves a net loss less than $750,000 for each previous twelve-month rolling period, the monthly unused line fee will be adjusted to 0.0625%. The Company must continue to meet this quarterly financial goal, or the rate will be re-adjusted to 0.125%. The debt is secured by all assets of the Company. The Agreement requires that the Company maintain compliance with certain covenants related to tangible net worth. At June 30, 1999, the Company was in compliance with such covenants.

5. INCOME TAXES

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

	For the fiscal years ended June 30, 1999	1998	1997
Domestic	$(1,065)	$(2,179)	$(2,471)
Foreign	(252)	18	279
Loss before income taxes	$(1,317)	$(2,161)	$(2,192)

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

	For the fiscal years ended June 30, 1999	1998	1997
Current benefit (provision):			
Domestic	$ (61)	$ 308	$ 682
Foreign	--	(49)	120
Total current benefit (provision)	(61)	259	802
Domestic deferred provision	(147)	(75)	(39)
Benefit (provision) for income taxes	$(208)	$ 184	$ 763

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

	For the fiscal years ended June 30, 1999	1998	1997
Tax benefit computed at statutory rate	$ 448	$ 735	$ 745
State tax, net of federal benefit	(36)	(2)	(2)
Nondeductible expenses and goodwill amortization	(145)	(267)	(32)
Non-benefited losses of foreign subsidiaries	--	--	(3)
Recovery of prior year taxes paid	--	69	98
Change in valuation allowance	(497)	(315)	(89)
Other	22	(36)	46
Benefit (provision) for income taxes	$(208)	$ 184	$ 763

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

	June 30, 1999	June 30, 1998
Allowances and other accrued liabilities	$ 871	$ 927
Tax credit carryforwards	374	352
Net operating loss carryforwards	608	224
Valuation allowance	(1,221)	(724)
Net deferred tax asset	$ 632	$ 779

As of June 30, 1999, the Company has a domestic loss carryforward of $1,632,000 which will expire in 2013 and 2019 and domestic tax credit carryforwards of $334,000 expiring in 2004 through 2008. The Company also has foreign loss carryforwards totalling $174,000 which can be carried forward indefinitely and has paid foreign advance corporation tax of $40,000 which may be utilized to reduce future foreign taxes due.

During fiscal 1999, the valuation allowance was increased primarily due to the increased level of net operating losses being carried forward and the Company's continued operating losses. Realization of the Company's net deferred tax asset is dependent upon the Company generating sufficient United States federal taxable income (approximately $1,859,000) in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and net operating loss carryforwards. The Company's management believes that, on a more likely than not basis, the

recorded net deferred tax asset is realizable. The amount of deferred tax
assets considered realizable is

5. INCOME TAXES (CONTINUED)

subject to adjustment in future periods if estimates of future United States federal taxable income change.

6. STOCK COMPENSATION

Hathaway Corporation Stock Option Plan
At June 30, 1999, 193,617 shares of common stock were available for grant under the Company's stock option plans. Under the terms of the plans, options may not be granted at less than 85% of fair market value. However, all options granted to date have been granted at fair market value as of the date of grant. Options generally become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant.

During fiscal year 1997, the Company granted options for 125,000 shares of the Company's common stock to certain key management personnel of HIA. Of the total, 75,000 vest over seven years, subject to acceleration if certain performance criteria are achieved by HIA, and expire ten years after the date of grant. In fiscal year 1998, options to purchase 21,000 shares were forfeited due to terminations. The remaining 50,000 shares vest over four years if certain performance criteria are met. Based on HIA's fiscal years' 1997, 1998 and 1999 operating results, 24,400 options will never vest and were forfeited, and options to purchase 11,200 shares were forfeited due to terminations.

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

Option activity in fiscal years 1997, 1998 and 1999 was as follows:

	Number of Shares	Weighted Average Exercise Price ($)	Number of Shares Exercisable	Weighted Average Exercise Price ($)
Outstanding at June 30, 1996	332,856	3.02	250,856	2.88
Granted	503,350	3.56		
Exercised	(98,252)	2.46		
Canceled or forfeited	(29,250)	3.84		
Outstanding at June 30, 1997	708,704	3.45	187,104	3.19
Granted	45,900	2.13		
Canceled or forfeited	(106,400)	3.48		
Outstanding at June 30, 1998	648,204	3.35	303,138	3.36
Granted	249,104	1.71		
Canceled or forfeited	(78,304)	3.18		
Outstanding at June 30, 1999	819,004	2.87	371,866	3.36

Exercise prices for options outstanding and exercisable at June 30, 1999 are as follows:

	Range of Exercise Prices			Total
	$1.13 - $1.88	$2.13 - $3.19	$3.50 - $4.31	$1.13 - $4.31
Options Outstanding:				
Number of options	249,104	234,400	335,500	819,004
Weighted average exercise price	$ 1.71	$ 2.67	$ 3.88	$ 2.87
Weighted average remaining contractual life	6.5 years	3.7 years	3.5 years	4.3 years
Options Exercisable:				
Number of options	-	159,300	212,566	371,866
Weighted average exercise price	-	$ 2.71	$ 3.84	$ 3.36

6. STOCK COMPENSATION (CONTINUED)

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

Pro forma information regarding net loss and loss per share is required by SFAS 123 and has been determined as if the Company had accounted for its stock-based compensation plans using the fair value method prescribed by that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes pricing model with the following weighted average assumptions:

	For the fiscal years ended June 30,		
	1999	1998	1997
Risk-free interest rate	6.3%	5.7%	6.3%
Expected dividend yield	0.0%	0.0%	0.0%
Expected life	6 years	6 years	6 years
Expected volatility	60.8%	58.2%	58.5%

Using the fair value method of SFAS 123, the net loss and net loss per share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share data):

	For the fiscal years ended June 30,		
	1999	1998	1997
Actual net loss	$(1,525)	$(1,977)	$(1,429)
Pro forma net loss	$(1,702)	$(2,128)	$(1,686)
Actual basic and diluted net loss per share	$ (0.36)	$ (0.46)	$ (0.34)
Pro forma basic and diluted net loss per share	$ (0.40)	$ (0.50)	$ (0.40)

The weighted average fair value of options granted during fiscal years 1999, 1998 and 1997 was $1.07, $1.28 and $1.98, respectively. The total fair value of options granted was $266,000, $59,000 and $978,000 in fiscal years 1999, 1998 and 1997, respectively. These amounts are being amortized ratably over the vesting periods of the options for purposes of this disclosure.

Emoteq Corporation Stock Option Plan

During fiscal 1998 the Company's wholly-owned subsidiary, Emoteq Corporation (Emoteq), adopted a stock option plan. Under the terms of the plan, up to 360,000 (18%) of the 2,000,000 authorized shares of Emoteq are available for stock option grants to officers and key employees of Emoteq. Options may not be granted at less than 85% of fair market value, however all options granted to date have been granted at estimated fair market value as of the date of grant.

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

6. STOCK COMPENSATION (CONTINUED)

Option activity for the Emoteq plan during fiscal years 1999 and 1998 was as follows:

	Number of Shares		Weighted Average Exercise Price	
	Time Vested	Performance Vested	Time Vested	Performance Vested
Outstanding at June 30, 1997	--	--	--	--
Granted	80,000	187,600	$1.37	$1.37
Outstanding at June 30, 1998	80,000	187,600	1.37	1.37
Granted	11,000	34,000	2.50	2.50
Cancelled or forfeited	--	(33,683)	--	1.56
Outstanding at June 30, 1999	91,000	187,917	$1.51	$1.54

Exercise prices for options outstanding at June 30, 1999 under this plan are as follows:

	Time Vested		Performance Vested	
	$1.37	$2.50	$1.37	$2.50
Options Outstanding				
Number of options	80,000	11,000	159,460	28,457
Weighted average remaining contractual life	5 years	5 years	5 years	5 years
Options exercisable	40,000	3,666	15,008	--

The potential dilution of the Company's ownership of Emoteq at June 30, 1999 is as follows:

	Company	Employees	Total
Issued and Outstanding	1,640,000	--	1,640,000
Exercisable Options	--	58,674	58,674
Total	1,640,000	58,674	1,698,674
Percentage	96.5%	3.5%	100.0%

The Company has recognized $0 and $66,162 in compensation expense for the fiscal year ended June 30, 1999 and 1998, respectively, related to this plan.

7. LOANS RECEIVABLE FOR STOCK

The Company's loans receivable balance of $235,000 at June 30, 1999 and 1998 is comprised of a loan for $102,000 from the Leveraged Employee Stock Ownership Plan and Trust (the Plan) and $133,000 from an Officer of the Company.

The Plan allows eligible Company employees to participate in ownership of the Company. The $102,000 receivable represents the unpaid balance of the original $500,000 that the Company loaned to the Plan in fiscal year 1989 so that the Plan could acquire from the Company 114,285 newly issued shares of the Company's common stock. The note bears interest at an annual rate of 9.23% and matures May 31, 2004. The terms of the Plan require the Company to make an annual contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in fiscal years 1999, 1998 and 1997) or ii) the annual interest payable on the note. Company contributions to the Plan were $9,000 in 1999, 1998 and 1997, representing interest in all three years.

The $133,000 receivable represents the unpaid balance of a loan made in fiscal year 1994 to the Chief Executive Officer of the Company in connection with his purchase of the Company's common stock, pursuant to the Officer and Director Loan Plan approved by stockholders on October 26, 1989. The loan is full-recourse and bears interest at the applicable federal rate determined by the Internal Revenue Service (5.25% as of June 30, 1999). The loan is due on demand but no later than October 31, 2001.

8. COMMITMENTS AND CONTINGENCIES

Leases

At June 30, 1999, the Company maintained leases for certain facilities and equipment. Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

Fiscal Year	Amount
2000	$ 1,076
2001	705
2002	432
2003	226
2004	221
Thereafter	221
	$ 2,881

Net rental expense was $1,000,000, $869,000 and $783,000 in fiscal years 1999, 1998 and 1997, respectively.

Shareholder Rights Plan

During fiscal year 1989, the Company adopted a shareholder rights plan, which expired June 25, 1999. Under the plan, one preferred stock purchase right was distributed for each share of common stock outstanding. Each right entitled 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.

Severance Benefit Agreements

The Company has entered into annually-renewable severance benefit agreements with certain key employees which, among other things, provide inducement to the employees to continue to work for the Company during and after any period of threatened takeover. The agreements provide the employees with specified benefits upon the subsequent severance of employment in the event of change in control of the Company and are effective for 24 months thereafter. The maximum amount of salary that could be required to be paid under these contracts, if such events occur, totaled approximately $1,783,000 as of June 30, 1999. In addition to salary, severance benefits include the cost of life, disability, accident and health insurance for 24 months, a prorata calculation of bonus for the current year and a gross-up payment for all federal, state and excise taxes due on the severance payment.

Employment Agreement

Effective July 1, 1998, the Company entered into a new five-year employment agreement with its Chief Executive Officer which replaced the previous agreement that had been in effect since July 1, 1993. This agreement is renewable after the initial five-year term on a year-to-year basis unless the Company or the officer gives termination notice at least sixty days prior to expiration of the initial or subsequent terms. The agreement provides for base salary plus 1) an annual incentive bonus based on corporate performance, as defined each year by the Board of Directors, 2) a long-term incentive bonus in the form of stock options, 3) specified benefits upon termination of employment (for reasons other than cause or change in control) which are effective for one year thereafter and 4) a bonus paid on dispositions of subsidiaries or divisions of the Company.

No annual bonus was paid in fiscal years 1999, 1998 or 1997. Stock options to purchase 69,000 and 100,000 shares of common stock of the Company were granted subsequent to fiscal years ended June 30, 1999 and 1998, repectively, under the long-term incentive portion of the current and previous agreements. In July 1999 the Board of Directors voted to immediately vest options to purchase 127,000 shares of stock which had been issued in previous years. As of June 30, 1999, the maximum amount that could be required to be paid under the termination clause of the agreement was approximately $399,000.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Consulting Agreement

Effective September 1, 1998, the Company entered into a Consulting Agreement with the Chairman of the Board of Directors who is a major shareholder. Under the Agreement, he is compensated for providing consulting services to the Company primarily on matters involving the Company's Motion Control business, as well as other matters as requested by the Chief Executive Officer. During fiscal year 1999, the Company paid $137,750 to the Chairman of the Board under the Agreement.

Stock Repurchase Program

Under an employee stock repurchase program approved by the Board of Directors, the Company may repurchase its common stock from its employees at the current market value. The Company's Agreement with Silicon limits employee stock repurchases to $125,000 per fiscal year. Under Colorado law enacted in July 1994, repurchased shares of capital stock are considered authorized and unissued shares and have the same status as shares that have never been issued.

9. SEGMENT INFORMATION

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

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

Power and Process Business

Hathaway's complete line of power instrumentation products helps ensure that electric utilities provide high quality service to consumers of electricity. The power products group produces a comprehensive and cost-effective range of products designed exclusively for the power industry worldwide. Hathaway's equipment assists the electric power system operators in operating and maintaining proper system performance. The products, which are used to monitor and control the power generation, transmission and distribution processes, include fault recording products, fault location products, condition monitoring (circuit breaker) products and remote terminal units for Supervisory Control and Data Acquisition (SCADA) systems.

The process instrumentation products group manufactures and markets products for the process and power industries including monitoring systems, calibration equipment and process measurement instrumentation. The monitoring systems, called visual anunciators and sequential event recorders, provide both visual and audible alarms and are used to control processes in various plants including, chemical, petroleum, food and beverage, pulp and paper, and textiles. Calibration equipment is used to test and adjust instrumentation for proper and accurate operation in measuring electricity, temperatures and pressure within the process industry. Process measurement instrumentation includes signal conditioning products and transducers used to measure such variables as temperature, voltage, current and power in various industrial applications.

Hathaway's state-of-the-art software system for SCADA has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, the system is being marketed to the power utility industry. The Company has successfully sold the system with certain other Hathaway products and target the combined product at substation automation and integration applications used in power generation, transmission and distribution facilities.

Motion Control Business

Motion Control offers quality, cost-effective products that suit a wide range of applications in the industrial, medical, military and aerospace sectors, as well as in manufacturing of analytical instruments and computer peripherals. The end products using Hathaway technology include special

9. SEGMENT INFORMATION (CONTINUED)

industrial and technical products such as satellite tracking systems, MRI scanners, and high definition printers.

The group designs, manufactures and markets direct current brush and brushless motors, related components, and drive and control electronics as well as precision direct-current fractional horsepower motors and certain motor components. Industrial equipment and military products are the major application for the motors.

The group also manufactures optical encoders that are used to measure rotational and linear movements of parts as well as fiber optic-based encoders with special characteristics, such as immunity to radio frequency interference and high temperature tolerance.

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

	For the fiscal year ended June 30, 1999		1998		1997	
	Power and Process	Motion Control	Power and Process	Motion Control	Power and Process	Motion Control
Revenue from external customers	$28,711	$12,980	$27,476	$13,841	$27,069	$12,877
Equity income from investments in joint ventures	329	--	222	--	--	--
Income (loss) before income taxes	(1,932)	487	(4,659)	1,848	(3,402)	1,218
Identifiable assets	9,232	5,006	9,985	3,969	12,320	3,965

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

	For the fiscal year ended or as of June 30, 1999	1998	1997
Segments' loss before income taxes	$(1,445)	$(2,811)	$(2,184)
Corporate activities	128	650	(8)
Consolidated loss before income taxes	$(1,317)	$(2,161)	$(2,192)
Segments' identifiable assets	$14,238	$13,954	$16,285
Corporate assets and eliminations	2,160	3,866	4,192
Consolidated total assets	$16,398	$17,820	$20,477

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

	For the Fiscal Years Ended June 30, 1999	1998	1997
Revenues derived from foreign subsidiaries	$ 7,744	$ 7,197	$ 7,031
Identifiable assets	3,179	3,723	4,335

10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected Quarterly Financial Data for each of the four quarters in fiscal years 1999 and 1998 is as follows (in thousands, except per share data):

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 9,118	$10,539	$10,550	$11,484
Operating income (loss)	(1,165)	(300)	(385)	309
Net income (loss)	(1,307)	(346)	(379)	507
Basic and diluted net (loss) per share	$ (0.31)	$ (0.08)	$ (0.09)	$ 0.12

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 9,539	$11,137	$ 9,804	$10,837
Operating (loss)	(874)	(79)	(630)	(683)
Net (loss)	(589)	(157)	(690)	(541)
Basic and diluted net (loss) per share	$ (0.14)	$ (0.04)	$ (0.16)	$ (0.13)

11. RESTRUCTURING OF OPERATIONS

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

12. INCOME TAX RULING REQUEST

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

Item 9. Disagreements on Accounting and Financial Disclosure.

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

PART III

The information required by Part III is included in the Company's Proxy Statement, and is incorporated herein by reference.

Item 10. Directors and Executive Officers of the Registrant.

Information required by this item is set forth in the sections entitled "Election of Directors" (page 2), "Executive Officer" (page 3) and " Section 16(a) Beneficial Ownership Reporting Compliance" (page 9) in the Company's Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item is set forth in the section entitled "Executive Compensation" (pages 5 through 7) in the Company's Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" (pages 4 through 5) in the Company's Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Effective September 1, 1998, the Company entered into a consulting agreement (Agreement) with Eugene E. Prince, who resigned from the offices of President and Chief Executive Officer on August 13, 1998 and retired from employment with the Company effective August 31, 1998. Mr. Prince is the Chairman of the Board of Directors and a major shareholder of the Company. Under the Agreement, he is compensated for providing consulting services to the Company primarily on matters involving the Company's Motion Control business, as well as other matters as requested by the Chief Executive Officer. During fiscal year 1999, the Company paid $137,750 to Mr. Prince under the Agreement.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

a) The following documents are filed as part of this Report:

1. Financial Statements
   - a) Consolidated Balance Sheets as of June 30, 1999 and June 30, 1998.
   - b) Consolidated Statements of Operations for each of the fiscal years in the three-year period ended June 30, 1999.
   - c) Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended June 30, 1999.
   - d) Consolidated Statements of Stockholders' Investment for each of the fiscal years in the three-year period ended June 30, 1999.
   - e) Notes to Consolidated Financial Statements.
   - f) Report of Independent Public Accountants.

2. Financial Statement Schedules
   - II. Valuation and Qualifying Accounts.

3. Exhibits

Exhibit No.	Subject
3.1	*Restated Articles of Incorporation.
3.2	*Amendment to Articles of Incorporation, dated September 24, 1993.
3.3	*By-laws of the Company adopted August 11, 1994.
4	*Rights Agreement between Hathaway Corporation and Bank of America National Trust and Savings Association, dated June 15, 1989. Incorporated by reference to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989.
10.1	*The 1983 Incentive and Non-Qualified Stock Option Plan dated September 22, 1983. Incorporated by reference to the Company's Form S-8 filed May 10, 1984.
10.2	*Severance Agreement dated June 15, 1989 between Hathaway Corporation and Richard D. Smith. Incorporated by reference to Exhibit 10n(ii) to the Company's 1989 annual Report and Form 10-K for the fiscal year ended June 30, 1989.
10.3	*Amendment to the 1983 Incentive and Non-Qualified Stock Option Plan dated January 4, 1989. Incorporated by reference to the Company's Form S-8 filed October 25, 1990.
10.4	*The 1989 Incentive and Non-Qualified Stock Option Plan dated January 4, 1989. Incorporated by reference to the Company's Form S-8 filed October 25, 1990.
10.5	*Joint Venture Agreement between Zibo Kehui Electric Company and Hathaway Instruments Limited, for the establishment of Zibo Kehui Electric Company Ltd., dated July 25, 1993. Incorporated by reference to Exhibit 10.15 to the Company's Form 10-K for the fiscal year ended June 30, 1994.
10.6	*Promissory Note from Richard D. Smith to Hathaway Corporation, dated October 26, 1993. Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the fiscal year ended June 30, 1994.

Exhibit No.	Subject
10.7	*Joint Venture Contract between Si Fang Protection and Control Company Limited and Hathaway Corporation for the establishment of Beijing Hathaway Si Fang Protection and Control Company, Ltd., dated March 2, 1994. Incorporated by reference to Exhibit 10.26 to the Company's Form 10-K for the fiscal year ended June 30, 1994.
10.8	*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.
10.9	*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.
10.10	*Supplementary Agreement between Wuhan Electric Power Instrument Factory, Beijing Huadian Electric Power Automation Corporation and Hathaway Corporation, dated August 30, 1995. Incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the fiscal year ended June 30, 1995.
10.11	*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.**
10.12	*Purchase Agreement between Hathaway Corporation and Tate Engineering Services Corporation dated October 10, 1996, for the Company's purchase of all the issued and outstanding stock of Tate Integrated Systems, Inc. Incorporated by reference to the Company's Form 8-K dated October 25, 1996.
10.13	*Joint Venture Agreement between KUB Holdings Bhd. And Tate Integrated Systems, L.P. dated March 9, 1995 and Supplement dated June 15, 1995. Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the fiscal year ended June 30, 1997.
10.14	*License Agreement between Tate Integrated Systems, L.P. and KUB-TIS Controls Sdn. Bhd. dated March 9, 1995. Incorporated by reference to Exhibit 10.24 to the Company's Form 10-K for the fiscal year ended June 30, 1997.
10.15	*Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank. Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the fiscal year ended June 30, 1998.
10.16	*Schedule to Loan and Security Agreement dated May 7, 1998 between Hathaway Corporation and certain subsidiaries of Hathaway Corporation and Silicon Valley Bank. Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended June 30, 1998.
10.17	*Amendment Number One dated August 1, 1998 to the 1989 Incentive and Non-Qualified Stock Option Plan. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended June 30, 1998.

Exhibit No.	Subject
10.18	*The Amended 1991 Incentive and Nonstatutory Stock Option Plan dated August 1, 1998. Incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the fiscal year ended June 30, 1998.
10.19	Employment Agreement between Hathaway Corporation and Richard D. Smith, effective August 13, 1998.
10.20	Consulting Agreement between Hathaway Corporation and Eugene E. Prince dated September 1, 1998.
21	List of Subsidiaries
22	*Definitive Proxy Statement, dated September 23, 1999 for the Registrant's 1999 Annual Meeting of Shareholders.
23	Consent of ARTHUR ANDERSEN LLP.
27	Financial Data Schedule

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

** The Management Incentive Bonus Plans for the fiscal years ending June 30, 1997, 1998 and 1999 are omitted because they are substantially identical in all material respects to the Management Incentive Bonus Plan for the fiscal year ending June 30, 1996 previously filed with the Commission, except for the fiscal years to which they apply.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the fourth quarter of fiscal 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HATHAWAY CORPORATION

By /s/ Richard D. Smith

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

Date: September 20, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Richard D. Smith Richard D. Smith	President, Chief Executive Officer, Chief Financial Officer and Director	September 20, 1999
/s/ Eugene E. Prince Eugene E. Prince	Chairman of the Board of Directors	September 20, 1999
/s/ George J. Pilmanis George J. Pilmanis	Director	September 20, 1999
/s/ Delwin D. Hock Delwin D. Hock	Director	September 20, 1999
/s/ Chester H. Clarridge Chester H. Clarridge	Director	September 20, 1999
/s/ Graydon D. Hubbard Graydon D. Hubbard	Director	September 20, 1999

HATHAWAY CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions from Reserves	Other /(1)/	Balance at End of Period
Year Ended June 30, 1999:					
Reserve for bad debts	$ 599	$ 14	$ (134)	--	$ 479
Year Ended June 30, 1998:					
Reserve for bad debts	$ 492	$ 136	$ (29)	--	$ 599
Year Ended June 30, 1997:					
Reserve for bad debts	$ 321	$ 105	$ (34)	$ 100	$ 492

/(1)/ Represents the effect of the Tate acquisition.

EXHIBIT 10.19

Execution Copy

EMPLOYMENT AGREEMENT

Richard D. Smith

THIS EMPLOYMENT AGREEMENT, dated and effective as of August 13, 1998, is between Hathaway Corporation, a Colorado corporation (the "Company"), and Richard D. Smith ("Employee").

RECITALS:

The Employee has acknowledged skills and experience in the business conducted by the Company and the Company desires to obtain the benefit of the Employee's knowledge, skills and experience and assure itself of the ongoing right to Employee's services from and after the date hereof, and is willing to do so on the terms and conditions set forth in this Agreement. Employee is willing and able to render services to the Company, from and after the date hereof, on the terms and conditions set forth in this Agreement.

AGREEMENT:

NOW, THEREFORE, the Company and Employee agree as follows:

1. Employment.

1.1 Title and Duties of Employee. The Company hereby employs Employee as President and Chief Executive Officer of the Company, and Employee hereby accepts such employment with the Company.

(a) Powers and Duties. Employee shall have the powers and duties normally incident to the offices he holds as provided in the bylaws of the Company and such other duties as shall be determined from time to time by the Company's Board of Directors (the "Board") consistent with Employee's qualifications and the best interests of the Company. Employee shall report only to the Board, and Employee's powers and authorities shall be superior to those of any other officer or employee of the Company or of any subsidiary thereof.

(b) Contract Rights. Failure of the Board to elect Employee as President and Chief Executive Officer, or action by the Board to remove Employee from such offices, shall be without prejudice to the contract rights in this Agreement.

(c) Service on the Board. So long as Employee is willing to serve on the Board and has not been terminated for cause, the Board shall nominate Employee for election to the Board. Failure to elect to, or removal from, the position of director or President and Chief Executive Officer or termination of this Agreement for any reason shall not constitute resignation from the Board or termination of Employee's service on the Board and termination of employment as President and Chief Executive Officer shall not include termination as a director.

1.2 Performance. Throughout the period of Employee's employment hereunder, Employee shall devote Employee's full business time, attention, knowledge and skills, faithfully, diligently, and to the best of Employee's ability, to the active performance of Employee's duties and responsibilities hereunder; provided, however, Employee may serve as a director of other corporations and entities and may engage in other activities to the extent they do not inhibit the performance of Employee's duties hereunder, or conflict with the business of the Company. Employee shall do such traveling as reasonably may be required in connection with the performance of such duties and responsibilities. Employee shall not be required to relocate Employee's residence and Employee may conduct work out of his residence from time to time as he determines appropriate.

2. Term of Employment. Unless terminated as provided in Section 4 hereof, the term of this Agreement shall extend to August 31, 2003 (the "Initial Period"), and thereafter shall automatically continue on a year to year basis (each a "Subsequent Period") unless the Company or Employee shall give the other party notice at least 60 days prior to the termination of the Initial Period or any Subsequent Period of its or his election not to renew the term of employment, in which case this Agreement shall terminate at the end of the period in which the notice is given; provided, however, the Company's obligation to pay compensation pursuant to Section 3 or perform any other acts with respect to the last year for which this Agreement is effective shall continue and be enforceable notwithstanding the termination of this Agreement.

3. Compensation and Benefits.

3.1 Base Salary. As compensation for services to be rendered by Employee hereunder, the Company shall pay to Employee an annual salary of not less than $180,000 per year, payable in periodic installments (but in no event less frequently than monthly) in accordance with the standard payroll practices of the Company in effect from time to time. Employee's salary shall be reviewed annually for increase (but not decrease) on a merit basis. Such review shall be conducted at the first meeting of the Board after the end of a fiscal year but not later than August 31 of each year and the effective date of any such increase shall be August 16. So long as the Company's power, process and systems automation business remains the same in all material respects as it is on the date of this Agreement, Employee's annual salary in effect from time to time shall not be decreased. In the event the Company makes a disposition of the power, process and systems automation business so that it is no longer a part of the Company, but the motion control business remains a part of the Company and Employee remains as President and Chief Executive Officer of the Company, the amount of Employee's annual salary may be renegotiated. Thereafter annual reviews shall continue as above provided. The Employee's annual salary in effect from year to year is herein referred to as the "Base Salary".

3.2 Annual Bonus.

(a) Performance Criteria. The Company shall pay to Employee an Annual Bonus with respect to each fiscal year in amounts determined as provided by the Board based on achieving performance criteria established at the beginning of each fiscal year. Such performance criteria will recognize the overall financial performance of the Company and the improvements made in financial results.

(b) Time of Payment. The first payment of the Annual Bonus to Employee pursuant to Section 3.2(a) shall be with respect to the fiscal year ended June 30, 1999. An Annual Bonus provided herein shall be paid with respect to each fiscal year thereafter during the term of this Agreement. All Annual Bonuses payable under Section 3.2(a) shall be paid in cash immediately following the first Board meeting held after the end of the applicable fiscal year at which the Annual Bonus calculation is approved by the Board.

3.3 Certain Dispositions.

(a) Bonus. A separate cash bonus shall be paid to employee with respect to a Disposition of (i) Hathaway Systems Corporation, Hathaway Process Instrumentation Corporation, and Hathaway Industrial Automation, Inc., or any of their respective product lines (herein referred to as "Power/Process/Systems") and (ii) Hathaway Motion Control Corporation or any of its subsidiaries or product lines (herein referred to together as "Motion Control"). The term "Disposition" shall include a sale of stock or assets or other transfer for value of an equity interest in the designated entity for which the Company recognizes a gain for financial reporting purposes. The bonus payable shall be an amount in dollars equal to a percentage of the cumulative sales price received (excluding purchased cash) on

Dispositions that are consummated on or before March 31, 2000 in accordance with the following schedules.

Sale of Power/Process/Systems

Cumulative Sales Price Received	Percentage of Cumulative Sales Price Received Payable as a Bonus
Below $9,000,000	0%
$9,000,000	1.0% plus
Next $ 2,000,000	2.0% of amount over $ 9,000,000 plus
Next $ 2,000,000	3.0% of amount over $11,000,000 plus
Next $ 2,000,000	4.0% of amount over $13,000,000 plus
All Additional Amounts	5.0% of amount over $15,000,000

Sale of Motion Control

Cumulative Sales Price Received	Percentage of Cumulative Sales Price Received Payable as a Bonus
Below $7,000,000	0%
$7,000,000	1.0% plus
Next $ 2,000,000	2.0% of amount over $ 7,000,000 plus
Next $ 2,000,000	3.0% of amount over $9,000,000 plus
Next $ 2,000,000	4.0% of amount over $11,000,000 plus
All Additional Amounts	5.0% of amount over $13,000,000

A Disposition will be consummated for the purpose of this section if a definitive purchase agreement has been executed on or before March 31, 2000 and any such transaction is subsequently closed.

(b) Time of Payment. A bonus is earned under this Section 3.3 if Employee was in the employ of the Company in the capacities described in Section 1.1 at the time a definitive contract for a transaction described was executed. Any bonus payable pursuant to this Section 3.3 shall be paid in cash within 30 days after closing the transaction without regard to whether employment may have been terminated prior to payment.

3.4 Long-Term Incentive Payment Plan. On or before the first Board meeting held in a current fiscal year, the Board shall consider whether to grant options to purchase the Company's Common Stock ("Stock Options") to Employee, including the terms and provisions of any Stock Options. Payments provided under this Section 3.4 are referred to herein as "Long-Term Incentive Payout." In making its determination the Board shall consider, among other things, the Employee's responsibilities and efforts and performance under this Agreement in relation to the business plan and forecast, the relationship between the benefits of Stock Options and improving shareholder value, the development of the Company's products and the performance of the Company's products in the marketplace, impact of the Company's products and product development on future prospects for the Company, and an increase in the trading price per share of the Company's Common Stock. The Board shall also consider customary business practices and Long-Term Incentive Payment Plan benefits granted to Employee in comparison to such benefits provided to other executives in positions similar to the Employee.

3.5 Expenses. The Company promptly shall reimburse Employee, upon presentation of appropriate receipts and vouchers, for any reasonable business expenses incurred by Employee in connection with the performance of his duties and responsibilities hereunder.

3.6 Vacation. Throughout the period of Employee's employment hereunder, Employee shall be entitled to take, from time to time, 4 weeks of vacation annually with pay at such times as shall be mutually convenient to Employee and the Company.

3.7 Benefits and Perquisites.

(a) Participation. The Company shall make available to Employee, throughout the period of employment hereunder, such benefits and perquisites as are generally provided by the Company to its employees. Without limiting the foregoing, Employee shall be eligible to participate in any bonus plan, stock option plan, stock purchase plan, pension plan and group life, health and accident insurance plans as the Company shall continue to provide or which may hereafter be adopted by the Company for the benefit of its employees generally. The Company shall provide and pay the premium on long term disability insurance for Employee. The Company shall not make any changes in such plans or arrangements which would adversely affect the Employee's rights or benefits thereunder, unless such changes occur pursuant to a program applicable to all employees of the Company and do not result in a proportionately greater reduction in the rights of, or benefits to, the Employee as compared with any other employee of the Company.

(b) Office Space. The Company shall provide office space and secretarial services at the Company's offices suitable to Employee's position.

(c) Life Insurance. The Company shall provide whole life insurance on the life of Employee with death benefits of $500,000 with all premiums paid by the Company. Employee may designate the beneficiary or beneficiaries of such policy.

(d) Automobile. The Company shall provide a new automobile no less frequently than every 3 years for Employee's sole use and the Company shall pay all costs of operating and maintaining or repairing such automobile. At or before the time of replacement Employee shall have the right to purchase, at its depreciated cost to the Company, the automobile previously provided.

(e) Benefit Plans. The Company will make non-qualified contributions for Employee's benefit under the Company's IRS (S) 401(k) plan on the same basis as it makes contributions for other employees.

(f) Retirement Plan Benefits. The Company will provide to Employee retirement plan benefits under any plan on the same basis it provides benefits to other employees.

4. Termination. This Agreement may be terminated by the Company or Employee as provided in this Section 4.

4.1 Cause.

(a) Definition. This Agreement may be terminated at any time at the option of the Company for Cause (as such term is hereinafter defined), effective as provided in Section 4.9. As used herein, the term "Cause" shall mean and be limited to: (i) conviction of an offense, with all appeal rights exhausted, constituting a felony under Colorado law and resulting or intending to result in Employee's gain or personal enrichment at the expense of the Company, (ii) the willful violation of the terms of this Agreement, (iii) gross negligence by Employee in connection with the performance of Employee's duties, responsibilities, agreements and covenants hereunder, which violation or negligence shall continue uncorrected for a period of 45 days after receipt by Employee of a Notice of Termination; or (iv) excessive use (following at least one written warning) of alcohol or any illegal use of narcotics. For purposes of this

Section, no act or failure to act on the Employee's part shall be considered "willful" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for Cause without Notice of Termination to the Employee setting forth (i) the reasons for the Company's intention to terminate for Cause, (ii) an opportunity on reasonable notice for the Employee, together with counsel, to be heard before the Board, (iii) the specific termination provision in this Agreement relied upon, and (iv) in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provisions so indicated.

(b) Salary; Benefits; Bonuses. Upon termination for Cause, the Company shall (i) continue the Base Salary through the Date of Termination, (ii) pay all fringe benefits through the end of the calendar month in which termination occurs, (iii) pay an Annual Bonus pursuant to Section 3.2 and Long-Term Incentive Payout pursuant to Section 3.4 treating the effective Date of Termination as being the last day of the fiscal year in which termination under this Section 4 occurs, and (iv) pay the separate bonus pursuant to Section 3.3 as earned prior to the effective Date of Termination.

4.2 Retirement. Termination of employment based on "Retirement" shall mean termination in accordance with any retirement arrangement established with Employee's consent, including settlement for the Annual Bonus pursuant to section 3.2, the separate bonus payable upon a Disposition pursuant to Section 3.3 and Long-Term Incentive Payout pursuant to Section 3.4.

4.3 Death of Employee. This Agreement shall terminate upon the death of Employee; provided, however, the Company shall (i) continue Employee's Base Salary through the month in which death occurs and for the following three months and (ii) shall make payments as provided in Section 4.5 in place of (x) Annual Bonus payments provided in Section 3.2 and (y) the Long-Term Incentive Payout pursuant to Section 3.4.

4.4 Disability of Employee.

(a) Termination; Definition. In the event Employee becomes mentally or physically disabled during the term of employment hereunder, this Agreement shall terminate as of the date such disability is established. As used in this Section, the term "Disabled" or "Disability" means suffering from any mental or physical condition, other than use of alcohol or illegal use of narcotics, which renders Employee unable to perform substantially all of Employee's duties and services under this Agreement in a satisfactory manner for a period of six consecutive months. If, by reason of Disability, Employee is absent from the full time performance of his duties with the Company for six consecutive months, Notice of Termination may be given and if Employee has not returned to the full time performance of his duties within 30 days thereafter Employee's Disability shall be deemed "established" at the end of such 30 day period.

(b) Salary; Benefits. During any period that Employee fails to perform his full time duties with the Company because he is Disabled, Employee shall continue to receive Base Salary until this Agreement is terminated pursuant to Section 4.8 at the rate in effect at the commencement of any such period adjusted for any compensation payable to him under any Company paid disability plan during such period. In the event of termination for Disability the Company shall continue (i) Employee's Base Salary adjusted for any compensation payable to him under any Company paid disability plan during such period and (ii) the same coverage under medical, dental, long-term disability and life insurance for the greater of (x) the remaining term of this Agreement or (y) until long term disability insurance coverage becomes effective.

(c) Bonuses. In the event of termination upon established Disability the Company shall make payments as provided in Section 4.5 in place of (i) the Annual Bonus payment provided in Section 3.2 and (ii) the Long-Term Incentive Payout pursuant to Section 3.4.

4.5 Death and Disability of Employee. In the event of termination upon death the Company shall make payments to Employee's personal representative, and in the event of termination for Disability the Company shall make payments to Employee, as hereinafter provided. Such payments shall be made immediately following the first meeting of the Board held after the end of the fiscal year in which death or Disability occurred, but in no event later than August 31 of such year.

(a) Annual Bonus. With respect to the Annual Bonus payment provided in Section 3.2(a) the Company shall make a separate determination of the Annual Bonus based on the factors provided in Section 3.2(a) for the fiscal year in which death or Disability occurs.

(b) Long Term Incentive Plan. With respect to the Long-Term Incentive Payout provided in Section 3.4 the Company shall make a separate determination of the Long-Term Incentive Payout based on the factors provided in Section 3.4 for the fiscal year in which death or Disability occurs.

4.6 Other than for Cause. If Employee's employment shall be terminated by the Company other than for Cause, Retirement or Disability, prior to a change in control of the Company or potential change in control of the Company as defined in the Severance Agreement referred to in Section 4.7, then Employee shall be entitled to the payments provided below:

(a) Base Salary. On the effective Date of Termination the Company shall pay Employee his full Base Salary through the end of the month in which termination occurs at the rate in effect at the time Notice of Termination is given, and for one full year thereafter.

(b) Benefits. The Company shall continue providing medical, dental, long-term disability and life insurance equal to the coverages existing at the time Notice of Termination is given for the greater of (i) term of this Agreement or (ii) for one full year.

(c) Annual and Long Term Bonus. On the effective Date of Termination the Company shall make payments to and issue to Employee with respect to, and in place of, (i) the Annual Bonus payment provided in Section 3.2 an amount in cash equal to 0.9 multiplied by Base Salary for the year in which employment is terminated and (ii) the Long Term Incentive Payout provided in Section 3.4 for the fiscal year in which employment is terminated under this Section.

4.7 Change in Control.

(a) Severance Agreement Continued. The letter agreement dated __________________, 1998 ("Severance Agreement") between the Company and Employee providing certain benefits to Employee upon a change in control of the Company is continued and upon a change of control of the Company the Severance Agreement shall apply and have priority over this Agreement so that in the event of any conflict between this Agreement and the Severance Agreement the Severance Agreement shall apply.

(b) Definition. As used in this Agreement the term "change in control of the Company" shall have the meaning expressed in the Severance Agreement.

4.8 Notice of Termination. Any purported termination of employment by the Company or by Employee shall be communicated by written Notice of Termination to the other party hereto in

accordance with Section 13 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated, and shall state an effective date of termination subject to adjustment pursuant to Section 4.9.

4.9 Date of Termination, Etc. "Date of Termination" shall mean (i) if employment is terminated for Disability, the date as provided in Section 4.4(a), and (ii) if employment is terminated for Cause pursuant to Section 4.1 or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Section 4.1 above shall be not less than 30 days); provided, however, that if within 30 days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this proviso), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally resolved, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, Employee shall continue to perform his duties for the Company and the Company will continue to pay his full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, Base Salary) and continue Employee as a participant in all compensation, benefit and insurance plans in which Employee was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Section. Amounts paid under this Section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4.10 Termination by Employee. Employee may terminate this Agreement by resigning as President and Chief Executive Officer upon at least 30 days prior written notice of the effective Date of Termination. In such event the Company shall continue Employee's Base Salary and all fringe benefits to the effective Date of Termination. Termination of this Agreement under this Section does not affect the Company's obligation to make all payments to Employee which were fixed and determined prior to the effective Date of Termination.

5. Confidential Information.

5.1 Disclosure and Use. Employee shall not disclose, either during or subsequent to Employee's employment with the Company, any confidential information or proprietary data of the Company, whether or not developed by Employee, except (i) as may be required for Employee to perform Employee's employment duties with the Company; (ii) to the extent such information has been disclosed to Employee by a third party who is not subject to restriction on the dissemination of such information; (iii) as such information becomes generally available to the public other than as a result of a disclosure by Employee; (iv) to the extent such information is independently developed by Employee; (v) information which must be disclosed as a result of a subpoena or other legal process, or (vi) if Employee shall first secure the Company's prior written authorization. This covenant shall survive the termination of Employee's employment with the Company, and shall remain in effect and be enforceable against Employee for so long as any such Company confidential information or proprietary data retains economic value, whether actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use.

5.2 Return of Materials. Upon termination of employment by the Company, Employee shall promptly deliver to the Company all customer lists, specifications, drawings, listings, documentation, manuals, letters, notes, note books, reports, and copies thereof, and all other materials of a secret or confidential nature relating to the Company's business, which are in the possession or under the control of Employee.

6. Inventions and Discoveries. Employee hereby assigns to the Company all of Employee's rights, title and interest in and to all inventions, discoveries, processes, designs and other intellectual property which relates to any business of the Company which, at the time of the invention, discovery or design, is a source of substantial revenue for the Company (hereinafter referred to collectively as the "Inventions"), and all improvements on existing Inventions made or discovered by Employee during the term of Employee's employment by the Company. Promptly upon the development or making of any such Invention or improvement thereon, Employee shall disclose the same to the Company and shall execute and deliver to the Company such reasonable documents as the Company may request to confirm the assignment of Employee's rights therein and, if requested by the Company, shall assist the Company in applying for and prosecuting any patents which may be available in respect thereof. This Section 6 does not apply to any Invention other than one which relates to any business of the Company which, at the time of invention, is a source of substantial revenue for the Company, regardless of when, where or how developed.

7. Restrictive Covenant. While the Employee is an employee of the Company and during a period in which the Company is making continuation payments of Base Salary pursuant to Section 4 hereof, Employee shall not, without the prior written consent of the Company, (i) engage directly or indirectly in any Competing Business in the geographical area where the Company does business (including, without limitation, the United States and any country in which the Company has a sales representative at the time of termination) whether as an employee, consultant or advisor, or owner as principal, shareholder or partner of any equity interest in excess of 5% of any business entity (which shall include any proprietorship, trust, joint venture, partnership or any type of corporation or association), or (ii) serve as an officer, director, trustee, partner or the like in any such business entity.

The term "Competing Business" as used in this Section 7 includes any business conducted by the Company, which initially includes the design, production and marketing of electronic systems and instrumentation for the worldwide power and process industries and motion control products, and any other products manufactured or marketed by the Company at the date of termination of this Agreement.

8. Arbitration. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City and County of Denver in accordance with the rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The Company shall pay all costs of arbitration. In the event that it shall be necessary or desirable for Employee to retain legal counsel and/or incur other costs and expenses in connection with interpretation of his rights under this Agreement, including any procedure in arbitration, Employee shall be entitled to recover from the Company reasonable attorneys' fees and costs and expenses incurred by him in connection with such interpretation or arbitration, regardless of the final outcome, unless the arbitrator shall determine that under the circumstances such payment would be unjust.

9. Mitigation. Employee shall not be required to mitigate the amount of any payment provided in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by Employee to the Company, or otherwise.

10. Announcements. No public announcement regarding termination of employment of the Employee or any change in status of the Employee by the Company shall be made without Employee's approval. All matters with respect to termination of employment of Employee, retirement of Employee or other action taken

pursuant to this Agreement shall be kept confidential and neither Company nor Employee will make unfavorable comments about the other in connection with this Agreement.

11. Severability. If any provision of this Agreement is held invalid or unenforceable, either in its entirety or by virtue of its scope or application to given circumstances, such provision shall thereupon be deemed modified only to the extent necessary to render same valid, or not applicable to given circumstances, or excised from this Agreement, as the situation may require, and this Agreement shall be construed and enforced as if such provision had been included herein as so modified in scope or application, or had not been included herein, as the case may be.

12. Non-Assignability. In light of the unique personal services to be performed by Employee hereunder, it is acknowledged and agreed that any purported or attempted assignment or transfer by Employee of this Agreement or any of Employee's duties, responsibilities or obligations hereunder shall be void. This Agreement may not be assigned by the Company without the prior written consent of Employee.

13. Notices. Any notice, request, demand or other communication required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or on the date of receipt when mailed by certified mail, return receipt requested, addressed as follows:

If to the Company:

Hathaway Corporation
8228 Park Meadows Drive
Littleton, Colorado 80124

If to Employee:

Richard D. Smith
8422 Newland Drive
Arvada, Colorado 80003

or to such other address or addresses as may be specified from time to time by notice; provided, however, that any notice of change of address shall not be effective until its receipt by the party to be charged therewith.

14. General.

14.1 Amendments. Neither this Agreement nor any of the terms or conditions hereof may be waived, amended or modified except by means of a written instrument duly executed by the party to be charged therewith.

14.2 Captions and Headings. The captions and paragraph headings used in this Agreement are for convenience of reference only, and shall not affect the construction or interpretation of this Agreement or any of the provisions hereof.

14.3 Governing Law. This Agreement, and all matters or disputes relating to the validity, construction, performance or enforcement hereof, shall be governed, construed and controlled by and under the laws of the State of Colorado without regard to principles of conflicts of law.

14.4 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Employee to all rights for breach hereunder.

(b) If Employee should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's personal representatives or to his estate.

14.5 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original hereof, but all of which together shall constitute one and the same instrument.

14.6 Entire Agreement. Except as otherwise set forth or referred to in this Agreement, this Agreement constitutes the sole and entire agreement and understanding between the parties hereto as to the subject matter hereof, and supersedes all prior discussions, agreements and understandings of every kind and nature between them as to such subject matter.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the date first set forth above.

HATHAWAY CORPORATION,

By: /s/ E. Prince

/s/ Richard D. Smith

Richard D. Smith

EXHIBIT 10.20

Execution Copy

CONSULTING AGREEMENT

Eugene E. Prince

THIS CONSULTING AGREEMENT, dated and effective as of September 1, 1998, is between Hathaway Corporation, a Colorado corporation ("Company"), and Eugene E. Prince ("Consultant").

RECITALS

Consultant has served for many years as the Chief Executive Officer of the Company and is now retiring. He has acknowledged skills and experience in the business conducted by the Company, and the Company desires to obtain the continuing benefit of Consultant's knowledge, skills and experience and assure itself of the ongoing right to Consultant's services from and after the date hereof, and is willing to do so on the terms and conditions set forth in this Agreement. Consultant is willing and able to continue to render services to the Company, from and after the date hereof, on the terms and conditions set forth in this Agreement.

AGREEMENT

NOW THEREFORE, the Company and Consultant agree as follows:

1. Consultant Relationship. The Company hereby retains Consultant to provide consulting services to the Company primarily on matters involving the Company's motion control products, but also on other matters as requested by the President and CEO. Consultant shall report to the President and CEO as requested. Consultant shall devote such time to the Company's business as is reasonably necessary to carry out assigned responsibilities, but it is not expected that Consultant will be required to give more than 60 hours per month of service under this Agreement. It is expected that Consultant will devote about 40 hours per month on motion control products and about 20 hours per month on other matters. Consultant will serve as a director of subsidiary entities of the Company as requested. Consultant will do such traveling as reasonably may be required in connection with the performance of consulting duties and responsibilities. Consultant is an independent contractor.

2. Term. The term of this Agreement shall commence on September 1, 1998, and continue until terminated by either party upon 30 days written notice.

3. Service on Company Board. So long as Consultant owns at least 10% of the issued shares of the Company, the board of directors of the Company shall nominate Consultant for election to the board of directors. If Consultant is elected to the board of directors of the Company, the board of directors will request that Consultant be nominated for the position of chairman of the board of directors, but failure to elect Consultant as chairman of the board of directors for any reason shall not constitute resignation from the board or termination of Consultant's services under this Agreement.

4. Compensation. Consultant will be compensated at the standard rate paid by the Company to directors for consulting services, which at the time of this Agreement is $250 per hour. If the rate paid to directors for consultation services should be increased during the term of this Agreement, the rate paid to Consultant shall be likewise increased. As a member of the board of directors, Consultant will be paid the standard compensation for nonemployee directors for attending board or committee meetings and other services as a director. Consultant is not eligible for benefits and perquisites provided by the Company to its employees but is eligible for benefits and perquisites provided by the Company to its directors. Consultant will be paid at the rate of $250 per hour for travel time.

5. Existing Agreements. This Agreement constitutes a retirement arrangement as contemplated by Section 4.2 of Consultant's Employment Agreement with the Company, dated as of July 1, 1993 (the "Employment Agreement"). Effective August 13, 1998, Consultant resigned as President and Chief Executive Officer of the Company and continued as an employee through August 31, 1998. The Employment Agreement is terminated effective August 31, 1998, except for benefits thereunder which, by its terms, were intended to survive termination. Consultant is also a party to a letter agreement dated June 15, 1989 ("Severance Agreement") between the Company and Consultant providing certain benefits to Consultant upon a change in control of the Company. Effective August 31, 1998, the Severance Agreement is terminated except for benefits which, by its terms, were intended to survive termination.

6. Expenses. The Company promptly shall reimburse Consultant, upon presentation of appropriate receipts and vouchers, for any reasonable business expenses incurred by Consultant in connection with the performance of his duties and responsibilities thereunder.

7. Stock Options. No unexercised stock options shall be terminated by reason of the termination of Consultant's Employment Agreement pursuant to Section 5 hereof, and all unexercised stock options shall continue to be exercisable by Consultant as a director of the Company.

8. Confidential Information.

8.1 Disclosure and Use. Consultant shall not disclose, either during or subsequent to Consultant's consulting relationship with the Company, any confidential information or proprietary data of the Company, whether or not developed by Consultant, except (i) as may be required for Consultant to perform Consultant's duties with the Company; (ii) to the extent such information has been disclosed to Consultant by a third party who is not subject to restriction on the dissemination of such information; (iii) as such information becomes generally available to the public other than as a result of a disclosure by Consultant; (iv) to the extent such information is independently developed by Consultant; (v) information which must be disclosed as a result of a subpoena or other legal process, or (vi) if Consultant shall first secure the Company's prior written authorization. This covenant shall survive the termination of Consultant's consulting relationship with the Company, and shall remain in effect and be enforceable against Consultant for so long as any such Company confidential information or proprietary data retains economic value, whether actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use.

8.2 Return of Materials. Upon termination of this consultant relationship, Consultant shall promptly deliver to the Company all customer lists, specifications, drawings, listings, documentation, manuals, letters, notes, note books, reports, and copies thereof, and all other materials of a secret or confidential nature relating to the Company's business, which are in the possession or under the control of Consultant.

9. Inventions and Discoveries. Consultant hereby assigns to the Company all of Consultant's rights, title and interest in and to all inventions, discoveries, processes, designs and other intellectual property which relates to any business of the Company which, at the time of the invention, discovery or design, is a source of substantial revenue for the Company (hereinafter referred to collectively as the "Inventions"), and all improvements on existing Inventions made or discovered by Consultant during the term of Consultant's relationship with the Company. Promptly upon the development or making of any such Invention or improvement thereon, Consultant shall disclose the same to the Company and shall execute and deliver to the Company such reasonable documents as the Company may request to confirm the assignment of Consultant's rights therein and, if requested by the Company, shall assist the Company in applying for and prosecuting any patents which may be available in respect thereof. This Section 9 does not apply to any Invention other than one which relates to any business of the Company which, at the time of invention, is a source of substantial revenue for the Company, regardless of when, where or how developed.

10. Restrictive Covenant. While the Consultant is retained by the Company and during a three-year period thereafter, Consultant shall not, without the prior written consent of the Company, (i) engage directly or indirectly in any competing business in the geographical area where the Company does business (including, without limitation, the United States and any country in which the Company has a sales representative at the time of termination) whether as an employee, consultant, or advisor, or owner as principal, shareholder, member, or partner of any equity interest in excess of 5% of any business entity (which shall include any proprietorship, trust, joint venture, limited liability company, partnership or any type of corporation or association), or (ii) serve as an officer, director, trustee, manager, partner or the like in any such business entity.

The term "Competing Business" as used in this Section 10 includes any business conducted by the Company, which initially includes the design, production and marketing of electronic systems and instrumentation for the world wide power and process industries and motion control products, and any other products manufactured or marketed by the Company at the date of termination of this Agreement.

11. Notices. Any notice, request, demand or other communication required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or on the date of receipt when mailed by certified mail, return receipt requested, addressed as follows:

If to the Company:

Hathaway Corporation
8228 Park Meadows Drive
Littleton, Colorado 80124
Attention: President

If to Consultant:

Eugene E. Prince
7560 Panorama Drive
Boulder, Colorado 80303

or to such other address or addresses as may be specified from time to time by notice; provided, however, that any notice of change of address shall not be effective until its receipt by the party to be charged therewith.

12. General.

12.1 Amendments. Neither this Agreement nor any of the terms or conditions hereof may be waived, amended or modified except by means of a written instrument duly executed by the party to be charged therewith.

12.2 Captions and Headings. The captions and paragraph headings used in this Agreement are for convenience of reference only, and shall not affect the construction or interpretation of this Agreement or any of the provisions hereof.

12.3 Governing Law. This Agreement, and all matters or disputes relating to the validity, construction, performance or enforcement hereof, shall be governed, construed and controlled by and under the laws of the State of Colorado without regard to principles of conflicts of law.

12.4 Successors and Assigns. This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns. Consultant may not assign this Agreement. The Company may not assign this Agreement without the consent of Consultant.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the date first set forth above.

HATHAWAY CORPORATION

By: /s/ Richard D. Smith

President

/s/ Eugene E. Prince

Eugene E. Prince

EXHIBIT 21

OFFICERS AND DIRECTORS/INVESTOR INFORMATION

BOARD OF DIRECTORS

Eugene E. Prince
Chairman of the Board

Richard D. Smith
President and Chief Executive Officer

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

Chester H. Clarridge
Consultant

Graydon D. Hubbard
Retired Partner, Arthur Andersen LLP

George J. Pilmanis
President of 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 2:00 p.m.,
on Thursday, October 28, 1999 at the Lone Tree
Country Club, 9808 Sunningdale Boulevard,
Littleton, Colorado.

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

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

Independent Public Accountants
ARTHUR ANDERSEN LLP
Denver, Colorado

CORPORATE OFFICERS

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

Herbert Franson
Assistant Treasurer, Corporate Controller
and Assistant Secretary

Susan M. Chiarmonte
Secretary

SUBSIDIARIES AND DIVISIONS

Domestic Subsidiaries and Divisions

Hathaway Systems Corporation
Littleton, Colorado

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

Hathaway Process Instrumentation Corporation
Carrolton, Texas

Hathaway Industrial Automation, Inc.
Hunt Valley, Maryland

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

Computer Optical Products, Inc.
Chatsworth, California

Emoteq Corporation
Tulsa, Oklahoma
Evergreen, Colorado

International Subsidiaries

Hathaway Systems Limited
Belfast, Northern Ireland

Emoteq UK Limited
Bournemouth, England

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated July 30, 1999 included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-8 (No. 2-73235) of the Hathaway Corporation Amended 1980 Non-Incentive Stock Option Plan dated August 3, 1981, into the Registration Statement on Form S-8 (No. 2-90687) of the 1983 Incentive and Non-Qualified Stock Option Plan of Hathaway Corporation dated May 10, 1984, into the Registration Statement on Form S-8 (No. 3344998) of the 1992 Employee Stock Purchase Plan of Hathaway Corporation dated January 8, 1992, into the Registration Statement on Form S-8 (No. 33-37473) of the 1989 Incentive and Non-Qualified Stock Option Plan of Hathaway Corporation dated October 25, 1990, and into the Registration Statements on Form S-8 (Nos. 3344997 and 333-21337) of the 1991 Incentive and Non-Statutory Stock Option Plan of Hathaway Corporation dated January 8, 1992 and February 7, 1997, respectively.

ARTHUR ANDERSEN LLP

Denver, Colorado,
September 20, 1999.

5
1,000

YEAR
JUN-30-1999
JUL-01-1998
JUN-30-1999
2,416
0
6,944
479
3,316
14,013
9,197
7,477
16,398
7,082
0
0
0
100
9,216
16,398
41,691
41,691
26,475
26,475
0
14
146
(1,317)
(208)
(1,525)
0
0
0
(1,525)
(0.36)
(0.36)

Presented gross