HALIFAX CORP
Form 10-K/A
June 19, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
(Amendment No. 1)

(Mark One)

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended March 31, 2005 or

o **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 1-08964
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)	(zip code)

Registrant s telephone number, including area code **(703) 750-2202**
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($.24 par value)	American Stock Exchange

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

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. þ Yes o No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
o Yes þ No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of September 30, 2004 was $12,263,464 computed based on the closing price for that date.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30,2005
Common Stock $0.24 par value	3,172,206

TABLE OF CONTENTS
PART II

		page
Item 8.	Financial Statements and Supplementary Data	1
	Reports of Independent Registered Public Accounting Firms	1
	Consolidated statements of operations for the years ended March 31, 2005, 2004 and 2003	3
	Consolidated balance sheets as of March 31, 2005 and 2004	4
	Consolidated statements of cash flows for the years ended March 31, 2005, 2004 and 2003	5
	Consolidated statements of changes in stockholders deficit for the years ended March 31, 2005, 2004 and 2003	6
	Notes to consolidated financial statements	7
	Schedule II, Valuation and Qualifying Accounts	27

PART IV

Item 15.	Exhibits, Financial Statement Schedules	28
	Signatures	29

EXPLANATORY NOTE

This amendment on Form 10-K/A (Amendment No. 1) amends our annual report on Form 10-K for the fiscal year ended March 31, 2005, as filed with the Securities and Exchange Commission on July 14, 2005, and is being filed to correct a typographical error in the date of Deloitte & Touche LLP s report contained in Part II. No other changes have been made. This amendment is not intended to update other information presented in the annual report as originally filed.

Part II

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
Halifax Corporation

We have audited the accompanying consolidated balance sheet of Halifax Corporation and its subsidiaries (the Company) as of March 31, 2005, and the related consolidated statements of operations, changes in stockholders equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Halifax Corporation as of March 31, 2005, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/Grant Thornton
Vienna, Virginia
June 17, 2005 (except for Notes 6 and 19, as to which the date is June 30, 2005)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Halifax Corporation
Alexandria, VA

We have audited the accompanying consolidated balance sheet of Halifax Corporation and subsidiaries (the Company) as of March 31, 2004, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the two years in the period ended March 31, 2004. Our audits also included the financial statement schedule listed in the Table of Contents under Item 8. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2004, and the results of its operations and its cash flows for each of the two years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, effective April 1, 2002 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets.

/s/Deloitte & Touche LLP
McLean, VA
June 14, 2004

HALIFAX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2005, 2004 AND 2003
(Amounts in thousands except share and per share data)

	2005	2004	2003
Revenues	$ 62,006	$ 49,537	$ 50,418
Operating costs and expenses:			
Cost of services	57,872	43,609	44,200
Gross margin	4,134	5,928	6,218
Selling expense	1,530	1,254	1,102
Marketing expense	241	534	652
General and administrative	3,725	3,086	3,127
Abandonment of lease	179		
Operating (loss) income	(1,541)	1,054	1,337
Interest expense	(663)	(591)	(649)
Other income		15	20
(Loss) income before income taxes	(2,204)	478	708
Income tax (benefit) expense	(793)	(3,750)	60
Net (loss) income	$ (1,411)	$ 4,228	$ 648
(Loss) earnings per common share-basic	$ (.46)	$ 1.60	$ .30
(Loss) earnings per common share-diluted *	$ (.46)	$ 1.54	$ .30
Weighted average number of common shares outstanding basic	3,043,465	2,638,345	2,175,781
Weighted average number of common shares outstanding diluted	3,094,922	2,787,656	2,212,360

* No effect is given
to dilutive securities

for loss periods.

See notes to consolidated financial statements

HALIFAX CORPORATION
CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2005 AND 2004
(Amounts in thousands except share and per share data)

	March 31, 2005	March 31, 2004
ASSETS		
CURRENT ASSETS		
Cash	$ 1,264	$ 430
Trade accounts receivable, net	12,468	9,364
Inventory, net	5,600	5,845
Prepaid expenses and other current assets	487	599
Deferred tax asset	3,814	1,204
TOTAL CURRENT ASSETS	23,633	17,442
PROPERTY AND EQUIPMENT, net	1,608	1,598
GOODWILL	6,129	3,879
OTHER INTANGIBLE ASSETS, net	1,309	727
OTHER ASSETS	141	149
DEFERRED TAX ASSET	930	2,696
TOTAL ASSETS	$ 33,750	$ 26,491
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 5,955	$ 3,024
Accrued expenses	4,776	3,699
Deferred maintenance revenues	3,776	2,543
Current portion of long-term debt	17	29
Notes payable	662	494
TOTAL CURRENT LIABILITIES	15,186	9,789
LONG-TERM BANK DEBT	9,463	7,227
OTHER LONG-TERM DEBT	3	19
SUBORDINATED DEBT AFFILIATE	2,400	2,400
DEFERRED INCOME	278	337
TOTAL LIABILITIES	27,330	19,772

COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock, no par value authorized 1,500,000, issued 0 shares		
Common stock, $.24 par value:		
Authorized - 6,000,000 shares		
Issued 3,427,640 in 2005 and 3,167,096 in 2004		
Outstanding 3,170,956 in 2005 and 2,910,412 in 2004	827	764
Additional paid-in capital	9,011	7,962
Accumulated deficit	(3,206)	(1,795)
Less treasury stock at cost 256,684 shares in 2005 and 2004	(212)	(212)
TOTAL STOCKHOLDERS EQUITY	6,420	6,719
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 33,750	$ 26,491

See notes to consolidated financial statements

HALIFAX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2005, 2004 AND 2003
(Amounts in thousands)

	2005	2004	2003
Cash flows from operating activities:			
Net (loss) earnings	$ (1,411)	$ 4,228	$ 648
Adjustments to reconcile net income to net Cash provided by (used in) operating activities:			
Depreciation and amortization	1,159	762	657
Deferred income tax	(844)	(3,805)	
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(2,382)	(328)	2,496
Decrease (increase) in inventory	439	(353)	185
Decrease (increase) in prepaid expenses and other current assets	128	(320)	27
Decrease (increase) in other assets	14	30	302
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	3,430	(457)	(1,997)
(Decrease) increase in deferred maintenance Revenues	227	(66)	97
Increase (decrease) in deferred income	(59)	199	(60)
Net cash provided by (used in) operating activities	701	(110)	2,355
Cash flows from investing activities:			
Purchase of property and equipment	(861)	(672)	(346)
Payment for acquisitions (net of cash acquired)	(824)	(416)	
Net cash (used in) provided by investing activities	(1,685)	(1,088)	(346)
Cash flows from financing activities:			
Proceeds from debt borrowings	33,195	25,204	19,234
Repayments of debt	(31,461)	(23,699)	(20,787)
Retirement of subordinated debt affiliate		(1,600)	
Proceeds from private placement		1,200	
Costs associated with private placement		(45)	
Proceeds from sale of stock upon exercise of stock options	84		1
Net cash provided by (used in) financing activities	1,818	1,060	(1,552)
Net increase (decrease) in cash	834	(138)	457
Cash at beginning of year	430	568	111

Cash at end of year	$ 1,264	$ 430	$ 568

See Note 15 for supplemental cash flow information.
See notes to consolidated financial statements

HALIFAX CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)
FOR THE YEARS ENDED MARCH 31, 2005, 2004, AND 2003
(Amounts in thousands except share data)

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		
	Shares	Par Value	Capital	Deficit	Shares	Cost	Total
March 31, 2002	2,432,297	588	5,015	(6,671)	256,684	(212)	(1,280)
Net income				648			648
Exercise of Stock Options	750		1				1
March 31, 2003	2,433,047	588	5,016	(6,023)	256,684	(212)	(631)
Net Income				4,228			4,228
Issuance of Common Stock	734,049	176	2,946				3,122
March 31, 2004	3,167,096	764	7,962	(1,795)	256,684	(212)	6,719
Net (Loss)				(1,411)			(1,411)
Issuance of Common Stock	260,544	63	1,049				1,112
March 31, 2005	3,427,640	$ 827	$ 9,011	$ (3,206)	256,684	$ (212)	$ 6,420

See notes to consolidated financial statements

HALIFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2004, 2003 AND 2002

1. SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS ACTIVITY

Business Activity   Halifax Corporation (the   Company) provides enterprise maintenance services and solutions for commercial and government activities. These services include high availability maintenance solutions, technology deployment and integration, secure network services and communication services.

Principles of Consolidation   The Company s consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Wholly-owned subsidiaries include Halifax Engineering, Inc. and Halifax Realty, Inc. All significant intercompany transactions are eliminated in consolidation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as allowances for doubtful accounts, unbilled accounts receivable, depreciation and amortization, taxes, inventory reserves, goodwill, and contingencies.

Accounts Receivable   Receivables are attributable to trade receivables in the ordinary course of business. Allowance for doubtful accounts is provided for estimated losses resulting from our customers   inability to make required payments. (See Note 2.)

The Company routinely transfers receivables to a third party in connection with equipment leased to end users. The credit risk passes to the third party at the point of sale of the receivables. Under the provisions of Statement of Financial Accounting Standards No. 140,   Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities,   transfers were accounted for as sales and as a result, the related receivables have been excluded from the accompanying 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 on these transfers. 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.

Inventory   Inventory consists principally of spare computer parts, computer and computer peripherals consumed on maintenance contracts, and hardware and software held for resale to customers. All inventories are valued at the lower of cost or market on the first-in first-out basis. These inventories are recorded on the consolidated balance sheets net of allowances for inventory valuation of $1.7 million and $952 thousand at March 31, 2005 and 2004, respectively.

Property and Equipment   Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of:

Machinery and equipment	3-10 years
Furniture and fixtures	5 years
Building improvements	5-10 years
Vehicles	4 years

The Company evaluates the recoverability of its long-lived assets in accordance with Statement of Financial Accounting Standards No. 144,   Accounting for the Impairment or Disposal of Long-Lived Assets,   (SFAS No. 144). SFAS No. 144 requires recognition of impairment of long-lived assets in the event that the net book value of such assets exceeds the future undiscounted net cash flows attributable to such assets. Impairment, if any, is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. Based on its analysis, the Company believes that there was no impairment of its long-lived assets at March 31, 2005 and 2004.

Goodwill and Intangible Assets Goodwill is the excess of the purchase price over the fair value of the net assets acquired in a business combination. Beginning April 1, 2002, in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), goodwill and indefinite-lived assets are no longer amortized, but instead tested for impairment at least annually (see Note 5). Intangible assets that have finite useful lives are amortized over their useful lives.

Deferred Maintenance Revenues Deferred maintenance revenues are derived from contracts for which customers are billed or pay in advance of services to be performed at a future date.

Revenue Recognition Service revenues are derived from contracts with various federal and state agencies as well as from commercial enterprises. We recognize service revenues based on contracted fees earned, net of credits and adjustments as the service is performed. Revenues from long-term fixed unit price contracts are recognized monthly as service is performed based upon the number of units covered and the level of service requested. The pricing of these contracts is fixed as to the unit price, but varies based upon the number of units covered and service level requested. Revenues from time-and-material professional service contracts are recognized as services are delivered. Certain seat management contracts include the delivery and installation of new equipment combined with multi-year service agreements. Revenues related to the delivery and installation of equipment under these, and certain other contracts are recognized upon the completion of both the delivery and installation. Product sales were $2.7 million, $5.5 million, and $5.0 million, with corresponding direct cost of product of $2.5 million, $5.1 million, and $4.4 million for the fiscal years ended March 31, 2005, 2004 and 2003, respectively. Revenues related to the fixed-price service agreements are recognized ratably over the life of the agreement. Invoices billed in advance are recognized as revenues when earned. Losses on contracts, if any, are recognized in the period in which they become determinable.

Income Taxes The provision for income taxes is the total of the current year income taxes due or refundable and the change in deferred tax assets and liabilities. The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, a valuation allowance must be established. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Comprehensive Income For the fiscal years ended March 31, 2005, 2004 and 2003, the Company did not identify any transactions that should be reported as other comprehensive income.

Stock-Based Compensation The Company accounts for stock-based compensation for employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and complies with the disclosure provision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation as amended by Statement of Financial Standards No. 148 (SFAS 148), Accounting for Stock-based Compensation Transition of Disclosure. Accordingly, no compensation expense has been recognized for our stock-based compensation plan. Under APB No. 25, compensation expense is based on the difference, if any, on the measurement date, between the fair value of the common stock and the exercise price.

For purposes of proforma disclosures, the options estimated fair values are amortized to expense over the options vesting periods. Consistent with the provisions of SFAS No. 123 Accounting for Stock-Based Compensation , had compensation cost been determined based on the fair value of awards granted in fiscal years 2005, 2004 and 2003, the net income attributable to common shareholders would have been as follows:

	Year Ending March 31,		
(Amounts in thousands except share data)	2005	2004	2003
Net (loss) income (as reported)	$ (1,411)	$ 4,228	$ 648
Deduct: stock-based compensation expense determined under the fair value method, Net of tax	(106)	(175)	(250)
Proforma net (loss) income	$ (1,517)	$ 4,053	$ 398
(Loss) earnings per common share (as reported):			
Basic	$ (.46)	$ 1.60	$ .30
Diluted	$ (.46)	$ 1.54	$ .30
Proforma (Loss) earnings per common share:			
Basic	$ (.50)	$ 1.54	$ .18
Diluted	$ (.50)	$ 1.45	$ .18

Earnings Per Common Share - The computation of basic earnings per share is based on the weighted average number of shares outstanding during the period. Diluted earnings per share is based on the weighted average number of shares including adjustments to both net income and shares outstanding when dilutive, including potential common shares from options and warrants to purchase common stock using the treasury stock method and effect of the assumed conversion of the Company s convertible subordinated debt to dilutive common stock equivalents.

Concentration of Risk The Company has a number of significant customers. The Company s largest customer accounted for 14%, 15% and 16% of the Company s revenues for the years ended March 31, 2005, 2004 and 2003, respectively. The Company s five largest customers, collectively, accounted for 63%, 56%, and 57%, of revenues for the years ended March 31, 2005, 2004 and 2003, respectively. The Company anticipates that significant customer concentrations will continue for the foreseeable future, although the customers which constitute the Company s largest customers may change.

Revenues from services rendered to the United States Government and the relative percentages of such revenues to total revenues for the fiscal years ended March 31, 2005, 2004 and 2003 were $13.5 million (22%), $9.5 million (19%), and $11.4 million (23%).

Recent Pronouncements

In December 2004, The Financial Accounting Standard Board (FASB) issued SFAS 123R. Revised SFAS 123 addresses the requirements of an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of such awards will be recognized over the period during which an employee is required to provide services in exchange for the award. The Company will be required to adopt SFAS 123 on April 1, 2006. The Company is currently evaluating the impact that this pronouncement will have on its financial statements.

2. ACCOUNTS RECEIVABLE

Trade accounts receivable consist of:	March 31,	
(Amounts in thousands)	2005	2004
Amounts billed	$ 12,373	$ 9,332
Amounts unbilled	393	180
Total	12,766	9,512
Allowance for doubtful accounts	(298)	(148)
Total	$ 12,468	$ 9,364

3. PROPERTY AND EQUIPMENT

	March 31,		
Property and equipment consists of:			Estimated Useful
(Amounts in thousands)	2005	2004	Lives
Machinery and equipment	$ 3,600	$ 3,153	3-10 years
Furniture and fixtures	255	423	5 years
Building improvements	599	637	5-10 years
Vehicles	150	137	4 years
Total	4,604	4,350	
Accumulated depreciation	(2,996)	(2,752)	
Total	$ 1,608	$ 1,598	

For the years ended March 31, 2005, 2004 and 2003, depreciation expense was $931 thousand, $681 thousand and $567 thousand, respectively.

4. ACQUISITION

AlphaNational acquisition

On September 30, 2004, the Company acquired 100% of stock of AlphaNational Technology Services, Inc. (AlphaNational) for approximately $2.4 million. The consideration was cash of $200 thousand, notes payable of $168 thousand and 235,294 shares of the Company s common stock valued at $4.38 per share, or $1.03 million plus the assumption of certain liabilities of approximately $623 thousand. In addition direct acquisition costs were approximately $379 thousand. The shares were discounted approximately 14% from the quoted market value of $5.10 because such shares were not registered under the Securities Act of 1933, as amended, and are subject to trading restrictions. The notes payable to the former AlphaNational shareholders were reduced from $500 thousand to $168 thousand based upon final adjustments to the closing balance sheet.

AlphaNational is an enterprise maintenance solutions company providing services to the national market place. The primary reasons for the acquisition of AlphaNational were to expand the Company s geographic base and strengthen its service delivery capability. AlphaNational also added a number of prestigious customers, added key management and will enhance the Company s ability to grow its partnership arrangements with the global services provider community. The results of AlphaNational have been included in the consolidated financial statements from the date of acquisition.

The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition.
(amounts in thousands)

Current assets	$ 973
Property and equipment	80
Goodwill	1,470
Trade name	700
Other intangible assets	810
Total assets acquired	4,033
Total liabilities assumed	1,657
Purchase price	$ 2,376

The total purchase price of $2.4 million includes $379 thousand of direct acquisition costs relating to legal, investment banking, and accounting services. In addition, the terms of the contract provide for additional consideration of $150 thousand to be paid if revenues of the acquired company exceed certain targeted levels by September 30, 2005.
Other intangible assets of $810 thousand are being amortized over their weighted-average useful lives and include customer contracts of $710 thousand (five years) and non-compete agreements of $100 thousand (two years). The trade name and goodwill have indefinite lives and will not be amortized, but will be subject to periodic impairment testing.
The following unaudited pro-forma financial information presents results of operations as if the acquisition had occurred at the beginning of the respective periods.

(Amounts in thousands except per share data)		Year Ended March 31, 2005		Year Ended March 31, 2004
Revenues	$	60,677	$	56,176
Net (loss) income		(1,042)		4,384
(Loss) earnings per share:				
Basic	$	(.46)	$	1.54
Diluted	$	(.46)	$	1.48

These proforma results have been prepared for comparative purposes only and include certain adjustments such as additional amortization expense as a result of identifiable intangible assets arising from the acquisition, increased interest expense, and changes in income taxes as a result of the acquisition. The proforma results are not necessarily indicative either of results of operations that actually would have resulted had the acquisition been in effect at the beginning of the respective periods or of future results.
Microserv acquisition
On August 29, 2003, the Company acquired 100% of the stock in Microserv, Inc. (Microserv) for approximately $3.3 million. The consideration was cash of $360 thousand, 5% notes payable of $494 thousand and 442,078 shares of our stock valued at $4.23 per share, or $1.87 million and fees and related costs of approximately $575 thousand. The shares were discounted approximately 14% from the quoted market value of $4.92 per share due to various trading restrictions and restrictions on transfer as such shares were not registered.

The primary reasons for the acquisition of Microserv were to expand our geographic base and strengthen our service delivery capability. Microserv also added a number of prestigious customers, added key management, and will enhance our ability to grow our partnership arrangements with the global service provider community. The results of Microserv have been included in the consolidated financial statements from the date of the acquisition. Microserv is a high availability enterprise maintenance company.

Total intangible assets of $804 thousand are being amortized over their weighted-average useful lives and include client contracts of $635 thousand (eight years) and non competition agreements and other intangibles (two to eight years).
The total purchase price of $3.3 million included $614 thousand of direct acquisition costs related to investment banking, legal and accounting services. Also, $124 thousand in restructuring costs were recorded as part of the acquisition as a result of positions eliminated. The terms of the contract provided for additional consideration of $250 thousand to be paid if certain accounts of the acquired company exceed certain targeted levels, by August 30, 2004. The targeted levels were achieved, and accordingly $250 thousand was recorded as additional goodwill.
In conjunction with the acquisition of Microserv, the Company issued $494 thousand in notes to the former Microserv shareholders. Interest is payable at the rate of 5% quarterly and in arrears. Interest payments were made to three individuals, one of whom was a 5% shareholder/employee, one a director and one who is an executive in the Company. Because the Company was not in compliance with its revolving credit agreement at December 31, 2004, the Company was unable to repay the notes and, as a result, the interest rate was increased to 10% effective February 1, 2005. The notes were classified as current liabilities in its financial statements. Concurrent with the amendment of the revolving credit agreement (See Note 6), the Company received consent from the bank to repay the notes in full.
The Company issued 50,000 warrants to purchase common stock at $3.19 per share. The fair value of the Company s warrants was estimated on the date of issuance using the Black-Scholes option pricing model as prescribed by SFAS No. 123 and EITF 96-18. Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services using the following assumptions: fair market value of common stock $4.78, risk free rate of return of .95%, no dividend yield, expected volatility of 43% and weighted-average expected life of 4 years. The weighted average fair value of the warrants calculated using the Black-Scholes option price model granted was $2.32 for the warrants issued in conjunction with the Microserv acquisition. The Black-Scholes value of the warrants issued totaled approximately $117 thousand.
5. GOODWILL AND OTHER INTANGIBLE ASSETS
The following is a schedule of amortizable intangible assets as of March 31,

		2005			2004		
(Amounts in thousands):	Estimated Amortization period (in months)	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Client master contracts	60-90	1,345	(196)	1,149	635	(46)	589
Backlog	48	96	(38)	58	96	(14)	82
Subcontractor provider network	36	64	(41)	23	64	(15)	49
Non compete	24-36	109	(30)	79	9	(2)	76
		$ 1,614	$ (305)	$ 1,309	$ 804	$ (77)	$ 727

The weighted average estimated amortization period as of March 31, 2005 is 60 months.
There were no intangible assets reclassified to goodwill upon the adoption of SFAS 142. The Company considers itself to have a single reporting unit. The Company performed its annual impairment test as of March 31, 2005 and 2004 and determined that based upon the implied fair value of the Company (which includes factors such as, but not limited to, the Company s market capitalization and control premium), there was no impairment of goodwill.

For the fiscal year ended March 31, 2005 amortization of intangible assets was $227 thousand. Amortization expense for intangible assets was $81 thousand and $15 thousand for the fiscal years ended March 31, 2004 and 2003, respectively. The Company estimates aggregate future amortization expense for intangible assets remaining as of March 31, 2005 as follows:

Fiscal Year ended March 31,	
2006	$ 322
2007	272
2008	231
2009	221
2010	150
Thereafter	113
Total	$ 1,309

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions and other relevant factors.

6. LONG-TERM DEBT

The Company was not in compliance with the covenants of its revolving credit agreement at March 31, 2005. The Company requested and received a waiver for its non-compliance with its covenants through March 31, 2005. On June 29, 2005, the Company and its lender amended the agreement, modifying the covenants and extending the maturity of date to June 30, 2007. The Company believes that it will be in compliance with its amended revolving credit agreement prospectively.

	March 31, *(Amounts in thousands)*	
Long-term debt consists of:	2005	2004
Revolving credit agreement dated June 29, 2005 maturing June 30, 2007 with a maximum borrowing limit of $12.0 million. Amounts available under this agreement are determined by applying stated percentages to the Company s eligible receivables and inventory. At March 31, 2005 and 2004, $2.6 million and $2.3 million, respectively, was available to the Company under the terms of the agreement. The facility bears interest at the bank s prime rate plus 3/4%. The interest rate at March 31, 2005 and 2004 was 5.75% and 5.00%, respectively.		
Total bank debt	$ 9,463	$ 7,227
7% Convertible subordinated debenture with an affiliate (see Note 13) dated January 27, 1998. Principal due in full on July 1, 2007. Interest payable semiannually in arrears beginning August 1, 1998. Convertible to common stock by note holder at any time at a conversion price of $3.19 per common share. Subsequent to year end the notes were paid in full.	400	400
Subordinated note with an affiliate (see Note 13) dated October 8, 1998. Principal due on July 1, 2007. Interest accrues annually at 8%.	690	690
Subordinated note with an affiliate (see Note 13) dated October 13, 1998. Principal due on July 1, 2007. Interest accrues annually at 8%.	310	310
Subordinated note with an affiliate (see Note 13) dated November 2, 1998. Principal due on July 1, 2007. Interest accrues annually at 8%. Subsequent to year end the notes were paid in full.	500	500
Subordinated note with an affiliate (see Note 13) dated November 5, 1998. Principal due on July 1, 2007. Interest accrues annually at 8%. Subsequent to year end the notes were paid in full.	500	500
Subtotal debt affiliated parties	2,400	2,400
5% Notes issued to former Microserv shareholders (see Note 4) Subsequent to year end the notes were paid in full.	494	494
	168	

6% notes issued to former AlphaNational shareholders due March 31, 2006 (see Note 4)		
Other debt. Interest rates 0.0% to 1.9% due in 48 and 36 months.	20	48
Total debt	12,545	10,169
Less current maturities	679	523
Total long-term debt	$ 11,866	$ 9,646

Minimum future principal payments on long-term debt are as follows:
(Amounts in thousands)

Year ended March 31,	Total
2006	$ 679
2007	3
2008	11,863
Total	$ 12,545

The carrying value of the revolving credit agreement approximates fair market value at March 31, 2005. Because other subordinated debt of $400 thousand with an interest rate of 7% and $2 million with an interest rate of 8% is with a related party, it was not practicable to estimate the effect of subjective risk factors, which might influence the value of the debt. The most significant of these risk factors include the subordination of the debt and the lack of collateralization.

As a requirement under certain contracts we are required to post performance bonds. In order to secure the bonds aggregating $168 thousand, we have issued letters of credit to the insurance carrier as collateral for these bonds. The letters of credit expire on June 30, 2006.

7. ACCRUED EXPENSES

Accrued expenses consist of the following:

(Amounts in thousands)	March 31, 2005	March 31, 2004
Accrued lease payments	$ 1,369	$ 1,162
Accrued vacation	906	804
Accrued payroll	1,431	979
Payroll taxes accrued and withheld	231	183
Other accrued expenses	839	571
	$ 4,776	$ 3,699

8. STOCK BASED COMPENSATION

On September 16, 1994, the shareholders approved the new Key Employee Stock Option Plan (1994 Plan). Options expire five to ten years after the date of grant. The maximum number of shares of the Company s common stock subject to the 1994 Plan and approved for issuance was originally 280,000 shares either authorized and unissued or shares held in treasury. This number is subject to adjustment in the event of stock splits, stock dividends or other recapitalization of the Company s common stock. On March 2, 2000, the shareholders approved amendments to the 1994 Plan which increased the number of shares available for issuance to 400,000 shares.

Stock-based incentive awards granted under the 1994 Employee Stock Option Plan prior to March 31, 2001 were stock options with 5 year terms with cliff vesting after four years. Employee stock options granted subsequent to March 31, 2001 were stock options with 10 year terms which vest monthly over a four year period following the completion of one year of service from the date of grant. Upon separation from the company, former employees have 90 days to exercise vested options. The plan expired on September 15, 2004.

On September 14, 1997, shareholders approved the Non-Employee Director Stock Option Plan (1997 Plan). The maximum number of shares of the Company s common stock subject to the 1997 Plan and approved for issuance was originally 100,000 shares either authorized and unissued or shares held in treasury. The initial stock-based incentive awards granted under the 1997 Non-Employee Directors Stock Option Plan to a director upon joining the Company s Board of Directors are stock options with 10 year terms and vest monthly over five years. Subsequent grants to directors for annual service are stock options with 10 year terms and vest monthly over one year. The plan expired on September 18, 2004.

The exercise prices of all options awarded in all years, under all plans, were equal to the market price of the stock on the date of grant.

The fair value of each of the Company s option grants is estimated on the date of grant using Black-Scholes option pricing model as prescribed by SFAS No. 123 as amended by SFAS No. 148, using the following assumptions for the fiscal years ended March 31, 2005, 2004 and 2003: risk-free interest rate of 2.63% ,0.95%, and 3.73% respectively, dividend yield of 0%, 0% and 0% respectively, volatility factor related to the expected market price of the Company s common stock of 36.25, 43.3%, and 43.3%,respectively, and weighted-average expected option life of five to ten years. The weighted average fair value of options calculated using the Black-Scholes option pricing model granted during fiscal 2005, 2004 and 2003 were $1.43, $1.48, and $2.20, respectively.

A summary of options activity is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at April 1, 2002	365,250	$ 5.30
Granted	51,000	3.50
Exercised	(750)	2.60
Forfeited/Expired	(3,083)	3.25
Outstanding at March 31, 2003	412,417	5.09
Granted	38,000	5.16
Exercised		
Forfeited/Expired	(32,500)	5.49
Outstanding at March 31, 2004	417,917	5.07
Granted	96,800	4.56
Exercised	(21,500)	3.48
Forfeited/Expired	(32,500)	3.77
Outstanding at March 31, 2005	460,217	$ 5.13

The following table summarizes the information for options outstanding and exercisable under the Company s Stock option plans at March 31, 2005.

Range of Exercise Prices	Options Outstanding	Options Outstanding Weighted Average Remaining Contractual Life	Options Outstanding Weighted Average Exercise Price	Options Exercisable	Options Exercisable Weighted Average Exercise price
$10.25	24,250	3 years	$ 10.25	24,250	$ 10.25
7.03	10,500	4 years	7.03	10,500	7.03
5.57-7.56	82,000	5 years	6.02	82,000	6.20
5.38-7.06	71,500	6 years	5.76	71,481	5.76
1.80-4.05	87,000	7 years	3.51	50,672	3.30
3.10-5.00	50,167	8 years	3.47	15,667	3.78
4.11-5.70	38,000	9 years	5.16	4,628	4.11
4.45-5.02	96,800	10 years	4.61	72,000	4.58
$2.60-$7.56	460,217		$ 5.13	149,750	$ 5.45

9. EMPLOYEE 401(K) RETIREMENT PLAN

The Company sponsors a 401(k) retirement plan covering substantially all non-union employees with more than 3 months of service. The plan provides that the Company will contribute an amount equal to 50% of a participant contribution up to 4% of salary, (2% beginning January 2004) and at the Company s discretion, additional amounts based upon the profitability of the Company. The Company s contributions were $64 thousand, $102 thousand and $109 thousand for the years ended March 31, 2005, 2004 and 2003, respectively. Union employees receive benefits as prescribed in their collective bargaining agreement.

10. EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan under which all employees of the Company are eligible to contribute funds for the purchase of the Company s common stock on the open market at market value. Under the Plan, the Company agrees to pay all brokerage commissions associated with such purchases. There has not been any significant activity in this Plan during the three fiscal years ended March 31, 2005.

11. INCOME TAXES

The components of income tax (benefit) expense is as follows for the years ended March 31:

(Amounts in thousands)	2005	2004	2003
Current expense:			
Federal	$	$ 14	$ 18
State	51	136	42
Total current:	51	150	60
Deferred expense:			
Federal	(688)	(3,712)	
State	(156)	(188)	
Total deferred:	(844)	(3,900)	

Income tax (benefit) expense	$ (793)	$ (3,750)	$ 60

The components of the Company s deferred tax assets and liabilities consist of the following at March 31:

(Amounts in thousands)	2005	2004
Deferred tax assets:		
Accounts receivable reserves	$ 115	$ 60
Inventory reserve	661	380
Inventory capitalization	102	92
Depreciation/amortization	209	77
Accrued compensation/vacation	348	321
Abandonment of space	69	
AMT credit carryforwards	93	88
Net operating loss carryforward	3,039	2,748
Deferred gain on building sale	107	134
	4,744	3,900
Deferred tax liabilities:		
	4,744	3,900
Valuation allowance		
Net deferred tax asset	$ 4,744	$ 3,900

Deferred tax assets and liabilities on the balance sheets reflect the net tax effect of temporary differences between carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The deferred tax assets and liabilities are classified on the balance sheets as current or non-current based on the classification of the related assets and liabilities.

Management regularly evaluates the realizability of its deferred tax assets given the nature of its operations and the tax jurisdictions in which it operates. The Company adjusts its valuation allowance from time to time based on such evaluations. Based upon the Company s historical taxable income, when adjusted for non-recurring items, net operating loss carryback potential and estimates of future profitability, management concluded at March 31, 2004 that future income will more than likely be sufficient to realize its deferred tax assets. Accordingly, we reversed the offsetting valuation allowance in its entirety based on the weight of the positive and negative evidence regarding recoverability of the Company s deferred tax assets, which resulted in a $3.8 million tax benefit in the fiscal year ended March 31, 2004. Management believes that based on the weight of the evidence, past profitability, and estimates of future profitability, including the gain resulting from the sale of our secure network services business, that the valuation allowance established in prior years is no longer necessary.

The Company has $8.6 million of net operating loss carryforwards, which expire in fiscal years 2019 through 2025. As a result of the sale of the secure network services business completed on June 30, 2005, the Company expects to utilize the net operating loss carry forward in its entirety during fiscal year 2006. Therefore a corresponding portion of the deferred tax asset has been reclassified as a current asset to reflect the utilization of the net operating loss.

The differences between the provision for income taxes at the expected statutory rate of 34% for continuing operations and those shown in the consolidated statements of operations are as follows for the years ended March 31:

	2005	2004	2003
(Benefit) provision for income taxes	(34.0)%	34.0%	34.0%
(Reduction) increase in taxes resulting from:			
State taxes, net of federal benefit	(7.1)	6.2	5.0

Other state taxes, net of federal benefit		12.2	0.0
Permanent items	4.0	9.1	0.0
Other	1.1	(1.1)	(7.8)
Change in valuation allowance for deferred tax assets		(845.0)	(22.8)
Total	(36.0)%	(784.6)%	8.4%

12. LEASING ACTIVITY

The Company is obligated under operating leases for office space and certain equipment. The following are future minimum lease payments, net of sublet rental income under operating leases as of March 31: *(Amounts in thousands)*

Year ending March 31,	
2006	$ 713
2007	495
2008	292
2009	207
2010	102
Thereafter	
Total minimum lease payments	$ 1,809

Deferred income of $278 thousand and $337 thousand at March 31, 2005 and 2004, respectively, represents the deferred gain on the sale lease-back of the Company s office complex. The deferred income is being recognized as a reduction of rent expense over the remaining life of the lease.

Total rent expense under operating leases was $1.13 million, $782 thousand and $632 thousand for the fiscal years ended March 31, 2005, 2004 and 2003, respectively. The Company sold its office complex on November 6, 1997 and leased back its headquarters building for 12 years. Aggregate future minimum rentals to be received under non-cancelable subleases as of March 31, 2005 are $1.1 million.

13. RELATED PARTY TRANSACTIONS

Nancy Scurlock and the Arch C. Scurlock Children s Trust, which are affiliates, are the owners of 784,422 shares, or 27% of the Company s common stock, holds $400 thousand face amount of the Company s 7% Convertible Subordinated Debenture dated January 27, 1998 and $690 thousand, $310 thousand, $500 thousand and $500 thousand face amount of the Company s 8% Promissory Notes dated October 8, 1998, October 13, 1998, November 2, 1998 and November 5, 1998, respectively. Interest expense on the subordinated debt totaled $188 thousand for fiscal year 2005, $221 thousand for fiscal year 2004, and $300 thousand for each fiscal year 2003. Subsequent to year end and after receiving consent from our bank, the balance of the subordinated notes was reduced to $1.0 million. In addition, the maturity of the notes was extended to July 1, 2007. (See Note 6).

In conjunction with the acquisition of AlphaNational Technology Services, Inc. which was completed on September 30, 2004, the Company issued $168 thousand in notes to the former AlphaNational shareholders. Interest is accrued at the rate of 6%. (See Note 4).

During the fiscal year ended March 31, 2004, the lender on our revolving credit facility approved principal payments of $1.6 million to reduce the Company s 7% convertible subordinated debt. After the payment, the outstanding principal balance was $400 thousand. The bank also approved $300 thousand in payments for accrued interest. During the fiscal year ended March 31, 2003 after receiving waivers from the bank, we made payment to the affiliates of $225 thousand for accrued interest. On January 2, 2002, we made a payment of $100 thousand to the Affiliates for interest due. At March 31, 2005 and 2004, interest payable to the Estate was $100 thousand and $140 thousand, respectively.

On July 23, 2003, the Company completed a private placement of 291,971 shares of its common stock, at $4.11 per share for a total of $1.2 million. The purchasers included four members of the management team as well as certain directors and one existing shareholder of the Company. The private placement also involved the issuance of warrants to purchase 58,394 shares of common stock at an exercise price of $4.93.

The fair value of the warrants granted to the participants of the private placement was estimated to be approximately $69 thousand using the Black-Scholes option pricing model with the following assumptions: fair market value of common stock of $4.11, no dividend yield, expected volatility of 43%, weighted average expected life of four years and risk free rate of return of .95%. The $69 thousand is reported as a reduction of the proceeds of the issuance of the common stock.

In conjunction with the acquisition of Microserv, the Company issued $494 thousand in notes to the former Microserv shareholders. Interest is payable at the rate of 5% quarterly and in arrears. Interest payments were made to three individuals, one of whom was a 5% shareholder/employee, one a director and one who is an executive in the Company. Because the Company was not in compliance with our revolving credit agreement at December 31, 2004, the Company was unable to repay the notes and, as a result, the interest rate was increased to 10% effective February 1, 2005. The notes are classified as current liabilities in our financial statements as they were not repaid upon maturity on February 1, 2005. Concurrent with the amendment of the revolving credit agreement on June 29, 2005 (See Note 6.), the Company requested and received consent from the bank to repay the notes in full.

14. COMMITMENTS AND CONTINGENCIES

Costs incurred by the Company on the performance of United States Government contracts are subject to audit by the Defense Contract Audit Agency. In the opinion of management, the final settlement of these costs will not result in significant adjustments to recorded amounts.

There are no material pending legal proceedings to which the Company is a party. The Company is engaged in ordinary routine litigation incidental to the Company s business to which the Company is a party. While we cannot predict the ultimate outcome of these various legal proceedings, it is management s opinion that the resolution of these matters should not have a material effect on our financial position or results of operations.

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The Company paid the following amounts for interest and income taxes during the years ended March 31:

(Amounts in thousands)	2005	2004	2003
Interest	$ 644	$ 611	$ 649
Income taxes		$ 81	$ 22
Disclosure of non-cash financing activities:			
6% notes payable to former AlphaNational shareholders	$ 168	$	$
5% notes payable to former Microserv shareholders	$	$ 494	$
Common stock issued for the purchase of AlphaNational	$ 1,028	$	$
Common stock issued for the purchase of Microserv	$	$ 1,871	$
Fees to investment bankers	$	$ 117	$
Fair value of assets acquired	$	$ 1,619	$
Warrants issued in connection with private placement	$	$ 69	$

16. EARNINGS PER SHARE

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

(Amounts in thousands except share data)	Years Ended March 31, 2005	2004	2003
Numerator for earnings per share:			
Net income as reported-Basic	$ (1,411)	$ 4,228	$ 648
Interest on convertible subordinated debt (net of tax)		77	
Net Earnings-Dilutive	$ (1,411)	$ 4,305	$ 648
Denominator:			
Denominator for basic earnings per share-Weighted-average shares outstanding	3,043,465	2,638,345	2,175,781
Effect of dilutive securities:			
7% convertible debenture		97,324	
Employee stock options	42,243	43,226	36,579
Non qualified stock options	564	2,124	
Warrants	8,650	6,637	
Dilutive potential common shares Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	3,094,922	2,787,656	2,212,360
Earnings per share-Basic:	$ (.46)	$ 1.60	$ .30
Earnings per share-Diluted	$ (.46)	$ 1.54	$ .30

The computation of basic earnings per share is based on the weighted average number of shares outstanding during the period. Diluted earnings per share is based on the weighted average number of shares including adjustments to both net income and shares outstanding to assume the conversion of dilutive common stock equivalents. No effect is given to dilutive securities for loss periods.

17. SEGMENT REPORTING AND SIGNIFICANT CUSTOMERS

The Company has adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, as required. The Company s business activities are considered to be in one business segment which provides a comprehensive range of information technology services and solutions to a broad base of commercial and governmental customers.

The Company has a number of significant customers. The Company s largest customer accounted for 14%, 15% and 16% of the Company s revenues for the years ended March 31, 2005, 2004 and 2003, respectively. The Company s five largest customers, collectively, accounted for 63%, 56%, and 57%, of revenues for the years ended March 31, 2005, 2004 and 2003, respectively. The Company anticipates that significant customer concentrations will continue for the

foreseeable future, although the customers which constitute the Company s largest customers may change. Revenues from services rendered to the United States Government and the relative percentages of such revenues to revenues from continuing operations for the fiscal years ended March 31, 2005, 2004 and 2003 were $13.5 million (22%), $11.0 million (22%), and $12.1 million (24%). Revenues for the secured network services business were $13.5 million, $9.5 million and $11.4 million for fiscal years 2005, 2004 and 2003, respectfully. As result of the sale on of this business on June 30, 2005, these revenues will not be recurring.

18. UNAUDITED QUARTERLY RESULTS OF OPERATIONS:
(Amounts in thousands except share data)

	June 30, 2004	September 30, 2004	December 31, 2004	March 31, 2005(2)
Revenues	$ 13,441	$ 14,809	$ 15,605	$ 18,151
Gross Margin	1,665	1,671	(36)	834
Net income	$ 91	$ 44	$ (1,035)	$ (511)
Basic earnings per share	$ .03	$ .02	$ (.33)	$ (.16)
Diluted earning per share	$ .03	$ .01	$ (.33)	$ (.16)

	June 30, 2003	September 30, 2003	December 31, 2003	March 31, 2004(1)
Revenues	$ 10,676	$ 12,461	$ 13,380	$ 13,020
Gross Margins	1,320	1,496	1,578	1,534
Net income	$ 51	$ 152	$ 202	$ 3,823
Basic earnings per share	$ .02	$ .06	$ .07	$ 1.31
Diluted earning per share	$ .02	$ .06	$ .07	$ 1.25

(1) See Note 11 to the consolidated financial statements for discussion on deferred tax benefit.
(2) Includes reversal of a loss accrual of $300 thousand recorded during the quarter ended December 31, 2004 resulting from the startup of a new long-term, nation-wide, enterprise maintenance contract.

19. SUBSEQUENT EVENT

On June 30, 2005, the Company simultaneously entered into and closed on an asset purchase agreement with INDUS Corporation pursuant to which it sold substantially all of the assets and certain liabilities of its secure network services business. The purchase price was approximately $12.5 million, subject to adjustments described in the asset purchase agreement based on the net assets of the business on the date of closing. The asset purchase agreement provides that $3.0 million of the purchase price will be held in escrow. Of this amount, $625,000 will be held as security for the payment of its indemnification obligations pursuant to the asset purchase agreement, if any, and will be released to the Company eighteen (18) months following the date of the asset purchase agreement unless a certain key government contract, referred to as the Key Contract, is not assigned (referred to as a novation) as of such time. A portion of the escrow amount equal to $2.0 million (which includes the portion referenced above for indemnification obligations), plus any interest or other income earned thereon, will also serve as security for a payment obligation the Company

will have to INDUS Corporation if the novation of the Key Contract from us to INDUS Corporation is not approved by such government customer and received within two years from the date of the asset purchase agreement. If such novation of the Key Contract is not received by the second anniversary of the date of the asset purchase agreement or if such novation is affirmatively rejected prior to such time under circumstances not giving rise to the rescission right referenced below, the Company will be obligated to pay to INDUS Corporation an amount equal $2.0 million with the entire amount then held in escrow being released to INDUS Corporation as full or partial payment of such obligation, as the case may be. The Company will be obligated to pay directly to INDUS Corporation the amount, if any, by which the balance of escrow funds at the time of disbursement is less than $2.0 million. Finally, a portion of the escrow amount equal to $1.0 million serves as security for a payment obligation the has to INDUS Corporation in connection with a failure to obtain certain consents related to the transaction. In addition, INDUS Corporation has certain rescission rights. First, if the government customer to the Key Contract rejects the novation of such Key Contract on or before the six month anniversary of the date of the asset purchase agreement and the government

customer takes action to preclude the Company from providing INDUS Corporation with the economic benefit of such Key Contract (whether by subcontract or otherwise), INDUS Corporation may rescind the entire sale transaction in lieu of being paid the $2.0 million amount referenced above. Second, if the Company is unable to provide INDUS Corporation with evidence of the government s approval of the assignment to INDUS Corporation to a material contract (other than the Key Contract) on or before a date six months from the date of closing, INDUS Corporation may rescind the transaction. The asset purchase agreement contains representations, warranties, covenants and related indemnification provisions, in each case that are customary in connection with a transaction of this type; however, certain of the representations and warranties require updating to a date which is the earlier of the contract novation or thirty months from the closing. In addition, survival periods applicable to such updated warranties may be extended together with related indemnification periods. See Management s Discussion and Analysis of Financial Condition and Results of Operations Sale of Secure Network Services Business.

In connection with the asset purchase agreement, The Company also transferred to INDUS Corporation all of its right, title and interest in and to our Federal Supply Service Information Technology (Schedule 70) Contract (the Contract) with the federal government and a Blanket Purchase Agreement (BPA) that the Company entered into with one federal agency pursuant to the Contract. Since the Company has a need to utilize the Contract and BPA in connection with businesses that it has retained, the Company will enter into a transition services agreement with INDUS Corporation with respect to the Contract and BPA in order to continue performing existing, and to receive new, task/delivery orders from federal government agencies awarded under the Contract and BPA until such time as the Company is awarded a new Federal Supply Service Information Technology Contract

The secure network services business comprised approximately $13.5 million, or 22%, and $9.5 million, or 19%, of the Company s revenues for the fiscal years ended 2005 and 2004 and represented 7% of its assets at March 31, 2005. The Company estimates the gain on the sale of the secure network services business after taxes, fees and costs to be approximately $5.0 million. The recognition of the gain on the sale of the secure network services business is subject to certain contingencies, and as such, the gain will be deferred until the contingencies are resolved.

The Company expects that it will use approximately $9.0 million of the proceeds from the sale of the secure network services business to repay indebtedness and accrued interest and the remainder of the proceeds will be used for working capital purposes.

The unaudited pro forma financial information presented reflects the estimated pro forma effect of the sale of the secure network services business. The following unaudited pro forma condensed consolidated financial statements are included: (a) an unaudited pro forma condensed consolidated statements of operations for the years ended March 31, 2005, 2004 and 2003 giving effect to the sale of the secure network services business as if it occurred on April 1, 2004, 2003 and 2002, respectively; and (b) an unaudited pro forma condensed consolidated balance sheet at March 31, 31, 2005 and 2004, giving effect to the sale of the secure network services business as if it occurred at the beginning of each period.

The unaudited pro forma condensed consolidated financial statements include specific assumptions and adjustments related to the sale of the secure network services business. These pro forma adjustments have been made to illustrate the anticipated financial effect of the sale of the secure network services business. The adjustments are based upon available information and assumptions that the Company believes are reasonable as of the date of this filing. However, actual adjustments may differ materially from the information presented. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed consolidated financial statements. These pro forma condensed consolidated statements of operations do not include anticipated gain on the sale of the secure network services business of approximately $5.0 million. The recognition of the gain on the sale of the secure network services business is subject to certain contingencies, and as such, the gain will be deferred until the contingencies are resolved.

The unaudited pro forma financial statements are presented for informational purposes only and do not purport to be indicative of the financial position which would actually have been obtained if the transaction had occurred in the periods indicated below or which may exist or be obtained in the future. The information is not representative of future results of operations or financial position. The unaudited condensed pro forma financial information is qualified in its entirety by and should be read in conjunction with the more detailed information and financial data appearing in

the Company s historical consolidated financial statements and notes thereto included herein. In the opinion of management, all material adjustments necessary to reflect the disposition of the secure network services business by the Company have been made.

Proforma Statement of Operations (Unaudited)

(amounts in thousands, except share data)	For the year ended March 31, 2005		
	Actual	Adjustments	Proforma
Revenues	$ 62,006 (1)	$ (13,580)	$ 48,426
Operating loss	(1,541) (2)	(2,240)	(3,781)
Interest Expense	663 (3)	483	180
(Loss) income before income taxes	(2,204) (2)	(1,757)	(3,961)
Income tax (benefit) expense	(793) (4)	(632)	(1,425)
Net (loss) income	$ (1,411)	$ (1,125)	$ (2,536)
(Loss) earnings per share basic	$ (0.46)		$ (0.83)
(Loss) earnings per share- diluted	$ (0.46)		$ (0.83)

The proforma adjustment to the historical financial statements are:

(1) Reflects the elimination of in revenues attributable to the secure network services business as a result of its sale.
(2) Reflects the reduction of gross margin attributable to the secured networks services business as a result of the sale.
(3) Interest savings as a result of assumed reduction in notes payable of $9.0 million using sale proceeds

(4) Income tax effect of the foregoing adjustments

Proforma Statement of Operations (Unaudited)

(amounts in thousands, except share data)	For the year ended March 31, 2004		
	Actual	Adjustments	Proforma
Revenues	$ 49,537 (1)	$ (9,481)	$ 40,056
Operating loss	(1,541) (2)	(1,040)	14
Interest Expense	576 (3)	526	50
Income before income taxes	478 (2)	(514)	(36)
Income tax (benefit) expense	(3,750) (4)	(185)	(3,935)

Net income	$ 4,228	$ (329)	$ 3,899
Earnings per share basic	$ 1.60		$ 1.48
Earnings per share- diluted	$ 1.54		$ 1.40

The proforma adjustment to the historical financial statements are:

(1) Reflects the elimination of in revenues attributable to the secure network services business as a result of its sale.

(2) Reflects the reduction of gross margin attributable to the secured networks services business as a result of the sale.

(3) Interest savings as a result of assumed reduction in notes payable of $9.0 million using sale proceeds

(4) Income tax effect of the foregoing adjustments

Proforma Statement of Operations (Unaudited)

(amounts in thousands, except share data)	For the year ended March 31, 2003		
	Actual	Adjustments	Proforma
Revenues	$ 50,418 (1)	$ (11,444)	$ 38,974
Operating loss	1,337 (2)	(1,112)	225
Interest Expense	629 (3)	526	103
Income before income taxes	708 (2)	(586)	122
Income tax (benefit) expense	60 (4)	(211)	(151)
Net income	$ 648	$ (375)	$ 273
Earnings per share basic	$ 0.30		$ 0.13
Earnings per share- diluted	$ 0.30		$ 0.12

The proforma adjustment to the historical financial statements are:

(1) Reflects the elimination of in revenues attributable to the secure network services business as a result of its sale.
(2) Reflects the reduction of gross margin attributable to the secured networks services business as a result of the sale.
(3) Interest savings as a result of assumed reduction in notes payable of $9.0 million using sale proceeds

(4) Income tax effect of the foregoing adjustments

The unaudited consolidated pro-forma Balance Sheets at March 31, 2005 and 2004 give effect to the sale of the Company s secure network services business as if the transaction was completed at the beginning of each fiscal year. The results are presented for informational purposes and are not indicative of actual results.

Proforma-Balance Sheet (Unaudited)

	For the years ended							
	March 31, 2005				March 31, 2004			
	As reported		Adjustments	Proforma	As reported		Adjustments	Proforma
ASSETS								
CURRENT ASSSETS								
Cash	$ 1,264	(2)	$ 12,500	$ 4,420	$ 430	(2)	$ 12,500	$ 3,586
		(5)	(9,344)			(5)	(9,344)	
Trade accounts receivable, net	12,468	(1)	(1,949)	10,519	9,364	(1)	(1,949)	7,415
Inventory, net	5,600			5,600	5,845			5,845
Prepaid expenses and other current assets	487	(1)	(16)	471	599	(1)	(16)	583
Deferred tax asset	3,814	(3)	(3,039)	775	1,204	(3)	(1,204)	
TOTAL CURRENT ASSETS	23,633		(1,848)	21,735	17,442		(13)	17,429
PROPERTY AND EQUIPMENT, net	1,608	(1)	(64)	1,544	1,598	(1)	(64)	1,534
GOODWILL AND OTHER INTANGIBLE ASSETS (net)	7,438			7,438	4,606			4,606
OTHER ASSETS	141			141	149			149
DEFERRED TAX ASSET	930		632	1,526	2,696	(3)	(1,650)	1,046
TOTAL ASSETS	$ 33,750		$ (1,280)	$ 32,470	$ 26,491		$ (1,727)	$ 24,764
LIABILITIES AND STOCKHOLDERS EQUITY								
CURRENT LIABILITIES								
Accounts payable	$ 5,955	(1)	$ (500)	$ 5,455	$ 3,024	(1)	$ (500)	$ 2,524
Accrued expenses	4,776	(1)	(229)	8,115	3,699	(1)	(229)	5,795
		(3)	725			(3)	725	
		(4)	3,193			(4)	1,950	
		(5)	(350)			(5)	(350)	
Deferred maintenance revenues	3,776			3,776	2,543			2,543
Current portion of long-term debt	17			17	29			29
Notes payable	662	(5)	(494)	168	494	(5)	(494)	
TOTAL CURRENT LIABILITIES	15,186		2,345	17,531	9,789		1,102	10,891
LONG-TERM BANK DEBT	9,463	(5)	(6,100)	3,363	7,227	(5)	(6,100)	1,127

OTHER LONG-TERM DEBT	3			3	19			19
SUBORDINATED DEBT-AFFILIATE	2,400	(5)	(1,400)	1,000	2,400		(1,400)	1,000
DEFERRED INCOME	278			278	337			337
TOTAL LIABILITIES	27,330		(5,155)	22,175	19,772		(6,398)	13,374
STOCKHOLDERS EQUITY								
Common Stock	827			827	764			764
Additional paid in capital	9,011			9,011	7,962			7,962
(Accumulated deficit) retained earnings	(3,206)	(6)	5,000	669	(1,795)	(6)	5,000	2,876
		(7)	(1,125)			(7)	(329)	
Less treasury stock at cost	(212)			(212)	(212)			(212)
TOTAL STOCKHOLDERS EQUITY	6,420		3,875	10,295	6,719		4,671	11,719
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 33,750	$	(1,280)	$ 32,470	$ 26,491	$	(1,727)	$ 24,764

(1) Reflects the elimination of net assets sold in connection with the sale of the secure network services business.

(2) Reflects the cash proceeds received from the sale of $12.5 million and includes amounts held in escrow at closing of $3.0 million, which is reflected in the cash balance.

(3)

Records the provision for income taxes utilizing the net operating loss carryforward and estimated additional income taxes.

(4) Reflects estimated transaction costs, fees and expenses

(5) Reflects the approximate use of $9.0 of the proceeds to repay indebtedness

(6) Reflects the estimated gain on sale of secure network services business (after contingencies are resolved), net of taxes and transaction costs.

(7) Impact on earnings for the elimination of earnings for the secure network services business

Halifax Corporation
Schedule II, Valuation and Qualifying Accounts
March 31, 2005

	Balance at beginning of year	Additions	Deductions	Balance at end of Year
Year Ended March 31, 2003				
Allowance for doubtful Accounts	$ 290,000	$ 120,000	$ 140,000	$ 270,000
Allowance for inventory Obsolescence	$ 600,000	$ 165,000	$ 135,000	$ 630,000
Year Ended March 31, 2004				
Allowance for doubtful Accounts	$ 270,000	$ 84,000	$ 206,000	$ 148,000
Allowance for inventory Obsolescence	$ 630,000	$ 379,000	$ 57,000	$ 952,000
Year Ended March 31, 2005				
Allowance for doubtful Accounts	$ 148,000	$ 179,000	$ 29,000	$ 298,000
Allowance for inventory Obsolescence	$ 952,000	$ 1,044,000	$ 280,000	$ 1,716,000

PART IV

Item 15. Exhibits, Financial Statement Schedules

3. Exhibits

23.1 Independent Registered Public Accounting Firm Consent

23.2 Independent Registered Public Accounting Firm Consent

31.1 Certification of Charles L. McNew, Principal Executive Officer, of Halifax Corporation dated June 16, 2006.

31.2 Certification of Joseph Sciacca, Principal Financial Officer, of Halifax Corporation dated June 16, 2006.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to the Annual Report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

HALIFAX CORPORATION

/s/Charles L. McNew

Charles L. McNew
President and Chief Executive Officer — Date: June 16, 2006

/s/ Joseph Sciacca — Date: June 16, 2006

Joseph Sciacca
Vice President, Finance and
Chief Financial Officer