

Edgar Filing: HALIFAX CORP - Form 10-Q

HALIFAX CORP
Form 10-Q
August 10, 2001

3

HALIFAX CORPORATION

FORM 10-Q

JUNE 30, 2001

FORM 10Q -- QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
(As last amended in Rel. No. 312905 eff. 4/26/93.)
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended June 30, 2001

() Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file Number 1-8964

Halifax Corporation
(Exact name of registrant as specified in its charter)

Virginia 54-0829246
(State or other jurisdiction of
incorporation of organization) (IRS Employer Identification No.)

5250 Cherokee Avenue, Alexandria, VA 22312
(Address of principal executive offices)

Registrant's telephone number, including area code (703) 750-2202

N/A

Edgar Filing: HALIFAX CORP - Form 10-Q

(former name, former address and former fiscal year, if changed since last report)

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.

(X)Yes ()No

APPLICABLE ONLY TO ISSUERS INVOLVED
IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

(X)Yes ()No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 2,023,436 shares outstanding as of August 9, 2001.

HALIFAX CORPORATION

CONTENTS

PART I. FINANCIAL INFORMATION

	page
Item 1. Financial Statements	
Consolidated Balance Sheets - June 30, 2001 (Unaudited) and March 31, 2001	4
Consolidated Statements of Operations - Three Months Ended June 30, 2001 and 2000 (Unaudited)	5
Consolidated Statements of Cash Flows - Three Months Ended June 30, 2001 and 2000 (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	17

PART II OTHER INFORMATION

Edgar Filing: HALIFAX CORP - Form 10-Q

Item 6. Exhibits and Reports on Form 8-K

17

Item 1. FINANCIAL STATEMENTS

HALIFAX CORPORATION

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except share data)

	June 30, 2001 (Unaudited)	March 31, 2001
ASSETS		
CURRENT ASSETS		
Cash	\$ 107	\$ 231
Trade accounts receivable net of reserve of \$226 and \$319 at June 30, 2001 and March 31, 2001	8,199	8,643
Inventory net of reserve of \$700 at June 30, 2001 and March 31, 2001	2,813	2,889
Prepaid expenses and other current assets	371	612
TOTAL CURRENT ASSETS	11,490	12,375
PROPERTY AND EQUIPMENT, net	1,811	1,956
GOODWILL, net	3,139	3,192
OTHER ASSETS	510	443
TOTAL ASSETS	\$ 16,950	\$ 17,966
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 3,155	\$ 2,604
Accrued expenses	5,437	8,386
Deferred maintenance revenue	994	855
Current portion of long-term debt	632	632
Income taxes payable	15	-
TOTAL CURRENT LIABILITIES	10,233	12,477
LONG-TERM BANK DEBT	4,111	2,886
SUBORDINATED DEBT - AFFILIATE	4,000	4,000
Deferred Income	501	516
TOTAL LIABILITIES	18,845	19,879
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Preferred stock, no par value authorized 1,500,000, issued 0 shares	-	-
Common stock, \$.24 par value: Authorized - 6,000,000 shares Issued - 2,322,370 as of June 30, 2001 and March 31, 2001		
Outstanding - 2,023,436 as of June 30, 2001 and March 31, 2001	562	562
Additional paid-in capital	4,710	4,710
Accumulated deficit	(6,955)	(6,973)
Less Treasury stock at cost - 298,934 shares as June 30, 2001 and March 31, 2001	(212)	(212)
TOTAL STOCKHOLDERS' DEFICIT	(1,895)	(1,913)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 16,950	\$ 17,966

Edgar Filing: HALIFAX CORP - Form 10-Q

See notes to consolidated financial statements
See Form 10-K for the fiscal year ended March 31, 2001

HALIFAX CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) (Amounts in thousands except share and per share data)

		Three Months Ended June 30,	
		2001	2000
Revenues	\$	10,817	\$ 12,910
Cost of services		9,641	12,380
Gross Margin		1,176	530
Marketing, general and administrative		986	566
Operating income (loss)		190	(36)
Interest expense		157	178
Embezzlement costs		-	254
Income (loss) from continuing operations before income taxes		33	(468)
Income taxes		15	15
Income (loss) from continuing operations		18	(483)
Discontinued operations:			
Income from discontinued operations		-	244
Gain on sale of discontinued operations (net of taxes of \$200)		-	1,594
Net income	\$	18	\$ 1,355
Earnings per common share - basic:			
Continuing operations	\$	.01	\$ (0.24)
Discontinued operations		-	0.12
Gain on disposition of discontinued operations		-	0.79
	\$	.01	\$ 0.67
Earnings per common share - diluted:			
Continuing operations	\$	.01	\$ (0.24)
Discontinued operations		-	0.12
Gain on disposition of discontinued operations		-	0.79
	\$	.01	\$ 0.67
Weighted number of shares outstanding:			
Basic		2,023,436	2,020,956
Diluted		2,023,436	2,023,882

See notes to consolidated financial statements

HALIFAX CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Amounts in thousands)

Edgar Filing: HALIFAX CORP - Form 10-Q

Three Months Ended
June 30,

	2001	2000
Cash flows from operating activities:		
Net income	\$ 18	\$ 1,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	208	344
Income from discontinued operations	-	(244)
Gain on sale of discontinued operations	-	(1,594)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	444	(1,242)
Decrease (increase) in inventory	76	(79)
Decrease in other assets	174	217
(Decrease) increase in accounts payable and accrued expenses	(2,398)	167
Increase in income taxes payable	15	109
Increase (decrease) in deferred maintenance	139	(289)
Decrease in deferred income	(15)	(16)
Total adjustments	(1,357)	(2,627)
Net cash used by continuing operations	(1,339)	(1,272)
Cash flows from investing activities:		
Acquisition of property and equipment	(10)	(155)
Net proceeds from the sale of discontinued operations	-	5,500
Net cash (used) provided in investing activities	(10)	5,345
Cash flows from financing activities:		
Proceeds from borrowing of long-term debt	6,350	8,992
Retirement of long-term debt	(5,125)	(13,611)
Proceeds from sale of stock upon exercise of stock options	-	27
Net cash provided (used) by financing activities	1,225	(4,592)
Net decrease in cash	(124)	(519)
Cash at beginning of period	231	1,800
Cash at end of period	\$ 107	\$ 1,281

See notes to consolidated financial statements

Halifax Corporation Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include

Edgar Filing: HALIFAX CORP - Form 10-Q

all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending March 31, 2002. For further information refer to the consolidated financial statements and notes thereto included in the Halifax Corporation Annual Report on Form 10-K for the year ended March 31, 2001.

Effective April 2001, the Company adopted Statement of Financial Accounting Standards (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contract and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

Recent Accounting Pronouncements:

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is currently assessing, but has not yet determined, the impact of SFAS 142 on its financial position and results of operations.

Note 2 - Embezzlement

In March 18, 1999, the Company announced that an internal investigation had revealed a material embezzlement by the former controller of the Company's subsidiaries. The embezzlement occurred over a four year period and aggregated approximately \$15.4 million of which approximately \$15 million was embezzled from the Company and \$400,000 prior to its acquisition by Halifax. After net recoveries through March 31, 2001, as discussed below, the cumulative net embezzlement loss to the Company before taxes was approximately \$7.7 million.

For the three months ended June 30, 2001 and 2000, the Company incurred costs related to the ongoing recovery effort of approximately \$0 and \$254,000, respectively.

Edgar Filing: HALIFAX CORP - Form 10-Q

On January 9, 2001, the Securities & Exchange Commission issued a formal order of investigation of the Company and unnamed individuals concerning trading activity in the Company's securities, periodic reports filed by the Company with the SEC, certain accounting and financial matters and internal accounting controls. The Company is cooperating fully with the SEC. In addition, the Company has received an SEC subpoena for documents related to these matters. The staff of the SEC has advised that the inquiry is confidential and should not be construed as an indication by the Commission or its staff that any violation of law has occurred, or has an adverse reflection on any person, entity or security. The Company believes the investigation is primarily related to the previously reported embezzlement by one the Company's former employees.

Note 3 - Discontinued Operations

On June 2, 2000, the Company executed and delivered a Stock Purchase Agreement dated as of May 31, 2000, with U.S. Facilities, Inc., a Delaware corporation ("Buyer") providing for the sale by the Company to Buyer of the Company's operational outsourcing business (the "Business"). The closing of the transactions contemplated in the Agreement (the "Closing") took place simultaneously with the execution and delivery thereof, effective as of May 31, 2000.

At the Closing the Company sold to Buyer, all of the capital stock of its wholly-owned subsidiary, Halifax Technical Services, Inc. for a purchase price of \$5,600,000, of which \$5,500,000 was paid by Buyer to the Company at Closing with the balance of \$100,000 due on the first anniversary of the Closing.

Summary operating results of the Discontinued Operations are as follows:

	For the three months ended June 30,	
	2001	2000
Revenue	\$ -	\$ 4,636,000
Costs and expenses	-	4,392,000
Income from discontinued operations	\$ -	\$ 244,000

Note 4 - Tax Matters

At June 30, 2001, the Company has a net operating loss carryforward of approximately \$8.6 million virtually all of which expires in fiscal 2019. Income tax expense (primarily state taxes), for the three months ended June 30, 2001 and 2000 was \$15,000.

Note 5 - Debt

On December 8, 2000, the Company entered into a new revolving credit agreement which refinanced the Company's revolving credit line. Advances under the revolving agreement are collateralized by a first

Edgar Filing: HALIFAX CORP - Form 10-Q

priority security interest on all the Company's assets as defined in the financing and security agreement. The agreement also contains certain financial covenants and reporting covenants. The agreement matures on August 31, 2002.

The Company signed a banking agreement on September 1, 1999 as amended on December 21, 1999, which refinanced the Company's revolving credit and debt. The Company further amended its banking agreement on July 5, 2000, which extended the agreement through July 1, 2001. The Company agreed to make certain accelerated payments on the term loan portion of its debt, apply a portion of future settlement proceeds (see Note 2), if any, to term debt balances outstanding, and to reduce its maximum line on the revolving credit agreement to \$6,000,000. The Company was in non-compliance under the terms of its revolving credit agreement and term loan facilities at March 31, 2000. As part of the amended agreement, the bank waived the non-compliance with the financial covenant. In accordance with the terms of the new banking arrangement, the Company made additional principal payments on the Tier II and Tier III Term Notes. All assets of the Company remain as collateral in accordance with the prior agreement. In addition, the Company paid certain fees in connection with the amendment and was to be subject to additional monthly fees commencing January 1, 2001 if the current banking arrangement had not been refinanced. The debt under this agreement was paid in full on December 8, 2000.

The revolving credit agreement prohibits the payment of dividends or distributions as well as the payment of principal or interest on the Company's outstanding subordinated debt, which is owned by an affiliate. Interest expense on Subordinated Debt is accrued on a current basis.

The Company was not in compliance with its credit and security agreement at June 30, 2001. Its lender has agreed to an amendment to waive the violations. It is the intention of the lender and the Company to restructure the covenants to assure that compliance can be achieved through March 31, 2002.

In September 1999, the Company entered into an agreement with a major supplier of digital communications switch hardware for the Company's United States Army contract. Approximately \$5,500,000 of outstanding accounts payable arising since March 31, 1999 due to the supplier was converted to a note payable which is being paid over 18 months with interest at 8.5%. The balance of the note due on June 30, 2001 was \$632,000.

Note 6 - Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share.

	Three Months Ended June 30,	
	2001	2000
Numerator for earning per share:		
Net income as reported from		

Edgar Filing: HALIFAX CORP - Form 10-Q

Continuing operations	\$	18,000	\$	(483,000)
Discontinued operations		-		244,000
Gain on disposition of discontinued operations		-		1,594,000
Net income	\$	18,000	\$	1,355,000

Denominator:

Denominator for basic earnings per share - weighted-average shares	2,023,436	2,020,956
--	-----------	-----------

Effect of dilutive securities:

7% Convertible Debenture	-	-
Employee stock options	-	2,926

Dilutive potential common shares:

Denominator for diluted earnings per share weighted number of shares outstanding	2,023,436	2,023,882
--	-----------	-----------

Basic earnings per common share:

Income (loss) from continuing operations	\$	.01	\$	(0.24)
Discontinued operations		-		0.12
Gain on disposition of discontinued operations		-		0.79
	\$	.01	\$	0.67

Diluted earnings per common share

Income (loss) from continuing operations	\$	.01	\$	(0.24)
Discontinued operations		-		0.12
Gain on disposition of discontinued operations		-		0.79
	\$	.01	\$	0.67

Item 2

Management's Discussion and Analysis of Financial Conditions and Results of Operations

Forward-Looking Statements

Certain statements in this Quarterly 10-Q Report constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions in the Company's market area, inflation, continuation of favorable banking arrangements, the availability of capital to finance planned growth, ramifications of the embezzlement referenced herein, changes in government regulations, availability of skilled personnel and competition, which may, among other things impact on the ability of the Company to implement its business strategy.

Edgar Filing: HALIFAX CORP - Form 10-Q

Forward-looking statements are intended to apply only at the time they are made. Moreover, whether or not stated in connection with a forward-looking statement, the Company undertakes no obligation to correct or update a forward-looking statement should the Company later become aware that it is not likely to be achieved. If the Company were to update or correct a forward-looking statement, investors and others should not conclude that the Company will make additional updates or corrections thereafter.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. (Tabular information: dollars in thousands, except per share amounts).

	Three Months Ended June 30,				
Results of Operations	2001	2000	Change		%
Revenues	\$ 10,817	\$ 12,910	(2,093)		(16)
Cost of services	9,641	12,380	(2,739)		(22)
Percent of revenues	89%	96%			
Gross margin	1,176	530	646		12
Percent of revenues	11%	4%			
Marketing, general & administrative	986	566	420		7
Percent of revenues	9%	4%			
Operating income (loss)	190	(36)	226		N
Percent of revenues	2%	0%			
Interest expense	157	178	(21)		(12)
Embezzlement recovery costs	-	254	(254)		N
Income (loss) from continuing operations before income taxes	33	(468)	501		N
Income tax expense	15	15	-		
Income (loss) from continuing operations	18	(483)	501		N
Income from discontinued operations	-	244	(244)		N
Gain on sale of discontinued operations	-	1,594	(1,594)		N
Net income	\$ 18	\$ 1,355	(1,337)		N
Earnings per common share-basic:					
Continuing operations	\$.01	\$ (0.24)			
Discontinued operations	-	0.12			
Gain on sale of discontinued operations	-	0.79			

Edgar Filing: HALIFAX CORP - Form 10-Q

	\$	.01	\$	0.67
Earnings per common share-diluted:				
Continuing operations	\$	.01	\$	(0.24)
Discontinued operations		-		0.12
Gain on sale of discontinued operations		-		0.79
	\$	.01	\$	0.67
Weighted average number of common shares outstanding - basic		2,023,436		2,020,956
Weighted average number of common shares outstanding - diluted		2,023,436		2,023,882

N/M - Not Meaningful

During the latter part of fiscal 2001, we realigned our organization as a result of the economic slowdown. These adjustments along with a renewed focus on our core competencies, contributed to the modest first quarter profit.

Revenues

Revenues for the quarter ended June 30, 2001 declined 16% due to decreased hardware sales offset somewhat by higher service and recurring revenues on long-term contracts. The decline was compounded by lengthening sales cycles and increased price competition brought on by the economic slowdown.

Gross Margin, Costs and Expenses

Cost of services decreased 22% due to reductions in hardware sales, cost containment measures undertaken in the fourth quarter of fiscal 2001 and a modest shift in sales mix in higher margin services.

Marketing, general and administrative expense increase 74%, principally due to the increased from the creation of the Company wide marketing group, associated marketing and promotional investments and workshops, increases and the upgrade and consolidation of the Company's accounting systems, professional fees, and business insurance.

Operating Income

Operating income increased from a loss of \$36,000 for the three months ended June 30, 2000 to income of \$190,000 for the three months ended June 30, 2001. The improved ratios and profitability in operating income reflected significant declines in costs of services arising from expense controls, efficiencies gained in consolidating dispatch, logistics and warehouse functions and the higher service margins brought about by new marketing efforts.

Interest

Interest expense declined 12% and was attributable to lower interest rates and lower levels of borrowing compared to the prior year.

Edgar Filing: HALIFAX CORP - Form 10-Q

Discontinued Operations

In June of 2000 the Company completed its sale of its operational outsourcing division. The income from discontinued operations and the gain on sale of discontinued operations for the period ended June 30, 2000 reflected the transaction.

Embezzlement Costs

Embezzlement costs reflect legal costs associated with certain ongoing recovery efforts. There were no embezzlement costs incurred during the three months ended June 30, 2001 compared to \$254,000 for the three months ended June 30, 2000. For additional discussion see "Embezzlement Matter" in Note 2 to the condensed consolidated financial statements.

Income Taxes

The Company has net operating loss from carryforwards approximately \$8.6 million will substantially reduce income taxes in future periods.

The Company's income tax provision for income taxes for the three months ended June 30, 2001 and 2000 was \$15,000.

Net Income

For the quarter ended June 30, 2001, net income was \$18 thousand compared to \$1.355 million for the quarter ended June 30, 2000.

Included in net income for June 30, 2000 was income from and gain on sale of discontinued operations of \$1.838 million. Excluding these items from net income, the Company would have reported a loss of \$483,000 as compared to net income of \$18,000 for the three months ended June 30, 2001. The improved results from continuing operations highlighted the impact on costs and expense controls and improved product and services mix. It is expected that continued cost containment procedures and aggressive marketing program will continue to have positive effects of future operations.

Factors That May Affect Future Results

The Company's future operating results may be affected by a number of factors including uncertainties relative to national economic conditions, especially as they affect interest rates, industry factors, the Company's ability to successfully increase its business and effectively manage expense margins.

The Company must continue to effectively manage expense margins in relation to revenues by directing new business development towards markets that complement or improve existing service lines. The Company must also continue to emphasize operating efficiencies through cost containment strategies, reengineering efforts and improved service delivery techniques.

The Company serves its customer base by providing consulting, integration, networking, maintenance and installation services. This industry has been characterized by rapid technological advances that have resulted in frequent introduction of new products, product

Edgar Filing: HALIFAX CORP - Form 10-Q

enhancements and aggressive pricing practices, which also impacts pricing of service activities. The Company's operating results could be adversely affected by industry-wide pricing pressures, the ability of the Company to recruit, train and retain personnel integral to the Company's operations and the presence of competitors with greater financial and other resources. Also, the Company's operating results could be adversely impacted should the Company be unable to effectively achieve the revenue growth necessary to provide profitable operating margins in various operations. The Company's plan for growth includes intensified marketing efforts, an expanding commercial sales program, strategic alliances and, where appropriate, acquisitions that expand market share. There can be no assurances these efforts will be successful.

Liquidity and Capital Resources

Historically the Company's primary sources of funding have been cash flows from operations and borrowing under our credit facilities. In prior years through a series of private placements, the Company issued \$4 million of subordinated notes due July 1, 2002 to Research Industries Incorporated, a private investment company and an affiliate of the Company. At June 30, 2001, the Company's working capital was \$1.257 million and its current ratio of 1.12. Improvement in the Company's financial strength was attributable to more stringent cash management, accelerated collection activities and improved inventory and expense management. Pursuant to the Company's credit facility the Company is required to satisfy two financial covenants; funded debt to EBITDA and fixed charge coverage ratio. The Company was not in compliance with the funded debt ratio. The lender has waived the covenant violation at June 30, 2001. The Company and the lender are in the process of restructuring the credit facility and expect the agreement to be completed in the near future.

Capital expenditures for the three months ended June 30, 2001 have been substantially reduced from prior periods. The Company does not expect capital expenditures to increase significantly during the current fiscal year.

The subordinated debt agreements with an affiliate totaled \$4 million at June 30, 2001. The credit facility agreement dated December 8, 2000 prohibits the payments of principal or interest on the subordinated debt. (See Note 6 to the consolidated financial statements.)

In September 1999, the Company entered into an agreement with a major supplier of digital communications switch hardware for the Company's United States Army contract where approximately \$5,500,000 of outstanding accounts payable arising since March 31, 1999 due to the supplier was converted to a note payable which is being paid over 18 months with interest at 8.5%. The balance of the note at June 30, 2001 was \$632,000.

The Company believes that funds generated from operations, bank borrowings, and investing activities should be sufficient to meet its current operating cash requirements through March 31, 2002 although there can be no assurances that all the aforementioned sources of cash can be realized.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to changes in interest rates, primarily as result of bank debt to finance its business. The floating interest debt exposes the Company to interest rate risk, with the primary interest

Edgar Filing: HALIFAX CORP - Form 10-Q

rate exposure resulting from changes in the LIBOR rate. It is assumed in the table below that the LIBOR rate will remain constant in the future. Adverse changes in the interest rates or the Company's inability to refinance its long-term obligations may have a material negative impact on the Company's operations.

The definitive extent of the Company's interest rate risk is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. The Company does not believe such risk is material. The Company does not customarily use derivative instruments to adjust the Company's interest rate risk profile.

The information below summarizes the Company's sensitivity to market risks as of June 30, 2001. The table presents principal cash flows and related interest rates by year of maturity of the Company's funded debt. Note 6 to the consolidated financial statements in the annual report on Form 10-K contains descriptions of the Company's funded debt and should be read in conjunction with the table below (amount in thousands).

	Period Ending June 30, (Amounts in thousands)			
Long-term debt (including current maturities)	2002	2003	Total Debt	Fair Value
Revolving credit agreement at the LIBOR rate plus 2.5%. Due August 31, 2002. Average interest rate of 7.5%.	\$ -	\$ 4,111	\$ 4,111	\$ 4,111
7% subordinated note from affiliate due January 27, 2003.	-	2,000	2,000	1,900
8% subordinated notes from affiliate due July 1, 2002.	-	2,000	2,000	2,000
Subordinated debt dated September 2, 1999 with interest at 8.5%.	632	-	632	632
Total fixed debt	632	4,000	4,632	4,532
Total debt	\$ 632	\$ 8,111	\$ 8,743	\$ 8,743

At present, all transactions are billed and denominated in U.S. dollars and consequently, the Company does not currently have any material exposure to foreign exchange rate fluctuation risk.

Item 3.
Quantitative and Qualitative

Edgar Filing: HALIFAX CORP - Form 10-Q

Disclosures about Market Risk

The Company is exposed to market risk from changes in interest rates. Adverse changes in interest rates can have a material effect on the Company's operations.

At June 30, 2001, the Company had \$8,743,000 of debt outstanding of which \$4,632,000 bears fixed interest rates. If the interest rates charged to the Company on its variable rate debt were to increase significantly, the effect could be materially adverse to future operations.

The Company conducts a limited amount of business overseas, principally in Western Europe. At present all transactions are billed and denominated in U.S. dollars and consequently, the Company does not currently have any material exposure to foreign exchange rate fluctuation risk.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

None.

SIGNATURES

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

HALIFAX CORPORATION
(Registrant)

Date: August 10, 2001

By: s/Charles L. McNew
Charles L. McNew
President & CEO

Edgar Filing: HALIFAX CORP - Form 10-Q

Date: August 10, 2001

By: s/Joseph Sciacca
Joseph Sciacca
Vice President, Finance & CFO

EXHIBITS

Exhibit 20 Audit Committee Charter