HALIFAX CORP
Form 10-Q
February 14, 2001

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HALIFAX CORPORATION

FORM 10-Q

DECEMBER 31, 2000

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 December 31, 2000

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

Commission file Number 0-12712 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.

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 December 31, 2000.

HALIFAX CORPORATION

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PART I. FINANCIAL INFORMATION

PART II OTHER INFORMATION

Item 1. FINANCIAL STATEMENTS
HALIFAX CORPORATION CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	December 31, 2000	March 31, 2000
ASSETS		
CURRENT ASSETS		
Cash	$ 315	$ 1,80
Restricted cash	-	65
Trade accounts receivable	10,400	13,55
Inventory	4,145	4,39
Prepaid expenses and other current assets	592	71
TOTAL CURRENT ASSETS	15,452	21,11
PROPERTY AND EQUIPMENT, net	2,014	2,10
GOODWILL, net	3,234	4,11
OTHER ASSETS	566	47
TOTAL ASSETS	$ 21,266	$ 27,80
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 3,306	$ 4,80
Accrued expenses	6,917	8,08
Deferred maintenance revenue	1,327	59
Current portion of long-term debt	1,143	3,96
Income taxes payable	120	3
TOTAL CURRENT LIABILITIES	12,813	17,48
LONG-TERM BANK DEBT	3,836	8,79
SUBORDINATED DEBT - AFFILIATE	4,000	4,00
Deferred Income	531	57
TOTAL LIABILITIES	21,180	30,84
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (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 December 31, 2000 and 2,316,370 as of March 31, 2000 Outstanding - 2,023,436 as of December 31, 2000 and 2,017,436 as of March 31, 2000	566	56
Additional paid-in capital	4,710	4,68
Accumulated deficit	(4,978)	(8,071
Less Treasury stock at cost - 298,934 shares	(212)	(212
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	86	(3,040
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 21,266	$ 27,80

See notes to Consolidated Financial Statements

HALIFAX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED
(UNAUDITED)
(In thousands except share data)

	Three Months Ended December 31,		Nine Months Ende December 31,	
	2000	1999	2000	199
Revenues	$ 14,733	$ 12,617	$ 40,065	$
Operating costs and expenses:				
Cost of services	13,763	12,069	38,010	
General and administrative	716	175	1,890	
Total operating costs and expenses	14,479	12,244	39,900	
Operating income	254	373	165	
Interest expense	(216)	(289)	(686)	
Embezzlement - recovery	-	2,500	1,821	
Income from continuing operations before income taxes	38	2,584	1,300	
Income taxes	15	5	45	
Income from continuing operations	23	2,579	1,255	
Discontinued operations:				
Income from discontinued operations	-	246	244	
Gain on sale of discontinued operations (net of taxes of $200,000)	-	-	1,594	
Net income	$ 23	$ 2,825	$ 3,093	$
Basic earnings per common share:				
Income from continuing operations	$ .01	$ 1.30	$ .62	$
Discontinued operations	-	.12	.12	
Gain on disposition of discontinued operations	-	-	.79	
	$ .01	$ 1.42	$ 1.53	$
Diluted earnings per common share:				
Income from continuing operations	$ .01	$ 1.21	$ .62	$
Discontinued operations	-	.11	.11	
Gain on disposition of discontinued operations	-	-	.73	
	$ .01	$ 1.32	$ 1.46	$
Weighted number of shares outstanding:				
Basic	2,023,436	1,984,783	2,021,331	1,9
Diluted	2,023,436	2,158,137	2,191,979	2,1

See notes to Consolidated Financial Statements

HALIFAX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED (UNAUDITED)

(In Thousands)

	Nine Months Ended December 31, 2000	1999
Cash flows from operating activities:		
Net income	$ 3,093	$ 3,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	693	972
Income from discontinued operations	(244)	-
Gain on sale of discontinued operations	(1,594)	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,753)	9,957
Decrease in inventory	245	331
Decrease (increase) in other assets	295	(640)
Decrease accounts payable and accrued expenses	(973)	(5,683)
Increase in income taxes payable	84	-
Increase in deferred maintenance	731	368
Decrease in deferred income	(41)	(48)
Total adjustments	(2,557)	5,257
Net cash provided by continuing operations	536	8,345
Cash flows from investing activities:		
Acquisition of property and equipment	(428)	(516)
Net proceeds from the sale of discontinued operations	5,500	-
Net cash provided by (used in) investing activities	5,072	(516)
Cash flows from financing activities:		
Proceeds from borrowing of long-term debt	20,689	48,601
Retirement of long-term debt	(28,465)	(53,395)
Proceeds from restricted cash	650	-
Proceeds from sale of stock upon exercise of stock options	33	232
Net cash used in financing activities	(7,093)	(4,562)
Net (decrease) increase in cash	(1,485)	3,267
Cash at beginning of period	1,800	-
Cash at end of period	$ 315	$ 3,267

See notes to Consolidated Financial Statements

Halifax Corporation
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed 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 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 and nine month period ended December 31, 2000 are not necessarily indicative of the results that may be expected for the year ending March 31, 2001. 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, 2000.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The guidelines in SAB No. 101 must be adopted by fourth quarter of 2000. The Company believes that it is in compliance with this pronouncement in all material respects.

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the 2000 presentation. The consolidated statement of operations and related notes thereto have been adjusted to reflect Discontinued Operations arising from the sale of the Company's Operational Outsourcing Division (HTSI).

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities," which established accounting and reporting standards for derivative instruments (including some derivatives embedded in other contracts) and for hedging activities by requiring that all derivatives be recognized in the balance sheet and measured at fair value. FASB Statement No. 133 will be adopted by the Company in its fiscal year ending March 31, 2002, and the Company has not determined what impact, if any, this Standard will have when adopted.

Note 2 - Embezzlement

On March 18, 1999, the Company announced that an internal investigation had revealed a material embezzlement by the former controller of one of the Company's subsidiaries. The embezzlement had a material effect on the Company's financial statements for fiscal years 2000, 1999, 1998 and 1997. In addition to the correction for overstated assets and understated liabilities, the Company recorded a gross embezzlement loss of $6,093,000, $6,044,000 and $2,892,000 for fiscal years ended March 31, 1999, 1998 and 1997 respectively. 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 from CMSA prior to its acquisition by Halifax. After net recoveries through December 31, 2000, the cumulative net embezzlement was approximately $11.1 million.

For the three months ended December 31, 1999, the Company recovered approximately $2,500,000 (net of recovery costs of $350,000) related to the ongoing recovery effort. For the nine months ended December 31, 2000 and 1999, the net embezzlement recovery was $1,821,000 and $2,500,000, respectively. The specific terms and conditions associated with the payments, including the identity of the parties, are subjects of a confidentiality agreement that precludes disclosure.

On January 9, 2001 Halifax announced that the United States Securities and Exchange Commission (SEC) has 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 a SEC subpoena for documents related to these matters. The Company believes the investigation is primarily related to the previously reported embezzlement. The Company believes the investigation will have no material effect on its financial statements.

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 (the "Buyer") providing for the sale by the Company to the Buyer of 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 the 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 the Buyer to the Company at Closing with the balance of $100,000 due on the first anniversary of the Closing. The purchase price remains subject to various adjustments set forth in the Agreement.

Summary operating results of the Discontinued Operations are as follows:

	For the nine months ended December 31, (unaudited)	
	2000	1999
Revenue	$ 4,636,000	$ 19,392,000
Costs and expenses	4,392,000	18,784,000
Income from discontinued operations	$ 244,000	$ 608,000

Note 4 - Tax Matters

At December 31, 2000, the Company had a net operating loss carryforward of approximately $7.4 million, virtually all of which expires in fiscal 2019. Income tax expense (primarily state taxes), for the three and nine months ended December 31, 2000 was $15,000 and $45,000, respectively, compared to $5,000 for the same respective periods in 1999.

Note 5 - Debt

On December 8, 2000 the Company entered into an $8 million revolving credit facility with a maturity date of August 31, 2002. The facility which will be used for working capital purpose replaced the Company's former banking relationship, credit facility and term debt. At the option of the Company, the facility bears interest at the LIBOR rate plus 200 basis points or the bank's prime rate. The interest rate may vary depending on the pricing ratio as further defined in the Financing and Security Agreement. Borrowings under the facility at December 31, 2000 were approximately $3.8 million. The Company had an availability of approximately $3.3 million on its credit facility at December 31, 2000.

Advances under the revolving credit agreement and term loan facilities are collateralized by a first priority security interest in all of the Company's assets as defined in the revolving credit agreement. The facility is subject to certain financial covenants as described in the agreement.

The agreement prohibits the payment of dividends or distributions as well as the payment of principal on the Subordinated Debt - Affiliate without the prior consent of the lender.

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%. In September and October 1999, $507,000 was paid and $299,965 is scheduled for payment on the first day of the next consecutive 15 months. The balance of the note at December 31, 2000 was $1,143,000.

Note 6 - Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share.
(In Thousands Except Share Data)

	Three Months Ended December 31, 2000	Three Months Ended December 31, 1999	Nine Months Ended December 31, 2000	Nine Months Ended December 31, 1999
Basic for earnings per share:				
Net income as reported from Continuing operations	$ 23	$ 2,579	$ 1,255	$ 2,4
Discontinued operations	-	246	244	6
Gain on disposition of discontinued operations	-	-	1,594	
Net income	$ 23	$ 2,825	$ 3,093	$ 3,0
Diluted earnings per share:				
Net income as reported from continuing operations				
After tax equivalent of interest expense on 7% convertible debenture	-	35	105	1
Net income from continuing operations				

for purposes of computing diluted net income per share	$ 23	$ 2,860	$ 3,198	$ 3,1
Denominator:				
Denominator for basic earnings per share - weighted-average shares	2,023,436	1,984,783	2,021,331	1,975,7
Effect of dilutive securities:				
7% Convertible Debenture	-	170,648	170,648	170,6
Employee stock options	-	2,706	-	2,6
Dilutive potential common shares	0	173,354	170,648	173,2
Denominator for diluted earnings per share weighted number of shares outstanding	2,023,436	2,158,137	2,191,979	2,149,0
Basic earnings per common share				
Income from continuing operations	$ .01	$ 1.30	$ .62	$ 1.
Discontinued operations	-	.12	.12	.
Gain on disposition of discontinued operations	-	-	.79	
	$ .01	$ 1.42	$ 1.53	$ 1.
Diluted earnings per common share				
Income from continuing operations	$ .01	$ 1.21	$ .62	$ 1.
Discontinued operations	-	.11	.11	.
Gain on disposition of discontinued operations	-	-	.73	
	$ .01	$ 1.32	$ 1.46	$ 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.

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 December 31,				Nine Months Ended December 31			
Results of Operations	2000	1999	Change	%	2000	1999	Change	
Revenues	$14,733	$ 12,617	$2,116	17%	$40,065	$43,113	$(3,048)	
Cost of services	13,763	12,069	1,694	14%	38,010	40,552	(2,542)	
Percent of revenues	93%	96%			95%	94%		
General and Administrative	716	175	541	309%	1,890	1,678	212	
Percent of revenues	5%	1%			5%	4%		
Operating cost and expenses:	14,479	12,244	2,235	18%	39,900	42,230	(2,330)	
Percent of revenues	98%	97%			100%	98%		
Operating income	254	373	(119)	-32%	165	883	(718)	
Percent of revenues	2%	3%			0%	2%		
Interest expense	216	289	(73)	-25%	686	898	(212)	
Other	-	-	-				-	
Embezzlement recovery	-	2,500	(2,500)	N/M	1,821	2,500	(679)	
Income from operations	38	2,584	(2,546)	N/M	1,300	2,485	(1,185)	
Income tax expense	15	5	10	N/M	45	5	40	
Income from continuing operations	23	2,579	(2,556)	N/M	1,255	2,480	(1,225)	
Income from discontinued operations	-	246	(246)	N/M	244	608	(364)	
Gain on sale of discontinued operations	-	-	-	-	1,594	-	1,594	N
Net income	$ 23	$ 2,825	$(2,802)	-99%	$ 3,093	$ 3,088	$ 5	
Earnings per share - basic:								

Continuing operations	$ 0.01	$ 1.30	$ 0.62	$ 1.26
Discontinued operations	-	0.12	0.12	0.31
Gain on sale of discontinued operations	-	-	0.79	-
	$ 0.01	$ 1.42	$ 1.53	$ 1.57
Earnings per share - diluted:				
Continuing operations	$ 0.01	$ 1.21	$ 0.62	$ 1.20
Discontinued operations	-	0.11	0.11	0.28
Gain on sale of discontinued operations	-	-	.73	-
	$ 0.01	$ 1.32	$ 1.46	$ 1.48
Weighted average number of common shares outstanding - basic	2,023,436	1,984,783	2,021,331	1,975,714
Weighted average number of common shares outstanding - diluted	2,023,436	2,158,137	2,191,979	2,149,005

Revenues

Revenues for the three months ended December 31, 2000, increased 17% from the comparable period in 1999 primarily due to increases in technology services revenues. For the nine months ended December 31, 2000 and 1999 revenues decreased 7%, principally due to reductions in hardware orders from the US Army and seat management installations.

Operating Costs and Expenses

Cost of services for the three months ended December 31, 2000 increased by 14% from the comparable period in 1999, primarily as a result of the increased costs associated with the increase in revenues from the aforementioned technology services revenue.

For the nine months ended December 31, 2000 and 1999 cost of services decreased 6%, primarily attributable to the decline in revenues from the US Army and seat management installations.

General and administrative expenses for the three and nine months ended December 31, 2000 increased by 309% and 13%, respectively, from the comparable periods in 1999, principally due to a nonrecurring reduction in costs related to certain payment received in December 1999.

Operating Income

For the three and nine months ended December 31, 2000, the Company had operating income of $254,000 and $165,000, respectively, as compared to operating income of $373,000 and $883,000 for the comparable periods ended in 1999. The principal reason for the lower operating income in the periods ended December 31, 2000 versus December 31, 1999 was the additional investment in sales and marketing activity in the current fiscal year related to the Company's IT services and solutions markets and the reduction in hardware orders from the US Army and seat management installations.

Interest Expense

Interest expense for the three and nine month periods ended December 31, 2000 and 1999 decreased by 25% and 24%, respectively, principally as a result of reduction of debt.

Embezzlement Recovery

Embezzlement recoveries for the three months ended December 31, 1999 were $2,500,000 (net of settlement costs). For additional discussion see "Embezzlement Matter" in Note 2 to the condensed consolidated financial statements. For the nine months ended December 31, 2000 and 1999, the net embezzlement recovery was $1,821,000 and $2,500,000, respectively.

Income Taxes

Income tax expense for the three and nine months ended December 31, 2000 was $15,000 and $45,000, respectively. For the three and nine months ended December 31, 1999 income tax expense was $5,000.

Discontinued Operations

In May 2000 the Company sold its Operational Outsourcing Division and, accordingly, the financial results for this division have been reclassified as Discontinued Operations. (See Note 3 to the condensed consolidated financial statements.) The Company recognized a one time gain on the sale of the Division amounting to approximately $1,594,000 (net of taxes of $200,000).

Net Income

Net income for the three months ended December 31, 2000 and 1999 was $23,000 and $2,825,000, respectively. Included in net income for the three months ended December 31, 1999 were embezzlement recoveries of $2,500,000 and income from discontinued operations of $246,000. For the nine months ended December 31, 2000 and 1999 net income was $3,093,000 and $3,088,000, respectively. Interest expense was $686,000 compared to $898,000 for the nine months ended December 31, 2000 and 1999, respectively.

Included in net income for the nine months ended December 31, 2000 was embezzlement recoveries of $1,821,000, income form discontinued operations of $244,000 and a gain on the sale of discontinued operations of $1,594,000. This compares to embezzlement recoveries of $2,500,000 and income for discontinued operations of $608,000 for the nine months ended December 31, 1999.

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 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

At December 31, 2000, the Company's working capital of $2,639,000 and current ratio of 1.21 indicated the continuing improvement in the Company's financial strength which was negatively impacted by the embezzlement matter previously discussed. Cash was also provided through bank borrowings.

Capital expenditures for the nine months ended December 31, 2000 were $428,000 compared to $516,000 during the same period in 1999. The Company does not expect capital expenditures to increase during the current fiscal year.

On December 8, 2000 the Company entered into an $8 million revolving credit facility with a maturity date of August 31, 2002. The facility which will be used for working capital purpose replaced the Company's former banking relationship credit facility and term debt. At the option of the Company, the facility bears interest at the LIBOR rate plus 200 basis points or the bank's prime rate. The interest rate may vary depending on the pricing ratio as further defined in the Financing and Security Agreement. The facility is subject to certain financial covenants as described in the agreement. Borrowings under the facility at December 31, 2000 were approximately $3.8 million. The Company had approximately $3.3 million available under its credit facility at December 31, 2000.

The bank term notes aggregating $4.6 million at March 31, 1999 were renegotiated effective September 1, and amended December 21, 1999 to amounts aggregating $3.5 million. Bank term notes outstanding at December 31, 2000 were $0.

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%. In September and October 1999 $507,000 was paid and $299,965 is being paid on the first day of the next consecutive 15 months. The balance of the note at December 31, 2000 was $1,143,000.

The Company believes that funds generated from operations, bank borrowings, embezzlement recoveries and investing activities (including the sale of the Company's Operational Outsourcing Division) 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. It is assumed that the LIBOR rate will remain constant in the future. 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 December 31, 2000. The table presents principal cash flows and related interest rates by year of maturity of the Company's funded debt. Note 5 to the condensed consolidated financial statements contains descriptions of the Company's funded debt and should be read in conjunction with the table below (amount in thousands).

	Period Ending December 31,			
Long-term debt (including current maturities)	2001	2002	Total Debt 2000	Fair Value
Revolving credit agreement at the LIBOR rate plus 2.00%. Due August 31, 2002. Average interest rate of 9.19%.	$ 3,836	$ 0	$ 3,836	$ 3,83
Total variable debt	3,836	0	3,836	3,83
7% subordinated note from affiliate due January 27, 2003. Estimated yield of 8.56% for 2001 and 9.0% for 2002.	2,000	2,000	2,000	1,96
8% subordinated notes from affiliate due July 1, 2001	2,000	2,000	2,000	2,00
Subordinated debt dated September 2, 1999 with interest at 8.5%. Due February 1, 2001.	1,143	-	1,143	1,14
Total fixed debt	5,143	4,000	5,143	5,10
Total debt	$ 8,979	$ 4,000	$ 8,979	$ 8,93

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 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 December 31, 2000, the Company had $8,979,000 of debt outstanding of which $3,836,000 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.

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

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

Exhibit 4.8 - Financing and Security Agreement

(b)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: February 13, 2001 By: s/Charles L. McNew
Charles L. McNew
President & CEO

Date: February 13, 2001 By: s/Joseph Sciacca
Joseph Sciacca
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