HALIFAX CORP
Form 10-Q
November 15, 2001

HALIFAX CORPORATION

FORM 10-Q

SEPTEMBER 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 September 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
(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. 2,065,686 as of September 30, 2001.

HALIFAX CORPORATION

CONTENTS

PART I. FINANCIAL INFORMATION



PART II OTHER INFORMATION

1

2

Item 1. FINANCIAL STATEMENTS
HALIFAX CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except share data)

| | September 30, 200 (Unaudited) |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash | $ 100 |
| Trade accounts receivable net of reserve of $176 and $319 at September 30, 2001 and March 31, 2001 | 9,212 |
| Inventory net of reserve of $780 at September 30, 2001 and $700 March 31, 2001 | 3,109 |
| Prepaid expenses and other current assets | 435 |
| TOTAL CURRENT ASSETS | 12,856 |
| PROPERTY AND EQUIPMENT, net | 1,672 |
| GOODWILL, net | 3,087 |
| OTHER ASSETS | 495 |
| TOTAL ASSETS | $ 18,110 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | |
| CURRENT LIABILITIES | |
| Accounts payable | $ 3,347 |
| Accrued expenses | 4,415 |
| Deferred maintenance revenue | 1,998 |
| Current portion of long-term debt | - |
| Income taxes payable | 115 |
| TOTAL CURRENT LIABILITIES | 9,875 |
| LONG-TERM BANK DEBT | 5,584 |
| SUBORDINATED DEBT - AFFILIATE | 4,000 |
| Deferred Income | 486 |
| TOTAL LIABILITIES | 19,945 |
| 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 September 30, 2001 and March 31, 2001 | |
| Outstanding - 2,065,686 shares as of September 30, 2001 and 2,023,436 shares as of March 31, 2001 | 562 |
| Additional paid-in capital | 4,710 |
| Accumulated deficit | (6,895) |
| Less Treasury stock at cost - 256,684 shares | (212) |

| | |
|---|---|
| TOTAL STOCKHOLDERS' DEFICIT | (1,835) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 18,110 |

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



HALIFAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001 AND 2000 (UNAUDITED)

(Amounts in thousands except share and per share data)

| | Three Months Ended September 30, 2001 | 2000 |
|---|---|---|
| Revenues | $ 11,672 | $12,422 |
| Cost of services | 10,461 | 11,867 |
| Gross Margin | 1,211 | 555 |
| Marketing, general and administrative | 959 | 608 |
| Operating income (loss) | 252 | (53) |
| Interest expense | 177 | 292 |
| Embezzlement recoveries | - | (2,075) |
| Income from continuing operations before income taxes | 75 | 1,730 |
| Income taxes | 15 | 15 |
| Income from continuing operations | 60 | 1,715 |
| Discontinued operations: | | |
| Income from discontinued operations | - | - |
| Gain on sale of discontinued operations (net of taxes of $200) | - | - |
| Net income | $ 60 | $ 1,715 |
| Earnings per common share - basic: | | |
| Continuing operations | $ .03 | $ .85 |
| Discontinued operations | - | - |
| Gain on disposition of discontinued operations | - | - |
| | $ .03 | $ .85 |
| Earnings per common share - diluted: | | |
| Continuing operations | $ .03 | $.80 |
| Discontinued operations | - | - |
| Gain on disposition of discontinued operations | - | - |
| | $ .03 | $ .80 |
| Weighted number of shares outstanding: | | |
| Basic | 2,065,686 | 2,023,436 |
| Diluted | 2,065,686 | 2,196,505 |

See notes to Condensed Consolidated Financial Statements

HALIFAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED
SEPTEMBER 30, 2001 AND 2000 (UNAUDITED)

(Amounts in thousands)

Cash flows from operating activities:

Net income

Adjustments to reconcile net income to net cash (used) provided by operating activities:

Depreciation and amortization
Income from discontinued operations
Gain on sale of discontinued operations
Changes in operating assets and liabilities:
Increase in accounts receivable
(Increase) decrease in inventory
Decrease in other assets
Decrease in accounts payable and accrued expenses
Increase in income taxes payable
Increase in deferred maintenance
Decrease in deferred income
Total adjustments
Net cash used by operating activities of continuing operations

Cash flows from investing activities:
Acquisition of property and equipment
Net proceeds from the sale of discontinued operations
Net cash (used in) provided by investing activities by continuing operations

Cash flows from financing activities:

Proceeds from borrowing of long-term debt
Retirement of long-term debt
Proceeds from restricted cash
Proceeds from sale of stock upon exercise of stock options
Net cash provided by (used in) financing activities by continuing operations
Net decrease in cash
Cash at beginning of period

Cash at end of period

See notes to condensed consolidated financial statements

Halifax Corporation
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America 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 interim periods 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 and subsequent quarterly report on Form 10-Q for the quarter ended June 30, 2001.

Recent Accounting Pronouncements:

Effective April 2001, the Company adopted Statement of Financial Accounting Standards No. 133 ("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 any impact on the financial position, results of operations, or cash flows of the Company.

In June 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 any impact on its financial statements.

In June 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 goodwill and intangible assets with indefinite useful lives to no longer be amortized but to be tested for impairment at least annually. Intangible assets that have finite lives will continue to be amortized over their useful lives. The amortization and nonamortization provisions of SFAS 142 will be applied to all goodwill and intangible assets acquired after June 30, 2001. Effective April 1, 2002 for the Company, SFAS 142 is required to be applied to all goodwill and intangible assets recognized in the financial statements at that date. The Company is currently assessing, but has not yet determined , the impact of SFAS 142 on its financial position and results of operations.

1

Note 2 - Sales of Accounts Receivable

The Company routinely transfers receivables to a third party in connection with equipment leased to an end user. Under the provisions of Statement of

Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," the 2001 and 2000 transfers were accounted for as sales and as a result, the related receivables have been excluded from the accompanying Condensed Consolidated Balance Sheets. The amount paid to the Company for the receivables by the transferee is equal to the Company's carrying value and therefore no gain or loss is recognized. The end user remits its monthly payments directly to an escrow account held by a third party from which payments are made to the transferee and the Company, for various services provided to the end users. The Company provides limited monthly servicing whereby the Company invoices the end user on behalf of the transferee.

Note 3 - 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 thousand prior to its acquisition by Halifax. After net recoveries through March 31, 2001, the cumulative net embezzlement loss to the Company before taxes was approximately $7.7 million.

For the six months ended September 30, 2001 the Company incurred no costs related to the ongoing recovery effort. Recoveries for the three and six months ended September 30, 2000 were approximately $2 million and $1.8 million, respectively net of recovery costs.

On January 9, 2001, the Securities and Exchange Commission ("SEC") 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 4 - Debt

On December 8, 2000, the Company entered into a new revolving credit agreement with a financial institution which refinanced the Company's revolving credit line. Advances under the revolving agreement are collateralized by a first 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. Subsequent to September 30, 2001, the agreement, which originally matured on August 31, 2002, was extended to November 15, 2002.

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. Pursuant to the terms of a subordination agreement related to the subordinated debt, concurrent with the extension of the revolving credit line discussed above, the due date of the subordinated debt was extended from July 1, 2002 to November 15, 2002.

The Company's credit facility requires it to satisfy two financial covenants; funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), and fixed charge coverage ratio. The Company was not in compliance with the funded debt to EBITDA ratio at September 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.

Note 5 - Concentration of Risk

The Company has a number of major customers. The Company's largest customer accounted for 21.9% and 10.8% of the Company's revenues for the three months and 18.7% and 15.2% of revenues for the six months ended September 30, 2001 and 2000, respectively. The Company's five largest customers collectively accounted for 40% and 35% of revenues for the six months ended September 30, 2001 and 2000, respectively. The Company anticipates that significant customer concentration will continue for the foreseeable future although the companies which constitute the Company's largest customers may change.



Note 6 - Earnings per Share

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

| | Three Months Ended September 30, 2001 | 2000 | |
|---|---|---|---|
| Numerator for earnings per share: | | | |
| Net income as reported from | | | |
| Continuing operations | $ 60,000 | $1,715,000 | $ |
| Discontinued operations | - | - | |
| Gain on disposition of discontinued operations | - | - | |
| Net income | $ 60,000 | $1,715,000 | |
| Diluted earnings per share: | | | |
| Net income as reported from continuing operations | $ 60,000 | $1,715,000 | $ |
| After tax equivalent of interest expense on 7% convertible debenture | - | 35,000 | |
| Net income from continuing operations for purposes of computing diluted net income per share | $ 60,000 | $1,750,000 | $ |
| Denominator: | | | |
| Denominator for basic earnings per share - weighted-average shares | 2,065,686 | 2,023,436 | 2 |

| | | | |
|---|---|---|---|
| Effect of dilutive securities: | | | |
| 7% Convertible Debenture | - | 170,648 | |
| Employee stock options | - | 2,421 | |
| Dilutive potential common shares | - | 173,069 | |
| Denominator for diluted earnings per share weighted number of shares outstanding | 2,065,686 | 2,196,505 | 2 |
| Basic earnings per common share: | | | |
| Income from continuing operations | $ .03 | $ .85 | $ |
| Discontinued operations | - | . - | |
| Gain on disposition of discontinued operations | - | - | |
| | $ .03 | $ .85 | $ |
| Diluted earnings per common share: | | | |
| Income from continuing operations | $ .03 | $ .80 | $ |
| Discontinued operations | - | - | |
| Gain on disposition of discontinued operations | - | - | |
| | $ .03 | $ .80 | $ |

1

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, 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.

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.

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

1

| | Three Months Ended September 30, | | | | Si |
|---|---|---|---|---|---|
| Results of Operations | 2001 | 2000 | Change | % | 2001 |
| Revenues | $ 11,672 | $ 12,422 | $ (750) | -6% | $ 22,4 |
| Cost of services | 10,461 | 11,867 | (1,406) | -12% | 20,1 |
| Percent of revenues | 90% | 96% | | | 8 |
| Gross margin | 1,211 | 555 | 656 | 118% | 2,3 |
| Percentage of revenues | 10% | 4% | | | 1 |
| Marketing, general & administrative | 959 | 608 | 351 | 58% | 1,9 |
| Percent of revenues | 8% | 5% | | | |
| Operating income | 252 | (53) | 305 | N/M | 4 |
| Percent of revenues | 2% | 0% | | | |
| Interest expense | 177 | 292 | (115) | -39% | 3 |
| Embezzlement recovery | - | (2,075) | 2,075 | -100% | |
| Income from continuing operations before income tax | 75 | 1,730 | (1,655) | -96% | 1 |
| Income tax expense | 15 | 15 | - | 0% | |
| Income from continuing operations | 60 | 1,715 | (1,655) | -97% | |
| Income from discontinued operations | - | - | - | - | |
| Gain on sale of discontinued operations | - | - | - | - | |
| Net income | $ 60 | $ 1,715 | $(1,655) | N/M | $ |
| Earnings per share - basic: | | | | | |
| Continuing operations | $ 0.03 | $ 0.85 | | | $ 0. |
| Discontinued operations | - | - | | | |
| Gain on sale of discontinued operations | - | - | | | |
| | $ 0.03 | $ 0.85 | | | $ 0. |
| Earnings per share - diluted: | | | | | |
| Continuing operations | $ 0.03 | $ 0.80 | | | $ 0. |
| Discontinued operations | - | - | | | |
| Gain on sale of discontinued operations | - | - | | | |
| | $ 0.03 | $ 0.80 | | | $ 0. |
| Weighted average number of common shares outstanding - basic | 2,065,686 | 2,023,436 | | | 2,065,6 |
| Weighted average number of common shares outstanding - diluted | 2,065,686 | 2,196,505 | | | 2,065,6 |

Revenues

Revenues for the three months ended September 30, 2001 and 2000, decreased 6%, or $750 thousand to $11.7 million from $12.4 million, respectively. For the six months ended September 30, 2001, revenues decreased from $25.3 million in 2000 to $22.5 million in 2001, a decrease of $2.8 million, or 11%. The decline in revenues was principally due to decreased hardware sales offset by increases in higher margin service and recurring revenues on long-term contracts. The decline in hardware sales has been characterized by lengthening sales cycles and increased price competition brought on by the economic slow down.

Gross Margin, Costs and Expenses

Cost of services for the three and six months ended September 30, 2001 decreased by $1.4 million, from $11.8 million to 10.4 million, or 12%, and $4.1 million, from $24.2 million to $20.1 million, or 17%, respectively, from the comparable period in 2000, primarily as a result of the decline in revenues from the aforementioned hardware sales. The decrease in cost of services was attributable to reductions in hardware sales, cost containment measures and a continued shift in sales mix to higher margin services.

As a percent of revenues, gross margin has improved from 4% for the three and six months ended September 30, 2000 to 10% and 11%, respectively, for the same periods in 2001.

For the three months ended September 30, 2001 and marketing and general and administration expense increased from $608 thousand to $959 thousand, an increase of $351 thousand, or 58%, and for the six months ended September 30, 2001, marketing and general and administration increased from $1.2 million to $1.9 million, an increase of $771 thousand, or 66%, over the same period last fiscal year. The increase was primarily due to the creation of the company-wide marketing group, associated with marketing and promotional investments and workshops and higher levels of professional fees and business insurance.

Operating Income

For the three months ended September 30, 2001 the Company had operating income of $252 thousand compared to an operating loss of $53 thousand for the three months ended September 30, 2000. Operating income for the six months ended September 30, 2001 was $442 thousand compared to a loss of $89 thousand for the comparable period ended September 30, 2000. The improvement was attributable to the quality of the new revenue and gains realized from cost cutting measures implemented by the organization during 2000.

Interest Expense

Interest expense for the three months ended September 30, 2001 decreased by 39% from the comparable period in 2000. For the six months ended September 30, 2001, interest expense decreased by 29% from the comparable period in 2000, principally as a result of curtailment of debt and lower interest rates.

Embezzlement Recovery

Embezzlement recoveries (net of settlement costs) for the three and six months ended September 30, 2000 were $2.1 million and $1.8 million, respectively. There were no embezzlement recoveries for the three and six months ended September 30, 2001. For additional discussion see "Embezzlement Matter" in Note 3 to the condensed consolidated financial statements.

Income Taxes

Income taxes for the three and six months ended September 30, 2001and 2000 related primarily to state obligations of $15 thousand and $30 thousand, respectively.

Discontinued Operations

In June 2000 the Company sold its Operational Outsourcing Division and, accordingly, the financial results for this division have been reclassified as Discontinued Operations. The Company recognized a one time gain on the sale of the Division amounting to approximately $1.6 million (net of taxes of $200 thousand).

Net Income

For the three months ended September 30, 2001, net income was $60 thousand compared to $1.7 million for the comparable period in 2000. For the six months ended September 30, 2001 net income was $78 thousand compared to $3.07 million for September 30, 2001.

For the three months ended September 30, 2000, the Company reported embezzlement recoveries of $2.1 million. Excluding this item the Company would have reported a net loss of $360 thousand compared to net income of $60 thousand for this year's second quarter. The six months ended September 30, 2000, included income from discontinued operations of $244 thousand, a gain on the sale of discontinued operations of $1.6 million and embezzlement recoveries of $1.8 million. With these items excluded, the Company would have reported a net loss of $589 thousand compared to net income of $78,000 for the first half of this year.

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 believes it 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 introductions of new products, product enhancements and aggressive pricing practices, which also impact 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 it 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, and extended to November 15, 2002 pursuant to a subordination agreement dated December 2000 to Research Industries Incorporated, a private investment company and an affiliate of the Company. At September 30, 2001, the Company's working capital was $2.99 million and its current ratio of 1.3. 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 as of September 30, 2001. The lender has waived the covenant violation at September 30, 2001. The Company and the lender have extended the orginal maturity date from August 31, 2002 to November 15, 2002. (See Note 4 to the condensed consolidated financial statements.)

Capital expenditures for the six months ended September 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 September 30, 2001. The credit facility agreement dated December 8, 2000 prohibits the payments of principal or interest on the subordinated debt. (See Note 4 to the condensed consolidated financial statements.)

The Company believes that funds generated from operations, bank borrowings, and investing activities should be sufficient to meet its current operating cash requirements 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 the bank debt which partially finances its business. The floating interest debt exposes the Company to interest rate risk, with the primary interest rate exposure resulting from changes in the LIBOR rate. Adverse changes in 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 September 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 September 30, ( Amounts in thousands) | |
|---|---|---|
| Long-term debt (including current maturities) | 2002 | 2003 |
| Revolving credit agreement at the LIBOR rate plus 2.5%. Due August 31, 2002. Average interest rate of 7.5%. | $ - | $ 5,584 |
| 7% subordinated note from affiliate due January 27, 2003. | - | 2,000 |
| 8% subordinated notes from affiliate due July 1, 2002. | - | 2,000 |
| Total fixed debt | - | 4,000 |
| Total debt | $ - | $ 9,584 |

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.

4

## Item 3.
## Quantitative and Qualitative Disclosures about Market Risk

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

At September 30, 2001, the Company had $9.6 million of debt outstanding of which $5.6 million has variable interest rates. If the interest rates charged to the Company on its variable rate debt were to increase significantly, it could have a materially adverse effect on future operations.

At present the Company is not conducting any foreign business.

## Part II. Other Information

### Item 4. Submission of matters to a vote of Security Holders

Annual Stockholders Meeting of September 20, 2001

ANNUAL SHAREHOLDERS MEETING
SEPTEMBER 20, 2001
RESULTS OF

1. ELECTION OF DIRECTORS

| | BY PROXIES | | | | | |
|---|---|---|---|---|---|---|
| NOMINEE | FOR | WITHOLD AUTHORITY | INSTRUCTED AGAINST | BY BALLOT | TOTAL FOR | %OF VOTING SHARES |
| SCURLOCK | 1,856,737 | | 2,437 | --- | | 99.87 |
| MCNEW | 1,856,737 | | 2,437 | --- | | 99.87 |
| GROVER | 1,856,737 | | 2,437 | --- | | 99.87 |
| TOUPS | 1,856,737 | | 2,437 | --- | | 99.87 |
| HEWITT | 1,856,737 | | 2,437 | --- | | 99.87 |
| YOUNG | 1,856,737 | | 2,437 | --- | | 99.87 |

2. PROPOSAL TO RATIFY DELOITTE & TOUCHE LLP AS INDEPENDENT PUBLIC ACCOUNTANTS OF THE COMPANY FOR THE FISCAL YEAR ENDING MARCH 31, 2002

| FOR | AGAINST | ABSTAIN |
|---|---|---|
| 1,855,984 | --- | 3,190 |

| | |
|---|---|
| NOTE: SHARES VOTED | 1,859,174 |
| SHARES OUTSANDTING | 2,065,686 |
| QUORUM % | |

5

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.9 James L. Sherwood Severance Arrangement, dated November 15, 1999
10.10 James L. May Severance Arrangement, dated March 15, 2001
10.11 Joseph Sciacca Severance Arrangement, dated May 10, 2000
10.12 Thomas J. Basile Severance Arrangement, dated March 15, 2001

(b) Reports on Form 8-K - None

6

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: November 15, 2001 By: s/Charles L. McNew

Charles L. McNew
President & CEO

Date: November 15, 2001 By: s/Joseph Sciacca

Joseph Sciacca
Vice President, Finance & CFO