FONAR CORP
Form S-3
October 23, 2002

As filed with the Securities and Exchange Commission
On October 22, 2002
Registration No.

SECURITIES AND EXCHANGE COMMISSION

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

FONAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	3845	11-2464137
(State or other jurisdiction of incorporation or organization)	Primary Standard Industrial Classification Code Number	(I.R.S. Employer Identification No.)

110 Marcus Drive
Melville, New York 11747
(631) 694-2929

(Address, including zip code, and telephone number of registrant's principal executive offices)

Raymond V. Damadian, M.D.
FONAR CORPORATION
110 Marcus Drive
Melville, New York 11747
(631) 694-2929

(Name, address, including zip code, and telephone number, including area code, of agent for service) Please send copies of all communications to:

Henry T. Meyer, Esq.
FONAR Corporation
110 Marcus Drive
Melville, New York 11747
(631) 694-2929

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: [ ]

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock (1) Par value $0.0001 per share	2,000,000	$1.09	$2,180,000	$ 200.56

1) Pursuant to Rule 457, subsections (c) and (g): Specified date: October 21, 2002

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8 (a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said Section 8 (a), may determine.

PROSPECTUS

2,000,000 Shares

FONAR CORPORATION

Common Stock

This is a prospectus for the resale, from time to time, of up to 2,000,000 shares of our common stock which may be issued to the selling stockholders listed in this prospectus, or by the pledgees or donees of the selling stockholders or by other transferees who may receive the shares of common stock in transfers other than public sales. We will not receive any of the proceeds from the sale of these shares.

The selling stockholders may sell the shares in open market transactions from time to time at market prices through brokers, dealers or agents. See "PLAN OF DISTRIBUTION" at page 15 of this prospectus for a more detailed discussion of the manner in which the shares may be sold.

Our common stock is traded on the Nasdaq Small Cap Market under the symbol

"FONR." On October 21, 2002, the last reported sales price for our common stock was $1.09 per share.

Investing in our common stock involves a high degree of risk. You should consider carefully the risk factors described in this prospectus before making a decision to purchase our stock. See "RISK FACTORS" at page 7 of this prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Date of this Prospectus is October __, 2002.

You may rely only on the information contained in this prospectus. We have not authorized anyone to provide information or to make representations not contained in this prospectus. This prospectus is neither an offer to sell nor a solicitation of an offer to buy any securities other than those registered by this prospectus, nor is it an offer to sell or a solicitation of an offer to buy securities where an offer or solicitation would be unlawful. Neither the delivery of this prospectus, nor any sale made under this prospectus, means that the information contained in this prospectus is correct as of any time after the date of this prospectus.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission. Under this registration statement the selling stockholders may sell from time to time up to 2,000,000 shares of common stock issuable upon the exercise of our callable warrants.

Periodically, we expect to provide a prospectus supplement that will add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described below under the heading "Where You Can Find More Information."

The registration statement that contains this prospectus, including the exhibits to the registration statement and the information incorporated by reference, contains additional information about the common stock offered under this prospectus. The registration statement can be read at the Securities and Exchange Commission's web site or at the Securities and Exchange Commission offices mentioned below under the heading "Where You Can Find More Information."

ABOUT FONAR CORPORATION

At Fonar we design, manufacture and market magnetic resonance imaging (MRI) scanners. MRI scanners use magnetic fields to generate images of organs, bones and tissue inside the human body. The MRI scanner uses a magnetic field which causes the hydrogen atoms in tissue to align. When the magnetic force is withdrawn, the atoms fall out of alignment emitting radio signals as they do. The speed at which the atoms fall out of alignment, or "relaxation time" and radio signals vary depending on the type of tissue and whether any pathology is present. The radio signals provide the data from which the scanner's computers generate an image of the body part being scanned.

Our address is 110 Marcus Drive, Melville, New York 11747, our telephone number there is (631) 694-2929 and our Internet address is http://www.fonar.com.

Fonar offers the following MRI scanners: the Stand-Up(TM), also called Indomitable(TM) , QUAD(TM), Fonar-360(TM) and Echo(TM). The QUAD-S(TM) MRI, a work-in-progress, also has received FDA clearance to market.

The Stand-Up allows patients to be scanned while standing, sitting or reclining. This means that an abnormality or injury, such as a slipped disc, will be able to be scanned under full weight-bearing conditions, or, more often than not, in the position in which the patient experiences pain. An elevator built into the floor brings the patient to the desired height in the scanner. An adjustable bed allows the patients to stand, sit or lie on their backs, sides or stomachs, at any angle. In the future, the Stand-Up may also be useful for MRI directed surgical procedures.

The Fonar 360 is an enlarged room sized magnet in which the floor, ceiling and walls of the room are part of the magnet frame. Consequently, this scanner allows 360 degree access to the patient. The Fonar 360 is presently marketed as a diagnostic scanner and is sometimes referred to as the Open Sky MRI.

In the future, we may also further develop the Fonar 360 to function as an operating room. We sometimes refer to this contemplated version of the Fonar 360 as the OR-360.

The QUAD scanner is supported by four posts and is open on four sides, thereby allowing access to the scanning area from four sides.

The QUAD-S is a superconductive version of our open iron frame magnet.

Fonar also offers a low cost, low field open MRI scanner, the Echo.

In addition to manufacturing MRI scanning systems, we formed a subsidiary in 1997, Health Management Corporation of America, which we sometimes call HMCA, to engage in the business of managing MRI imaging facilities and medical practices. HMCA provides and supervises the non-medical personnel for the clients at their sites. At HMCA we also provide our clients centralized billing, collection, marketing, advertising, accounting and financial services. We also provide office equipment and furnishing, consumable supplies and in some cases the office space used by our clients. Almost all of HMCA's client professional corporations are owned by Fonar's founder, President and Chairman of the Board, Dr. Raymond V. Damadian.

HMCA currently manages 13 MRI facilities, seven physical therapy and rehabilitation practices and four primary care medical practices. For the 2002 fiscal year, the revenues HMCA recognized from the MRI facilities were $15,514,294, the revenues recognized from the physical therapy and rehabilitation practices were $11,493,680 and the revenues recognized from the primary care medical practices were $1,517,465.

HMCA's address is at 6 Corporate Center Drive, Melville, New York 11747, its telephone number there is (631) 694-2816 and its internet address is www.hmca.com.

Approximately 64% of our consolidated revenues for the fiscal year ended June 30, 2002 and 75% for the fiscal year ended June 30, 2001 were from HMCA's management services.

Approximately 99% of HMCA's revenues and 64% of our consolidated revenues for the fiscal year ended June 30, 2002 and 98% of HMCA's revenues and 75% of our consolidated revenues for the fiscal year ended June 30, 2001 were derived from professional corporations owned by Dr. Raymond V. Damadian.

ABOUT THIS OFFERING

The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of sales of the shares. They may sell them in the open market at market prices through brokers, dealers or agents, or in private transactions on negotiated terms. See "PLAN OF DISTRIBUTION" for a more detailed discussion of the ways in which the selling stockholders might sell their shares.

Our common stock is traded on the Nasdaq Small Cap Market.

NASDAQ Symbol..............FONR

RISK FACTORS

An investment in our stock is high risk. You should carefully consider the risk factors in this prospectus before deciding whether to purchase the shares offered. See "RISK FACTORS."

RISK FACTORS

An investment in Fonar is highly speculative and subject to a high degree of risk. Therefore, you should carefully consider the risks discussed below and other information contained in this prospectus before deciding to invest in shares of our common stock.

1. We have and continue to experience significant losses.

For the fiscal years ended June 30, 2002 and June 30, 2001, we experienced net losses of $22.9 million and $15.2 million respectively and net operating losses of $19.7 million and $16.2 million, respectively. We have been able to fund our losses to date from the $7,125,000 in funding received from The Tail Wind Fund Ltd. between May, 2001 and August, 2002 and the $128.7 million judgment, net $77.2 million after attorney's fees, received from General Electric Company in 1997 for patent infringement and the settlement proceeds from other patent litigation settlements with other competitors. The terms of these settlement agreements are required to be kept confidential. As of June 30, 2002, however, our balance sheet reflected approximately $7.5 million in cash and cash equivalents and $5.6 million in marketable securities out of total current assets of $41.5 million as compared to approximately $14.0 million in cash or cash equivalents and $6.1 million in marketable securities out of total current assets of $40.9 million as at June 30, 2001. We believe that we will be able to reverse our operating losses with the introduction into the marketplace of our new MRI scanners, particularly our Stand-Up(TM) MRI scanners. HMCA operating income has declined however from $2.5 million in fiscal 2000, to $1.0 million for fiscal 2001 and to an operating loss of $4.3 million for fiscal 2002. Of the HMCA and consolidated operating losses, $4.7 million was an impairment loss taken with respect to management agreements for the primary care medical practices as a result of losses recognized by that division of HMCA's business. Contributing to the net loss was an additional non-cash expense of $2.4 million in financing costs incurred in connection with the discounts received on the stock issued to The Tail Wind Fund. There can be no assurance, however, that we can reverse our operating losses.

2. Fonar is dependant on the success of its new products to become profitable.

Our ability to generate future operating profits will depend on our ability to market and sell our new lines of MRI products. The Stand-Up MRI, Fonar 360 and Echo scanners have all been recently introduced into the market. Although we are optimistic that these scanners' features will make them competitive, there can be no assurance as to the degree or timing of market acceptance of these products. Nevertheless, we received orders for 20 Stand-Up MRI scanners in fiscal 2002. Revenues from the sales of QUAD scanners, introduced in 1995, had not been sufficient to date to generate operating profits. The product we now are currently promoting most vigorously is the Stand-Up MRI. We believe the Stand-Up MRI is the most promising because it enables scans to be performed on patients in weight bearing positions, such as sitting, standing or lying at an angle. The market for the Stand-Up MRI, shows strong initial promise. The following chart shows the revenues attributable to each model during fiscal 2001 and fiscal 2002. Please note that we recognize the revenue on scanner sales on a percentage of completion basis. This means we book revenue not as cash is received or sales are made, but as the scanner is built. Consequently, the revenues for a fiscal period do not necessarily relate to the orders placed in that period.

Model	Revenues Recognized	
	2001	2002
Stand-Up	$ 1,625,615	$ 11,089,675
Fonar 360	0	0
QUAD	$ 3,043,308	0
Echo	$ 1,052,182	0
Beta (used)	0	361,000

3. We must compete in a highly competitive market against competitors with greater financial resources than we have.

The medical equipment industry is highly competitive and characterized by rapidly changing technology and extensive research and development. The market demand for a continuing supply of new and improved products requires that we be engaged continuously in research and development. New products also require continuous retooling or at least modifications to our manufacturing facilities, and our sales and marketing force must continuously adjust to new products and product features. This is highly expensive and companies with substantially greater financial resources than we have engage in the marketing of magnetic resonance imaging scanners which compete with the Company's scanners. Competitors include large, multinational companies or their affiliates such as General Electric Company, Siemens A.G., Marconi International, Philips N.V., Toshiba Corporation and Hitachi Corporation. There can be no assurance that Fonar's products will be able to successfully compete with products of its competitors.

4. The success of some of the businesses purchased by HMCA depends on the continued employment of the former owners of those businesses.

The businesses acquired by HMCA are essentially service organizations whose continued success depends on retaining and developing existing business relationships. These relationships are often heavily dependent on the personal efforts of key persons in the acquired company or medical practices managed by the acquired company. HMCA has retained certain of these key people through employment agreements which include both noncompetition covenants and financial incentives. Nevertheless, there can be no assurance that these key people will remain as employees or produce results sufficient to make the acquired companies profitable.

5. The decline in profitability of the primary care medical practices managed by HMCA resulted in an impairment loss of $4.7 million in fiscal 2002.

HMCA manages 13 MRI facilities, seven physical therapy and rehabilitation practices and four primary care medical practices. During 2002 fiscal year, the primary care medical practices, which are managed by the Company's subsidiary A&A Services, Inc. experienced a significant overall decline in patient volume and related operating cash flows which led to the inability of the medical practices to fully and timely pay management fees. The business of managing these practices had been acquired by HMCA in fiscal 1998. As a result of the continued negative trend, HMCA incurred an impairment loss of $4.7 million in fiscal 2002 related to those management agreements which reduced the carrying value of such agreements to approximately $3.5 million at June 30, 2002. We presently do not expect any further impairment, but there can be no assurance that we will be able to prevent further declines in the management fees received from the primary care medical practices.

6. HMCA'S profitability depends on its ability to successfully perform billing and collection services for its clients.

HMCA performs billing and collection services for the medical practices and MRI facilities it manages. The viability of HMCA's clients and their ability to remit management fees to HMCA depends on HMCA's ability to collect the clients' receivables. Collectibility of these receivables can be adversely affected by the longer payment cycles and rigorous informational requirements of some insurance companies or other third party payors. Proper authorizations, referrals and confirmation of coverage for patients, as well as issues of medical necessity, need to be addressed prior to the rendering of service to assure prompt payment of claims. HMCA believes it is properly addressing billing and collection requirements and issues for its clients and that its collection rates are good. Nevertheless, the regulations and requirements applicable to medical billing and collections could change in the future and result in reduced or delayed collections. Approximately 99% of the receivables billed and collected by HMCA are from professional corporations owned by Raymond V. Damadian.

7. Capitated insurance programs could adversely affect HMCA's clients by shifting a part of the financial responsibility for patient care to the medical providers.

Certain HMO's and insurers have instituted managed care programs where the physician or physician group is paid on a capitated basis. Under these plans, the physician is not paid according to the services provided, but is paid a fixed monthly fee per patient, which in HMCA's experience is based on age and gender. In fiscal 2002 and fiscal 2001, respectively, 2.5% and 2.2% of HMCA's clients' revenues were from capitated programs. All of these were attributable to primary medical care practices managed by A&A Services, Inc., representing 46% and 26% of their revenues in fiscal 2002 and fiscal 2001, respectively. Under capitated insurance programs, the physician or physician practice in effect bears some of the risk in the event a patient requires extensive treatment. In the event that HMCA's client primary care practices experience a shortfall between the capitated payments and the cost of providing services, the ability of those practices to pay for HMCA's services may be impaired.

8. The profitability of HMCA could be adversely affected if medical insurance reimbursement rates change.

HMCA receives substantially all of its revenue from medical practices and providers of MRI services. Consequently, HMCA would be indirectly affected by changes in medical insurance reimbursement policies, HMO policies, referral patterns, no-fault and workers compensation reimbursement levels and other factors affecting the profitability of a medical practice or MRI facility. The types of medical providers served by HMCA are (a) MRI facilities, (b) primary care practices and (c) physical therapy and rehabilitation practices. There are approximately 13 MRI facilities served by HMCA located in New York, Florida and Georgia. The primary care practices served by HMCA consist of four offices in New York and the physical therapy and rehabilitation practices consist of seven offices located in New York. Approximately 52% of HMCA's clients' revenues in fiscal 2002 as compared to approximately 56% of HMCA's clients' in fiscal 2001 were generated from the no-fault and personal injury protection claims. Although we do not know of any pending adverse development affecting these types of facilities, future changes in the reimbursement levels for MRI, primary care, workers compensation or no fault reimbursement, or changes in utilization policies for MRI or physical rehabilitation therapy could adversely affect the ability of HMCA's clients to pay HMCA's fees. In addition, HMCA depends on the ability of the medical practices and providers to attract and retain physicians and other professional staff.

9. The amortization of the management agreements on our balance sheet will reduce future profits.

HMCA acquired businesses which were essentially service businesses for purchase prices based on earnings multiples rather than net tangible assets. As the fair value of the tangible assets was small relative to the purchase price, the consolidated balance sheet of Fonar and its subsidiaries reflects an allocation of the purchase price in excess of the fair value of the tangible assets exclusively to management agreements, an intangible asset with a net carrying value of approximately $20.4 million at June 30, 2001 and $14.5 million as at June 30, 2002. The initial amount allocated to management agreements attributable to the acquisitions, was approximately $23.4 million. Prior to the write down of the value of the management agreements for the primary care medical practices of $4.7 million in fiscal 2002, amortization of management agreements, which is over a period of twenty (20) years, reduced net profits by approximately $1.2 million annually. This is a non-cash expense. It is expected that the amortization of management agreements after the write-down for the impairment loss will be $983,700 annually.

10. Professional liability claims against HMCA or its clients may exceed insurance coverage levels.

Although HMCA does not provide medical services, it is possible that a patient suing one of HMCA's client medical practices or MRI facilities would also sue HMCA. Neither HMCA nor its clients carry professional liability insurance but physicians working for HMCA's clients or for HMCA's subsidiaries are required to maintain professional liability insurance in the minimum amount of $1,000,000/$3,000,000. Such insurance would not cover HMCA or a client professional corporation, however, in the event a claim were made which was not covered by the physician's insurance. Claims in excess of insurance coverage might also have to be satisfied by HMCA or its clients if they were named as defendants.

11. We do not carry product liability insurance and would have to pay any claims from our revenues and capital resources.

Fonar does not carry product liability insurance but is self-insured. Consequently, Fonar would have to pay from its own resources any valid products liability claim. To date, Fonar has not had to pay any such claims.

12. We are dependent upon the services of Dr. Damadian.

Our success is greatly dependent upon the continued participation of Dr. Raymond V. Damadian, Fonar's founder, Chairman of the Board and President. Dr. Damadian has acted as our CEO since 1978 and will continue to do so for the foreseeable future. In addition to providing general supervision and direction, he provides active direction, supervision and management of our sales, marketing and research and development efforts. In connection with the physician and diagnostic management services business conducted by HMCA, Dr. Damadian owns most of the professional corporations which are HMCA clients. With the exception of four professional corporations which provided management fees to HMCA of approximately $422,500 in the aggregate for fiscal 2002, all of the professional corporations are owned by Dr. Damadian. Loss of the services of Dr. Damadian would have a material adverse effect on our business. We do not have an employment or noncompetition agreement with Dr. Damadian. We do not currently carry "key man" life insurance on Dr. Damadian.

13. Dr. Raymond V. Damadian has voting control of Fonar; the management cannot be changed or the company sold without his agreement.

Dr. Raymond V. Damadian, the President, Chairman of the Board and principal stockholder of Fonar is and will continue to be in control of Fonar and in a position to elect all of the directors of Fonar. As of September 19, 2002, there were outstanding 73,569,791 shares of common stock, having one vote per share, 4,211 shares of Class B common stock, having ten votes per share and 9,562,824 shares of Class C common stock, having 25 votes per share. Of these totals Dr. Damadian owned 2,488,274 shares of common stock and 9,561,174 shares of Class C common stock, giving him over 80% of the voting power of Fonar's voting stock. This means that the holders of the common stock will not be able to control decisions concerning any merger or sale of Fonar, the election of directors or the determination of business and management policy.

14. The provisions of our warrants provide for reductions in the exercise price if we issue common stock at prices below market or below the warrant exercise prices.

In addition to provisions providing for proportionate adjustments in the event of stock splits, stock dividends, reverse stock splits and similar events, the warrants provide for a reduction of the exercise price if Fonar issues shares of common stock at prices lower than the exercise price or lower than the then prevailing market price. The number of shares issuable under the warrants would change in this case in inverse proportion, but we would receive the same amount of proceeds if the warrants were subsequently exercised in full.

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus and the documents incorporated by reference that are considered forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 contains the safe harbor provisions that cover these forward-looking statements. We are including this statement for purposes of complying with these safe harbor provisions. We base these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions including, among other things:

- continued losses and cash flow deficits;

- the continued availability of financing in the amounts, at the times and on the terms required to support our future business;

- uncertain market acceptance of our products; and

- reliance on key personnel.

Words such as "expect," "anticipate," "intend," "plan," "believe," "estimate" and variations of such words and similar expressions are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events discussed or incorporated by reference in this document may not occur.

USE OF PROCEEDS

We will not receive any proceeds from the sale by the selling stockholders of the common stock they receive upon the exercise of the warrants. If the warrants are exercised, however, we will receive the exercise price of the underlying shares purchased. We can not, however, guarantee the amount of the proceeds we may receive from the exercise of warrants.

We intend to use the net proceeds, if any, from the exercise of warrants for general corporate purposes, including working capital to fund operating losses, expenses and capital expenditures. As of the date of this prospectus, we cannot specify with certainty the particular uses for any net proceeds we may receive upon the exercise of the warrants. Accordingly, our management will have broad discretion in the application of any net proceeds received. Pending such uses, we intend to invest the net proceeds, if any, from the exercise of the warrants in short-term, interest-bearing, investment grade securities.

SELLING STOCKHOLDERS

Pursuant to a securities purchase agreement dated May 24, 2001 between us and The Tail Wind Fund Ltd. stockholders, we issued and sold, for an aggregate purchase price of $4.5 million:

4% convertible debentures due June 30, 2002 in the aggregate principal amount of $4.5 million, convertible into shares of our common stock at a conversion price of $2.047 per share, subject to adjustment;

purchase warrants to purchase an aggregate of 959,501 (includes 300,000 issuable to the placement agent) shares of our common stock at an initial exercise price of $1.801 per share, subject to adjustment; and

callable warrants to purchase an aggregate of 2,000,000 shares of our common stock at a fluctuating exercise price which will vary depending on the market price for our common stock

In connection with the issuance of the debentures, purchase warrants and callable purchase warrants to The Tail Wind Fund Ltd. we paid a placement fee to Roan Meyers, Inc. in the amount of $157,500. The 300,000 purchase warrants to have been issued to Roan Meyers, Inc. will be issued to designees of Roan Meyers, Inc. instead.

The debentures were convertible at the option of the holder at a price of $2.047 per share. The Tail Wind Fund Ltd did not elect to convert, but we still had the right to pay the debentures in shares of our common stock and did so. The stock was valued, in accordance with the terms of the debentures, at the lesser of a) 90% of the average of the four lowest closing bid prices during the preceding month or b) the average of the four lowest closing bid prices during the preceding calendar month less $0.125. We issued a aggregate amount of 4,931,576 shares to pay the debentures (with interest of $132,022) in full.

The purchase warrants cover 959,501 shares of common stock and have an exercise price of $1.801 per share, subject to adjustment. The exercise period extends to May 24, 2006. If all of the purchase warrants are exercised at such price, we would receive proceeds in the approximate amount of $1.7 million. The Tail Wind Fund Ltd. has not exercised any of the purchase warrants. All of the purchase warrants are still outstanding.

The original callable warrants covered 2,000,000 shares of common stock and had a variable exercise price. Subject to a maximum price of $6.00 per share and a minimum price of $2.00 per share, which was subject to adjustment pursuant to the terms of the warrants, the exercise price was to be calculated to be equal to the average closing bid price of Fonar's common stock for the full calendar month preceding the date of exercise. The exercise period extended to May 24, 2004.

In order to induce The Tail Wind Fund Ltd. to exercise the callable warrants we agreed to lower the exercise price to $1.50 per share for the period from June 24, 2002 through July 31, 2002. At the same time we agreed not to exercise our right to redeem any callable warrants during the months of July, 2002 and August, 2002. Prior to June 30, 2002, The Tail Wind Fund Ltd. then exercised callable warrants for 1,000,000 shares of common stock for an aggregate exercise price of $1,500,000. On August 16, 2002 we agreed to a further reduction of the exercise price to $1.125 per share for the period ended on August 22, 2002. The Tail Wind Fund Ltd. then exercised on the same day the remaining callable warrants for a total of 1,000,000 shares at an aggregate exercise price of $1,125,000.

As part of the agreement under which we reduced the exercise price of the original callable warrants, we have now issued to The Tail Wind Fund Ltd. replacement callable warrants for 2,000,000 shares of our common stock on the same terms as the original callable warrants. Since the exercise price varies, the amount of proceeds, if any, which we may receive cannot be predicted. At the minimum exercise price of $2.00 per share we would receive proceeds of $4 million. At the maximum exercise price of $6.00 per share we would receive proceeds of $12 million. The replacement callable warrants will be exercisable until August 30, 2005.

We do have the option, however, of redeeming up to 200,000 callable warrants per month at a price of $0.01 per underlying warrant share, if the average closing bid price of Fonar's common stock is greater than 115% of the warrant price in effect for five consecutive trading days in any calendar month. We also have the option of reducing the exercise price under the callable warrants to any lower exercise price that was previously in effect.

No proceeds can be expected to be received from the exercise of the warrants unless the market price of our common stock is higher than the applicable exercise prices since otherwise the holders are unlikely to exercise.

The warrants provide for proportionate adjustments in the event of stock splits, stock dividends and reverse stock splits. In addition, the exercise prices will be reduced, with certain specified exceptions, if we issue shares at lower prices then the warrant exercise prices, or less than market price for our common stock.

The shares now being registered are the shares underlying the new replacement callable warrants. The shares underlying the outstanding purchase warrants were previously registered.

The table below presents information regarding the selling stockholders and the shares that they may offer and sell from time to time under this prospectus. The table assumes that the selling stockholders sell all of the shares they receive upon the exercise of the warrants. However, no assurances can be given as to the actual number of shares that will be sold by the selling stockholders or that will be held by the selling stockholders after completion of the sales. Information concerning the selling stockholders may change from time to time and any changed information will be presented in a supplement to this prospectus if and when necessary and required.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission that deem shares to be beneficially owned by any person who has voting or investment power with respect to the shares. Common stock issuable upon conversion of the debentures or exercise of warrants that are currently convertible, exercisable or exercisable within 60 days are considered to be outstanding and to be beneficially owned by the person holding the debentures and warrants for the purpose of computing beneficiary ownership. Assuming that the selling stockholders sell all of the shares offered under this prospectus, the selling stockholders will beneficially own less than one percent of our outstanding shares of common stock after the completion of this offering.

Selling Stockholders	Shares Beneficially Owned Prior to Offering	Shares Offered By This Prospectus	Shares Beneficially Owned After Offering
The Tail Wind Fund, Ltd. or assigns (1)	3,832,461	2,000,000	1,832,461

(1) Includes 1,172,960 shares of common stock held by The Tail Wind Fund Ltd. as at August 31, 2002 and 2,659,501 shares of common stock issuable upon the exercise of the purchase warrants and replacement callable warrants.

Neither the selling stockholders nor any of their affiliates, officers, directors or principal equity holders has held any position or office or has had any material relationship with us within the past three years.

PLAN OF DISTRIBUTION

We will not receive any of the proceeds of the sales of these shares.

WHO MAY SELL AND APPLICABLE RESTRICTIONS. Shares may be offered and sold directly by the selling stockholders and those persons' pledgees, donees, transferees or other successors in interest from time to time. The selling stockholders could transfer, devise or gift shares by other means. The selling stockholders may also resell all or a portion of their shares in open market transactions in reliance upon available exemptions under the Securities Act, such as Rule 144, provided they meet the requirements of these exemptions.

Alternatively, the selling stockholders may from time to time offer shares through brokers, dealers or agents. Brokers, dealers, agents or underwriters participating in transactions may receive compensation in the form of discounts, concessions or commissions from the selling stockholders (and, if they act as agent for the purchaser of the shares, from that purchaser). The discounts, concessions or commissions might be in excess of those customary in the type of transaction involved.

The selling stockholders will purchase their shares in the ordinary course of business upon the exercise of warrants. The selling stockholders do not have any agreements or understandings, directly or indirectly, with any person to distribute the securities.

Nevertheless, the selling stockholders and any brokers, dealers or agents who participate in the distribution of the shares may be deemed to be underwriters, and any profits on the sale of shares by them and any discounts, commissions or concessions received by any broker, dealer or agent might be deemed to be underwriting discounts and commissions under the Securities Act. To the extent a selling stockholder may be deemed to be an underwriter, the selling stockholder may be subject to statutory liabilities, including, but not limited to, Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Securities Exchange Act. These provisions of the securities laws provide, in general terms, for liability for fraud, untrue statements contained in a prospectus or otherwise made in connection with the sale of securities, and the failure to disclose significant information which is necessary to prevent information disclosed from being misleading.

To comply with certain states' securities laws, if applicable, the shares will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless the shares have been registered or qualified for sale in that state or an exemption from registration or qualification is available and is complied with.

MANNER OF SALES. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. The shares may be sold at then prevailing market prices, at prices related to prevailing market prices, at fixed prices or at other negotiated prices. The shares may be sold according to one or more of the following methods.

o A block trade in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction.

o Purchases by a broker or dealer as principal and resale by the broker or dealer for its account as allowed under this prospectus.

o Ordinary brokerage transactions and transactions in which the broker solicits purchasers.

o Pledges of shares to a broker-dealer or other person, who may, in the event of default, purchase or sell the pledged shares.

o An exchange distribution under the rules of the exchange.

o In private transactions between sellers and purchasers without a broker-dealer.

o By writing options.

o Any combination of the foregoing, or any other available means allowable under law.

HEDGING OR SHORT TRANSACTIONS. In addition, the selling stockholders may enter into option, derivative, hedging or short transactions with respect to the shares, and any related offers or sales of shares may be made under this prospectus. For example, the selling stockholders may:

o enter into transactions involving short sales of the shares by broker-dealers in the course of hedging the positions they assume with the selling stockholders;

o sell shares short itself and deliver the shares registered hereby to settle such short sales or to close out stock loans incurred in connection with its short positions;

- write call options, put options or other derivative instruments (including exchange-traded options or privately negotiated options) with respect to the shares, or which it settles through delivery of the shares;

- enter into option transactions or other types of transactions that require the selling stockholder to deliver shares to a broker, dealer or other financial institution, who may then resell or transfer the shares under this prospectus; or

- loan the shares to a broker, dealer or other financial institution, who may sell the loaned shares.

These option, derivative, hedging and short transactions may require the delivery to a broker, dealer or other financial institution of shares offered under this prospectus, and that broker, dealer or other financial institution may resell those shares under this prospectus.

EXPENSES ASSOCIATED WITH REGISTRATION. We have agreed to pay the expenses of registering the shares under the Securities Act, including registration and filing fees, printing expenses, administrative expenses, legal fees and accounting fees. If the shares are sold through underwriters or broker-dealers, the selling stockholders will be responsible for underwriting discounts, underwriting commissions and agent commissions.

INDEMNIFICATION AND CONTRIBUTION. In the registration rights agreement that we entered into with the selling stockholders, we and the selling stockholders agreed to indemnify or provide contribution to each other and specified other persons against some liabilities in connection with the offering of the shares, including liabilities arising under the Securities Act. The selling stockholders may also agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the shares against some liabilities, including liabilities arising under the Securities Act.

SUSPENSION OF THIS OFFERING. We may suspend the use of this prospectus if we learn of any event that causes this prospectus to include an untrue statement of material fact or omit to state a material fact required to be stated in the prospectus or necessary to make the statements in the prospectus not misleading in light of the circumstances then existing. If this type of event occurs, a prospectus supplement or post-effective amendment, if required, will be distributed to the selling stockholder. Any material changes in this plan of distribution will be reflected in a post-effective amendment.

Computershare Trust Company, Inc., formerly called American Securities Transfer & Trust, Inc., located at 350 Indiana Street, Suite 800, Golden, Colorado, 80401 is the transfer agent and registrar for our common stock.

LEGAL MATTERS

Certain legal matters with respect to the validity of the shares being offered by the prospectus will be passed upon by Henry T. Meyer, Esq., 110 Marcus Drive, Melville, New York 11747. Mr. Meyer is Fonar's General Counsel.

Experts

The consolidated financial statements and supplemental financial schedules contained in Fonar's latest annual report on Form 10-K, incorporated by reference into this prospectus, have been audited by Marcum & Kliegman, LLP, to the extent set forth in their report. Such consolidated financial statements and schedules were included therein in reliance upon their reports, given on their authority as experts in accounting and auditing.

INDEMNIFICATION

The Delaware General Corporation Law and Fonar's by-laws provide for the indemnification of an officer or director under certain circumstances against reasonable expenses incurred in connection with the defense of any action brought against him by reason of his being a director or officer. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or other persons under Fonar's by-laws or the Delaware General Corporation Law, Fonar has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the Securities and Exchange Commission. Our Securities and Exchange Commission filings are also available over the Internet at the Securities and Exchange Commission's web site at http://www.sec.gov. You may also read and copy any document we file at the Securities and Exchange Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for more information on the public reference rooms. Our Commission File No. is 0-10248.

INCORPORATION OF INFORMATION WE FILE WITH THE SEC

The Securities and Exchange Commission allows us to "incorporate by reference" the information we file with them, which means:

- incorporated documents are considered part of this prospectus;

- we can disclose important information to you by referring you to those documents; and

- information that we file with the Securities and Exchange Commission will automatically update and supersede this prospectus.

We are incorporating by reference the documents listed below which were filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934:

- Annual Report on Form 10-K for the year ended June 30, 2002, which was filed on October 7, 2002;

We also incorporate by reference each of the following documents that we will file with the Securities and Exchange Commission after the date of this prospectus but before the end of the offering:

- Reports filed under Sections 13(a) and (c) of the Securities Exchange Act of 1934;

- Definitive proxy or information statements filed under Section 14 of the Securities Exchange Act of 1934 in connection with any subsequent stockholders' meeting; and

- Any reports filed under Section 15(d) of the Securities Exchange Act of 1934.

You may request a copy of these filings, at no cost, by contacting us at the following address or phone number:

Fonar Corporation
110 Marcus Drive

Melville, New York 11747
Attention: Investor Relations

PArt II
Information Not Required in prospectus

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the Registrant in connection with the sale of the common stock being registered. All amounts are estimates except the registration fee.

	AMOUNT TO BE PAID
SEC Registration Fee	$ 200.56
Printing	1,000.00
Legal Fees and Expenses	1,000.00
Accounting Fees and Expenses	5,000.00
Blue Sky Fees and Expenses	5,000.00
Transfer Agent and Registrar Fees	5,000.00
Miscellaneous	1,000.00
Total	$ 18,200.56

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 102(b)(7) of the General Corporation Law of the State of Delaware (the "Delaware Law") grants corporations the right to limit or eliminate the personal liability of their directors in certain circumstances in accordance with provisions therein set forth. Our Certificate of Incorporation contains a provision eliminating director liability to us and our stockholders for monetary damages for breach of fiduciary duty as a director. The provision does not, however, eliminate or limit the personal liability of a director: (i) for any breach of such director's duty of loyalty to us or our stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under the Delaware statutory provision making directors personally liable, for improper payment of dividends or improper stock purchases or redemptions; or (iv) for any transaction from which the director derived an improper personal benefit. This provision offers persons who serve on our Board of Directors protection against awards of monetary damages resulting from breaches of their duty of care (except as indicated above). As a result of this provision, our ability or a stockholder's ability to successfully prosecute an action against a director for a breach of his duty of care is limited. However, the provision does not affect the availability of equitable remedies such as an injunction or rescission based upon a director's breach of his duty of care. The SEC has taken the position that the provision will have no effect on claims arising under federal securities laws.

Section 145 of the Delaware Law grants corporations the right to indemnify their directors, officers, employees and agents in accordance with the provisions therein set forth. Our By-laws provide that the corporation shall, subject to limited exceptions, indemnify its directors and executive officers to the fullest extent not prohibited by the Delaware Law. Our By-laws provide further that the corporation shall have the power to indemnify its other officers, employees and her agents as set forth in the Delaware Law. Such indemnification rights permit reimbursement for expenses incurred by such director, executive officer, other officer, employee or agent in advance of the final disposition of such proceeding in accordance with the applicable provisions of the Delaware Law.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of us pursuant to these provisions, or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

Item 16. Exhibits and Financial Statement Schedules

Exhibits

4.1 * Specimen Common Stock Certificate incorporated herein by reference to Exhibit 4.1 to the Registrant's registration statement on Form S-1, Commission File No. 33-13365.

4.2 * Article Fourth of the Certificate of Incorporation, as amended, of the Registrant incorporated by reference to Exhibit 4.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-62099.

4.3 * Section A of Article FOURTH of the Certificate of Incorporation, as amended, of the Registrant incorporated by reference to Exhibit 4.3 to the Registrant's registration statement on Form S-3, Commission File No. 333-63782.

4.4 * Form of 4% Convertible Debentures due June 30, 2002 incorporated herein by reference to Exhibit 4.1 of the Registrant's current report on Form 8-K filed on June 11, 2001. Commission File No. 0-10248.

4.5 * Form of Purchase Warrants incorporated herein by reference to Exhibit 4.2 of the Registrant's current report on Form 8-K filed on June 11, 2001. Commission File No. 0-10248.

4.6 * Form of Callable Warrants incorporated herein by reference to Exhibit 4.3 of the Registrant's current reports on Form 8-K filed on June 11, 2001. Commission File No. 0-10248.

4.7 Form of Replacement Callable Warrants. See Exhibits.

5 Opinion of Counsel re: Legality. See Exhibits.

10.1* License Agreement between Fonar and Raymond V. Damadian incorporated herein by reference to Exhibit 10 (e) to Form 10-K for the fiscal year ended June 30, 1983, Commission File No. 0-10248

10.2* 1993 Incentive Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-60154.

10.3* 1997 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 333-27411.

10.4* 1997 Stock Bonus Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No. 333-27411

10.5* 2000 Stock Bonus Plan incorporated herein by reference to Exhibit

99.1 to the Registrant's registration statement on Form S-8, Commission File No. 333- 66760.

10.6* 2002 Stock Bonus Plan incorporated herein by reference to Exhibit 99.1 to the Registrant's registration statement on Form S-8, Commission File No. 333-89578.

10.7* 2002 Incentive Stock Option Plan incorporated herein by reference to Exhibit 99.1 to the Registrant's registration statement on Form S-8, Commission File No. 333-96557.

10.8* Stock Purchase Agreement, dated July 31, 1997 by and between U.S. Health Management Corporation , Raymond V. Damadian, M.D. MR Scanning Centers Management Company and Raymond V. Damadian, incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K, July 31, 1997, Commission File No: 0-10248.

10.9* Merger Agreement and Supplemental Agreement dated June 17, 1997 and Letter of Amendment dated June 27, 1997 by and among U.S. Health Management Corporation and Affordable Diagnostics Inc. et al., incorporated herein by reference to Exhibit 2.1 to the Registrant's 8-K, June 30, 1997, Commission File No: 0-10248.

10.10* Stock Purchase Agreement dated March 20, 1998 by and among Health Management Corporation of America, Fonar Corporation, Giovanni Marciano, Glenn Muraca et al., incorporated herein by reference to Exhibit 2.1 to the Registrant's 8-K, March 20, 1998, Commission File No: 0-10248.

10.11* Stock Purchase Agreement dated August 20, 1998 by and among Health Management Corporation of America, Fonar Corporation, Stuart Blumberg and Steven Jonas, incorporated herein by reference to Exhibit 2 to the Registrant's 8-K, September 3, 1998, Commission File No. 0-10248.

10.12* Purchase Agreement dated May 24, 2001 by and between Fonar and The Tail Wind Fund Ltd. incorporated herein by reference to Exhibit 10.1 to the Registrant's current report on Form 8-K filed June 11, 2001. Commission File No. 0-10248.

10.13* Registration Rights Agreement dated May 24, 2001 by and among Fonar, The Tail Wind Fund Ltd. and Roan Meyers, Inc. incorporated herein by reference to Exhibit 10.2 to the Registrant's current report on Form 8-K filed June 11, 2001. Commission File No. 0-10248.

10.14* Callable Purchase Warrant.

23.1 Consent of Marcum & Kliegman LLP, Certified Public Accountants. (See Exhibits).

23.2 (Consent of Counsel is included in Exhibit 5).

* Exhibits incorporated by reference.

Financial Statement Schedules

None

Item 17. Undertakings

The undersigned registrant hereby undertakes:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement. (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(b) That for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for the purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13 (a) or section 15 (d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, on October 22, 2002.

Dated: October 22, 2002

FONAR CORPORATION

By: /s/ Raymond V. Damadian
Raymond V. Damadian,
President, Acting Chief Financial Officer
and Acting Principal Accounting Officer
Signing in his capacities as Principal
Executive Officer, Principal Financial
Officer and Principal Accounting Officer

Pursuant to the requirements of the Securities Act of 1933, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Raymond V. Damadian ------------------------ Raymond V. Damadian	Chairman of the Board of Directors, President and a Director (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)	October 22, 2002
/s/ Claudette J.V. Chan ------------------------ Claudette J.V. Chan	Director	October 22, 2002
/s/ Robert J. Janoff -------------------- Robert J. Janoff	Director	October 22, 2002
/s/ Charles N. O'Data ---------------------- Charles N. O'Data	Director	October 22, 2002
/s/ Robert Djerejian Robert Djerejian	Director	October 22, 2002

Net used in investing activities
(81) (376)

Cash flows from financing activities:

Proceeds from bank borrowing	25,606	32,030
Payment of bank debt	(28,067)	(32,974)
Payment of auxiliary line of credit	(60)	(75)
Payment of other long-term debt	(220)	(23)
Net cash used in financing activities	(2,741)	(1,042)
Net increase in cash	614	161
Cash at beginning of period	232	1,078
Cash at end of period	$846	$1,239
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$196	$520
Cash paid for income taxes	$4	$6
Purchase of equipment under capitalized lease	$162	$

See accompanying Notes to Condensed Consolidated Financial Statements.

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Halifax Corporation of Virginia
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

Halifax Corporation of Virginia (the Company) is incorporated under the laws of Virginia and provides enterprise maintenance services and solutions for commercial and government activities. These services include high availability maintenance solutions and technology deployment and integration. The Company is headquartered in Alexandria, Virginia and has locations to support its operations located throughout the United States.

The accompanying financial statements present the Company s financial position, results of operations, and cash flows on a consolidated basis. The unaudited 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.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with the accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting. Certain information and footnote disclosures normally included in the annual financial statements have been omitted pursuant to those rules and regulations.

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all necessary adjustments and reclassifications (all of which are of a normal, recurring nature) that are necessary for fair presentation for the periods presented. The Accounting Policies followed by the Company with respect to unaudited interim financial statements are consistent with those stated in the Company s annual report on Form 10-K. The accompanying March 31, 2008 financial statements were derived from the Company s audited financial statements. The results for the three and nine months ended December 31, 2008, are not necessarily indicative of the results to be expected for the full fiscal year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company s annual report on Form 10-K for the year ended March 31, 2008 filed with the Securities and Exchange Commission.

Management s Plans

The Company is subject to all of the risks inherent in a company that operates in the intensely competitive enterprise maintenance services and solutions industry. These risks include, but are not limited to, competitive conditions, customer requirements, technological developments, quality, pricing, responsiveness and the ability to perform within estimated time and expense guidelines. The Company s operating results may be materially affected by the foregoing factors.

The Company is continuing to focus on its core high availability logistics and maintenance services business while at the same time evaluating its future strategic direction. Management must also continue to emphasize operating efficiencies through cost containment strategies, reengineering efforts and improved service delivery techniques. The Company s cost containment strategies included reductions in its workforce, consolidating and reducing its leased facilities, company-wide salary and wage reduction and reductions of other operating expenses in order to align expenses as a result of losses in revenue. During the three and nine months ended December 31, 2008, the Company benefited from the cost actions undertaken during the last part of fiscal year 2008. The Company has also began marketing its enterprise logistic service offering and began to migrate away from contracts where there is a high degree of exposure to inventory obsolescence.

The industry in which the Company operates continues to experience unfavorable economic conditions and competitive challenges. The Company continues to experience significant price competition and customer demand for higher service attainment levels. In addition, there is significant price competition in the market for state and local government contracts as a result of budget issues, political pressure and other factors beyond the Company s control.

Fair Value Measurements

On April 1 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements , which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various other accounting pronouncements. The adoption of SFAS No. 157 did not have a material effect on the Company s financial condition or operating results.

On April 1, 2008, the Company also adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 . SFAS No. 159 allows companies to choose to measure eligible financial instruments and certain other items at fair value that are not required to be measured at fair value. SFAS No. 159 requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each reporting date. The Company adopted SFAS No. 159 but has not elected the fair value option for any eligible financial instruments as of December 31, 2008.

Note 2 Accounts Receivable

Trade accounts receivable consist of:

(Amounts in thousands)	December 31, 2008	March 31, 2008
Amounts billed	$ 5,378	$ 10,283
Amounts unbilled	255	73
Allowance for doubtful accounts	(244)	(150)
Accounts receivable, net	$ 5,389	$ 10,206

Note 3 Inventory

Inventory consists principally of spare parts, computers and computer peripherals, hardware and software. Inventory is recorded net of an allowance for obsolescence of $957,000 at December 31, 2008 and $1.2 million at March 31, 2008.

Note 4 Goodwill and Other Intangible Assets

Under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS 142), goodwill is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying amount of the asset might be impaired. The goodwill impairment test is a two-step process which requires the Company to make judgmental assumptions regarding fair value. Testing is required between annual tests if events occur or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. Such an event may occur if, for an extended period of time, the market value of the Company s common stock were less than the carrying value of the Company.

Management also reviews the Company s financial position quarterly for other triggering events as described in SFAS No. 142. Should actual results not meet expectations or assumptions change in future years, the impairment assessment could result in a lower fair value estimate which could result in an impairment charge that may materially affect the carrying value of the Company s assets and results from operations.

Impairment is assessed at the reporting unit level by applying a fair value-based test. A reporting unit is defined as the same as or one level below the operating segment level as described in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company has one reporting unit, in the test and measurement business, because none of the components of the Company constitute a business for which discrete financial information is available and for which Company management regularly reviews the results of operations.

The first step is to identify if an impairment of goodwill has occurred by comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill test is performed to measure the amount of the impairment loss, if any. In this second step, the implied fair value (as defined in SFAS 142) of the reporting unit s goodwill is compared with the carrying amount of the goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill.

The Company completed the annual impairment test required under SFAS 142 as of December 31, 2008 and determined that the fair value of the reporting unit exceed its carrying amount, including goodwill. As the Company consists of only one reporting unit, and is publicly traded, management estimates of the fair value was prepared by weighting three different valuation methods: the discounted cash flow method, the mergers and acquisition method and an indication to value based on the quoted market price of the Company s stock. The Company heavily weighted the discounted cash flow method and the mergers and acquisition method in determining the fair value of the reporting unit. Due to the lack of an active trading market for the Company s stock, the Company s quoted market price was not considered as strong an indication of value of the reporting unit.

If the Company s revenues and cost forecasts are not achieved, the Company fails to have continued profitability and market acceptance, or the market conditions in the stock market cause the valuation to decline, the Company may incur charges for impairment of goodwill. A significant impairment could result in additional charges and have a material adverse impact on the consolidated financial condition and operating results.

Note 5 Accounts Payable

Accounts payable represents amounts owed to third parties at the end of the period. The Company included drafts outstanding in accounts payable of approximately $515,000 and $659,000 at December 31, 2008 and March 31, 2008, respectively.

Note 6 Tax Matters

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 has concluded that, in its judgment, the deferred tax asset should remain fully reserved at December 31, 2008.

The Company adopted FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes , as of April 1, 2007. This standard modifies the previous guidance provided by FASB Statement No. 5 (FAS 5), "Accounting for Contingencies and FASB No. 109 (FAS 109), "Accounting for Income Taxes for uncertainties related to the Company s income tax liabilities . The Company has analyzed its income tax posture using the criteria required by FIN 48 and concluded that there is a $20,000 cumulative effect inclusive of penalty and interest allocable to equity or derecognition of deferred tax assets as a result of adopting this standard. The adjustment was due to potential exposure arising from increases in state income taxes in higher tax rate states from lower tax rate states as a result of differing methodologies that may be applied for apportionment.

There was no increase recorded through December 31, 2008 related to material changes to the measurement of unrecognized tax benefits in various taxing jurisdictions. The Company is maintaining its historical method of not accruing interest (net of related tax benefits) and penalties associated with unrecognized income tax benefits as a component of income tax expense. Interest expense and penalty expense related to income taxes, if any, are included in interest expense and general and administrative expenses, respectively, in the consolidated statements of operations. For the three and nine months ended December 31, 2008, the Company has not recorded any material interest or penalty expense related to income taxes. The total amount of unrecognized tax benefits as of December 31, 2008, if recognized, would have a $20,000 effect on income tax expense and would impact the effective tax rate.

The tax return years from 1999 forward in the Company s major tax jurisdictions are not settled as of December 31, 2008; no changes in settled tax years have occurred through December 31, 2008. Due to the existence of tax attribute carryforwards (which are currently offset by a full valuation allowance), the Company treats certain post-1999 tax positions as unsettled due to the taxing authorities ability to modify these attributes.

The Company estimates that it is reasonably possible that no reduction in unrecognized tax benefits may occur in the next twelve months due primarily to the expiration of the statute of limitations in various state and local jurisdictions. The Company does not currently estimate any additional material reasonably possible uncertain tax positions occurring within the next twelve-month time frame.

Note 7 Debt Obligations

On July 1, 2008, the Company entered into a Loan and Security Agreement, referred to as the Loan Agreement, with Textron Financial Corporation. The Loan Agreement replaced the Fourth Amended and Restated Loan and Security Agreement dated as of June 29, 2007 (as amended by the First Amendment and Waiver dated November 13, 2007, the Second Amendment and Waiver dated January 31, 2008 and the Third Amendment and Waiver dated April 30, 2008) with Provident Bank, which terminated on June 30, 2008, referred to as the Old Credit Facility. Generally, under the revolving credit facility of the Loan Agreement, the Company may borrow an amount equal to the lesser of (a) $4,000,000 or (b) the sum of (i) up to the eligible accounts advance rate of the aggregate amount of eligible accounts and (ii) up to the eligible pre-billed accounts rate of the aggregate amount of eligible pre-billed accounts in an amount not to exceed the eligible pre-billed accounts sublimit. As of December 31, 2008 the Company had approximately $2.0 million available under its credit facility.

For more information on the Company s Loan Agreement see, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Subordinated Debt Affiliates

The Arch C. Scurlock Children s Trust (the Children s Trust) and Nancy M. Scurlock each own 392,211 shares of the Company s common stock or 25% in the aggregate of the Company s outstanding common stock. The Arch C. Scurlock Children s Trust and Nancy M. Scurlock are affiliates of the Company (Affiliates). Both are greater than 10% shareholders of the Company s outstanding common stock. Arch C. Scurlock, Jr., a beneficiary and trustee of the Children s Trust, and John H. Grover, a trustee of the Children s Trust, are the Company s directors. The holders of the 8% promissory notes are the Children s Trust and Nancy M. Scurlock. The Company s 8% promissory notes are subordinated to the Loan Agreement described above.

The Company s 8% promissory notes maturity date was extended to July 1, 2009. As of December 31, 2008, the aggregate principal balance of the 8% promissory notes was $1.0 million.

The Company s Loan Agreement requires the lender s approval for the payment of dividends or distributions as well as the payment of principal or interest on the Company s outstanding subordinated debt, which is held by the Affiliates. Interest expense on the subordinated debt owned by the Affiliates is accrued on a current basis.

The balance of accrued but unpaid interest due on the 8% promissory notes to the Affiliates was approximately $282,000 at December 31, 2008.

Note 8 Stock Based Compensation and Earnings per Share

During the quarter ended December 31, 2008, there were no grants of stock options to purchase shares of common stock under the Company s 2005 Stock Option and Incentive Plan. There were no terminations/expirations of options during the three months ended December 31, 2008 and 1,600 terminations/expirations of options and no exercises of options to purchase shares of the Company s common stock during the nine month period ended December 31, 2008.

The following table summarizes the information for options outstanding and exercisable under the Company s 2005 Stock Option and Incentive Plan at December 31, 2008.

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
$ .66	12,000	9.69 years	$ .66		$
3.40	27,800	6.69 years	3.40	27,800	3.40
3.00	61,400	7.55 years	3.00	24,800	3.00
	101,200		$ 2.83	52,600	$ 3.21

The following table summarizes the information for options outstanding and exercisable under the Company s 1994 Key Employee Stock Option Plan and Non-Employee Directors Stock Option Plan at December 31, 2008. For the three months ended December 31, 2008 there were 500 terminations of options and no exercises of options and for the nine months then ended, there were terminations/expirations of 12,310 options and no exercises of options to purchase shares of the Company s common stock. No grants may be made under the 1994 Key Employee Stock Option Plan or Non-Employee Directors Stock Option Plan.

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
$5.50-7.56	72,000	1.03 years	$ 6.14	72,000	$ 6.14
5.38-7.06	64,000	1.49 years	5.81	64,000	5.81
1.80-4.05	70,000	2.92 years	3.51	70,000	3.51
3.10-5.00	45,667	3.93 years	3.51	45,667	3.51
4.11	13,000	4.55 years	4.57	13,000	4.57
4.45-5.02	76,690	5.60 years	4.11	76,690	4.11
	341,357		$ 4.76	341,357	$ 4.76

The intrinsic value of stock options outstanding at December 31, 2008 was $0.

As of December 31, 2008, there was $52,500 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be fully amortized in five years.

For the nine months ended December 31, 2008 and 2007, the Company recorded share based compensation expense of approximately $21,000 and $19,000, respectively.

Earnings (loss) per common share- The computation of basic earnings (loss) 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.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
(Amounts in thousands except share data.)	2008	2007	2008	2007
Numerator for earning per share:				
Net income (loss)	$ 232	$ (1,835)	$ 662	$ (1,498)
Denominator:				
Denominator for basic earnings per share weighted-average shares	3,175,206	3,175,206	3,175,206	3,175,206
Effect of dilutive securities:				
Employee stock options			960	
Denominator for diluted earnings per share weighted number of shares Outstanding	3,175,206	3,175,206	3,176,166	3,175,206
Basic (loss) earnings per common share	$ .07	$ (.58)	$ .21	$ (.47)
Diluted (loss) earnings per common share	$ .07	$ (.58)	$ .21	$ (.47)

Note 9 Recent accounting pronouncements

During the first quarter of fiscal 2009, the Company adopted SFAS No. 157, Fair Value Measurements, which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157. FSP 157-2 delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) and will be adopted by the Company beginning in the first quarter of fiscal 2010. Although the Company will continue to evaluate the application of FSP 157-2, management does not currently believe adoption will have a material impact on the Company s financial condition or operating results.

In December 2007, FASB issued SFAS No. 141 (revised 2007), Business Combinations, which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree in a business combination. SFAS No. 141R also establishes principles around how goodwill acquired in a business combination or a gain from a bargain purchase should be recognized and measured, as well as provides guidelines on the disclosure requirements on the nature and financial impact of the business combination. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008 and will be adopted by the Company beginning in the first quarter of fiscal 2010. Management does not currently believe adoption will have a material impact on the Company s financial condition or operating results.

Note 10 Commitments and Contingencies

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.

On May 15, 2008, the NYSE Alternext (Alternext), formerly the American Stock Exchange granted us an extension until September 14, 2009 to regain compliance with the continued listing standards. As previously disclosed we had received notice from the Alternext staff indicating that the Company was below certain of the Exchange s continuing listing standards (losses in three out of four of its most recent fiscal years with shareholders equity below $4 Million) of the Alternext Company Guide. We were afforded the opportunity to submit a plan of compliance to the Exchange and on April 14, 2008, presented its plan to Alternext. On May 15, 2008, Alternext notified the Company that it had accepted the Company s plan of compliance and granted the Company an extension until September 14, 2009 to regain compliance with the continued listing standards. We will be subject to periodic review by the Exchange Staff during the extension period. Failure to make progress consistent with the plan or failure to regain compliance with the continued listing standards by the end of the extension period could result in us being delisted from the NYSE Alternext.

During the three months ended December 31, 2008, we retained an advisor to assist us in our plan to regain compliance with the continued listing standards of the American Stock exchange. We are committed to pay $100,000 in fees for advisory services. As of December 31, 2008 we paid $80,000 of these advisory fees.

During the three months ended December 31, 2008, we entered into non-cancelable leases with unrelated third parties for software and related maintenance, and hardware. The total fair market value of this software was approximately $87,000 with a lease term of four years. The total fair market value of the hardware was approximately $75,000 with a lease term of three years. These leases were classified as capital lease obligations.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements in this document constitute forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. While forward-looking statements sometimes are presented with numerical specificity, they are based on various assumptions made by management regarding future circumstances over many of which Halifax Corporation of Virginia (Halifax, we, our or us) have little or no control. Forward-looking statement may be identified by words including anticipate, believe, estimate, expect and similar expressions. We caution read that forward-looking statements, including without limitation, those relating to future business prospects, revenues, working capital, liquidity, and income, are subject to certain risks and uncertainties that would cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include the concentration of our revenues, risks involved in contracting with our customers, including the difficulty to accurately estimate costs when bidding on a contract and the occurrence of start-up costs prior to receiving revenues and contracts with fixed priced provisions, potential conflicts of interest, difficulties we may have in attracting and retaining management, professional and administrative staff, fluctuation in quarterly results, our ability to generate new business, our ability to maintain an effective system of internal controls, risks related to acquisitions and our acquisition strategy, favorable banking relationships, the availability of capital to finance operations, ability to obtain a new credit facility on terms favorable to us, and ability to make payments on outstanding indebtedness, weakened economic conditions, reduced end-user purchases relative to expectations, pricing pressures, excess and obsolete inventory, acts of terrorism, energy prices, risks related to competition and our ability to continue to perform efficiently on contracts, and other risks and factors identified from time to time in the reports we file with the Securities and Exchange Commission (SEC). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected.

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, we undertake no obligation to correct or update a forward-looking statement should we later become aware that it is not likely to be achieved. If we were to update or correct a forward-looking statement, investors and others should not conclude that we will make additional updates or corrections thereafter.

Overview

Halifax delivers enterprise logistics and supply chain solutions from front-office customer interaction to back-office reverse logistics. We deliver comprehensive, fully integrated services including end-to-end customer support and fulfillment, critical inventory optimization and management, web-based customized reporting, onsite repair services, as well as depot repair and warranty management. We also provide nationwide high availability, multi-vendor, enterprise maintenance service provider for enterprises, including businesses, global service providers, governmental agencies and other organizations. We have undertaken significant changes to our business in recent years.

We offer a growing list of services to businesses, global service providers, governmental agencies, and other organizations. Our services are customized to meet each customer s needs providing 7x24x365 service, personnel with required security clearances for certain governmental programs, project management services, depot repair and roll out services. We believe the flexible services we offer to our customers enable us to tailor a solution to obtain maximum efficiencies within their budgeting constraints.

When we are awarded a contract to provide services, we may incur expenses before we receive any contract payments. This may result in a cash short fall that may impact our working capital and financing. This may also cause fluctuations in operating results as start-up costs are expensed as incurred.

Our goal is to maintain profitable operations, expand our customer base of clients through our existing global service provider partners, seek new global service provider partners and enhance the technology we utilize to deliver cost-effective services to our growing customer base. We must also effectively manage expenses in relation to revenues by directing new business development towards markets that complement or improve our existing service lines. We must continue to emphasize operating efficiencies through cost containment strategies, re-engineering efforts and improved service delivery techniques, particularly within costs of services, selling, marketing and general and administrative expenses.

Management s Plans

We are continuing to focus on our core high availability logistics and maintenance services business while at the same time evaluating our future strategic direction. Management must also continue to emphasize operating efficiencies through cost containment strategies, reengineering efforts and improved service delivery techniques. Our cost containment strategies included reductions in force, consolidating and reducing our leased facilities, company-wide salary and wage reduction and reductions of other operating expenses in order to align expenses as a result of losses in revenue. During the three and months nine ended December 31, 2008, we benefited from the cost actions undertaken during the last part of fiscal year 2008. We also began marketing our enterprise logistic service offering and began to migrate away from contracts where there is a high degree of exposure to inventory obsolescence.

The industry in which we operate continues to experience unfavorable economic conditions and competitive challenges. We continue to experience significant price competition and customer demand for higher service attainment levels. In addition, there is significant price competition in the market for state and local government contracts as a result of budget issues, political pressure and other factors beyond our control.

Results of Operations

The following discussion and analysis provides information management believes is relevant to an assessment and understanding of our consolidated results of operations for the three and nine months ended December 31, 2008 and 2007, respectively, and should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto.

(amounts in thousands, except share data)	Three months ended December 31,				Nine months ended December 31,			
Results of Operations	2008	2007	Change	%	2008	2007	Change	%
Revenues	$ 8,120	$ 10,494	(2,374)	-22.6	$ 26,043	$ 34,880	(8,837)	-25.3
Operating costs and expenses	6,826	10,195	3,369	333.0	21,835	31,545	9,710	30.8
Percent of revenues	84%	97%			84%	90%		
Gross margin	1,294	299	995	332.8%	4,208	3,335	873	26.1%
Percent of revenues	16%	3%			16%	10%		
Selling and marketing	183	211	28	13.3	587	681	94	14%
Percent of revenues	2%	2%			2%	2%		
General & administrative	793	903	110	12.2	2,639	2,747	108	3.9
Percent of revenues	10%	9%			10%	8%		
Provision for loss on settlement of litigation		410	410	N/M		410	410	N/M
Transaction costs		458	458	N/M		458	458	N/M
Operating (loss) income	318	(1,683)	2,001	629%	982	(961)	1,943	197%
Percent of revenues	4%	(16%)			4%	(3%)		
Other income	(1)	(8)	(7)	-88	(2)	(27)	(25)	-92%
Interest expense	80	155	75	49%	256	534	278	52%
Income (loss) before income tax	239	(1,830)	2,069	865%	728	(1,468)	2,196	301%
Income tax expense	7	5	(2)	-40%	66	30	(36)	120%
Net income (loss)	$ 232	$ (1,835)	$ 2,067	891%	$ 662	$ (1,498)	$ 2,160	326%
Earnings per share basic:	$ .07	$ (.58)			$ .21	$ (.47)		

Earnings per share diluted:	$ .07	$ (.58)	$ .21	$ (.47)
Weighted average number of common shares outstanding				
Basic	3,175,206	3,175,206	3,175,206	3,175,206
Diluted	3,175,206	3,175,206	3,176,166	3,175,206

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Revenues

Revenues are generated from the sale of enterprise logistic services, high availability enterprise maintenance services and technology deployment (consisting of professional services, seat management and deployment services, and product sales). Services revenues include monthly recurring fixed unit-price contracts as well as time-and-material contracts. Amounts billed in advance of the services period are recorded as unearned revenues and recognized when earned. The revenues and related expenses associated with product held for resale are recognized when the products are delivered and accepted by the customer.

The composition of revenues for:

	Three months ended December 31,				Nine months ended December 31,			
(in thousands)	2008	2007	Change	%	2008	2007	Change	%
Services	$ 7,922	$ 9,907	$ (1,985)	-20.0%	$ 25,150	$ 33,011	$ (7,861)	-23.8%
Product held for resale	198	587	(389)	-66.2%	893	1,869	(976)	-52.2
Total Revenue	$ 8,120	$ 10,494	$ (2,374)	-22.6%	$ 26,043	$ 34,880	$ (8,837)	-25.3%

Revenues from services for the three months ended December 31, 2008 decreased 20%, or $2.0 million, to $7.9 million from $9.9 million. For the nine months ended December 31, 2008 revenues from services decreased $7.9 million, or 24% from $33.0 million to $25.1 million. The decrease in services revenues was attributable to the termination of certain large nation-wide enterprise maintenance contracts, including the loss of a large aeronautic manufacturing customer, partially offset by new higher margin business.

For the three months ended December 31, 2008, product held for resale decreased $389,000, or 66%, from $587,000 to $198,000. For the nine months ended December 31, 2008 product held for resale decreased 52% or $1,869,000 to $893,000. The decrease was attributable to several large one-time orders last year which did not reoccur during the three and nine months ended December 31, 2008. We continue to de-emphasize product sales and intend to focus on our recurring services revenue model. As a result, we do not expect to see any material increases in product sales in future periods.

Revenues for the three months ended December 31, 2008 decreased 23%, or $2.4 million, to $8.1 million from $10.5 million. Revenues for the nine months ended December 31, 2008 decreased $8.8 million or 25% from $34.8 million compared to $26.0 for 2008. The decrease in revenues was the result of the termination of several contracts and the de-emphasis on product sales, partially offset by new higher margin business.

Operating costs and expenses

Included within operating costs and expenses are direct costs, including fringe benefits, product and part costs, and other costs.

A large part of our service costs are support costs and expenses that include direct labor and infrastructure costs to support our service offerings. We continue to aggressively pursue cost containment strategies and augment our service delivery process with automation tools.

On long-term fixed unit-price contracts, part costs vary depending upon the call volume received from customers during the period. Many of these costs are volume driven and as volumes increase, these costs as a percentage of revenues increase, negatively impacting profit margins.

The variable components of costs associated with fixed price contracts are part costs, overtime, subcontracted labor, mileage reimbursed, and freight. Parts costs are highly variable and dependent on several factors, based on the types of equipment serviced, equipment age and usage, and environment. On long-term fixed unit-price contracts, parts and peripherals are consumed on service calls.

For installation services and seat management services, product may consist of hardware, software, cabling and other materials that are components of the service performed. Product held for resale consists of hardware and software.

Operating costs and expenses were comprised of the following components:

(in thousands)	Three months ended December 31, 2008	2007	Change	%	Nine months ended December 31, 2008	2007	Change	%
Services	$ 6,644	$ 9,680	$ 3,036	31.3%	$ 21,021	$ 29,846	$ 8,825	29.5%
Product held for resale	182	515	333	64.6%	814	1,699	885	52.0%
Total Operating costs and expenses	$ 6,826	$ 10,195	$ 3,369	39.1%	$ 21,835	$ 31,545	$ 9,710	30.8%

Total operating costs and expenses for the three months ended December 31, 2008 decreased $3.3 million, to $6.8 million, or 39%, from $10.1 million for the same period in 2007. Total operating costs and expenses for the nine months ended December 31, 2008 decreased $9.7 million, or 31% from $31.5 million to $21.8 million. The reduction in costs was related to the corresponding reduction in revenue, as well as cost containment efforts, and a shift away from contracts with a high degree of inventory risk. In addition, due to several contract losses last year, we incurred a $1.0 million charge for obsolete inventory for the three and nine months ended December 31, 2007.

We continue to expand the use of automation tools introduced earlier in the year, which we believe, in conjunction with our on-going cost containment efforts, will reduce our cost to deliver services to our customers. We believe these tools will enable us to enter new markets which will positively affect our gross margins going forward.

Costs for product held for resale have decreased $333,000, from $515,000 for the three months ended December 31, 2007 to $182,000. For the nine months ended December 31, 2008 product held for resale decreased 52%, or $885,000 to $814,000. The decrease in costs for products held for resale was commensurate with the reductions in revenue.

Gross Margin

For the three months ended December 31, 2008, our gross margins increased 332%, or $995,000, from $299,000 for the period ended December 31, 2008 to $1.3 million. For the nine months ended December 31, 2008 gross margin increased approximately $900,000 or 26% from $3.3 million to $4.2 million. As a percentage of revenue, gross margins improve to 16% for the three and nine months ended December 31, 2008 compared to 3% and 10% for the respective periods last year. As discussed above the improvement in gross margins was attributable to a shift in our business model away from high concentrations in part costs and its associated inventory obsolescence risk, the introduction of our enterprise solution offering, cost containment strategies, and a onetime charge to increase the inventory obsolescence during last fiscal that did not reoccur this year.

Selling and Marketing Expense

Selling and marketing expense consists primarily of salaries, commissions, travel costs and related expenses.

Selling and marketing expense was $183,000 for the three months ended December 31, 2008 compared to $211,000 for the three months ended December 31, 2007, a decrease of $28,000, or 13%. For the nine months ended December 31, 2008 selling and marketing decreased $94,000 from $681,000 to $587,000, a decrease of 14%. The decrease in selling and marketing expense was the result of reduced personnel costs and lower commission expense.

General and Administrative Expense

Our general and administrative expenses consist primarily of non-allocated overhead costs. These costs include executive salaries, accounting, contract administration, professional services such as legal and audit, business insurance, occupancy and other costs.

For the three months ended December 31, 2008, general and administrative expenses decreased $110,000 to $793,000 compared to $903,000, a decrease of 12% for the same period last year. For the nine months ended December 31, 2008, general and administrative expenses decreased approximately $100,000 to $2.6 million compared to $2.7 million for the nine months ended December 31, 2007. For the three months and nine months ended December 31, 2008, the decrease in general and administrative expense when compared to last year was attributable to decreases in professional fees related to compliance with Sarbanes-Oxley and SEC reporting last year and reductions in occupancy costs offset by increased bank fees associated with obtaining new financing and higher depreciation expense related to the automation tools discussed above when compared to the same period last year. Various factors such as changes in the markets due to economic conditions, employee costs and benefits, and costs associated with complying with existing Securities and Exchange Commission regulations related to SOX and American Stock Exchange requirements may increase general and administrative expenses and have a negative impact on our earnings in future periods.

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards 123(R) (SFAS 123(R)), *Share-Based Payments*. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and recognized as expense over the vesting period. Determining the fair value of the share-based awards at the grant date requires judgment, including estimated volatility, dividend yield, expected term and estimated forfeitures of the options granted and are included in general and administrative expense. For each of the three months ended December 31, 2008 and 2007, we reported compensation expense of approximately $8,000 and $7,500 and $21,000 and $19,000 of expense for the nine months ended December 31, 2008 and 2007, respectively.

Litigation Expense

In order to avoid the ongoing cost of litigation, on February 4, 2008, we settled the outstanding lawsuit with Indus. As a result of recognizing the gain on the sale of our Secure Network Services division during the fiscal year ended March 31, 2007, we incurred a charge for $410,000, resulting in a charge to operations during the three and nine months ended December 31, 2007.

Transaction costs

In early 2007, we indentified a potential acquisition opportunity and coupled with an equity investment which would have increased our size to better enable us to compete in the enterprise maintenance market. Due to changes in market and valuation issues, we determined not to pursue this target in December 2007. As a result, we recorded a charge to operations of $458,000 for transaction related costs.

Interest Expense

Interest expense for the three months ended December 31, 2008 was $80,000 compared to $115,000 for the same period in 2007. Interest for the nine months ended December 31, 2008 decreased $278,000 from $534,000 to $256,000 compared to the nine months ended December 31, 2007. The primary reason for the decrease in interest expense during the three and nine months ended December 31, 2008 was the result of decreases in the amount of borrowings during the current period when compared to the same periods last year.

Income Tax Expense

For the three months ended December 31, 2008, we recorded income tax expense of $7,000 compared to $5,000 for the same period in 2007. For the nine months ended December 31, 2008, $66,000 was recorded compared to $30,000 the nine months ended December 31, 2007. Our income tax expense consists primarily of state taxes. The Company has a net operating loss carry forward of approximately $5.6 million which expires from 2019 through 2027.

Net income (loss)

For the three months ended December 31, 2008, the net income was $232,000 compared to a net loss of $1.8million for the comparable period in 2007. For the nine months ended December 31, 2008, net income was $662,000 compared to a net loss of 1.5 million for the nine month period ended December 31, 2007, an increase of $2.1million. As discussed above, the improvement in our operating results, were the result of reduced operating costs related to cost containment strategies affording us higher margins, and non- recurring charges last year for inventory obsolescence, transaction costs and litigation.

Liquidity and Capital Resources

As of December 31, 2008, we had approximately $846,000 of cash on hand. Sources of our cash for the three and nine months ended December 31, 2008 have been from operations and our revolving credit facility.

We anticipate that our primary sources of liquidity will be cash generated from operating income and cash available under our new loan agreement with Textron Financial Corporation (see below).

Cash generated from operations may be affected by a number of factors. See Item 1A. and Risk Factors in our Form 10-K for the year ended March 31, 2008.

On July 1, 2008, we entered into a new Loan Agreement with Textron Financial Corporation. The Loan Agreement replaced the Old Credit Facility which terminated on June 30, 2008.

The Loan Agreement has a term of three years (this three year term is referred to as the initial term) and will automatically renew after the completion of the initial term for additional one year terms unless terminated by the lender or us. We may terminate the Loan Agreement by giving written notice of termination to the Lender at least 90 days prior to the end of the relevant term. The Lender may terminate the Loan Agreement at the expiration of the initial term or any renewal term by giving written notice of termination at least 60 days prior to the effective date of the termination and at any time during the existence of an event of default. We may terminate the Loan Agreement early upon payment in full of the principal amount outstanding and any other obligations we owe to the Lender provided that we pay an early termination fee of 2% of the credit limit if we terminate the Loan Agreement within the first year of the Loan Agreement (if termination is caused by a change in control, the percentage will be reduced to 1%) and such termination fee is reduced to 1% of the credit limit if terminated after the first year of the Loan Agreement. The lender is also entitled to the early termination fee upon an occurrence of an event of default relating to our becoming insolvent or bankrupt, even if the lender does not exercise its right of termination.

Under the revolving credit facility of the Loan Agreement, we may borrow an amount equal to the lesser of (a) $4,000,000 or (b) the sum of (i) up to the eligible accounts advance rate of the aggregate amount of eligible accounts and (ii) up to the eligible pre-billed accounts rate of the aggregate amount of eligible pre-billed accounts in an amount not to exceed the eligible pre-billed accounts sublimit. The lender may establish reserves against the amount we may borrow as it determines in its sole discretion are necessary to reflect events, conditions, contingencies or risks which may affect the collateral securing the revolving credit facility or our financial condition. The lender may also reduce the eligible accounts advance rate to a lesser amount the lender determine in its sole credit discretion if our borrower s dilution at any time exceeds the maximum dilution percentage. The eligible accounts advance rate, eligible pre-billed accounts, eligible pre-billed accounts sublimit, eligible accounts, collateral, dilution and maximum dilution are defined in the Loan Agreement. Advances under the Loan Agreement are collateralized by a first priority security interest on all of our personal property as set forth in the Loan Agreement. Each of Halifax Engineering, Inc., Halifax Realty, Inc. and Halifax Alphanational Acquisition, Inc. are guarantors under the Loan Agreement. Additionally, Charles McNew, the Company s President and Chief Executive Officer and Joseph Sciacca, the Company s Vice President, Finance and Chief Financial Officer, have limited personal guarantees under the Loan Agreement. As of December 31, 2008, our outstanding balance under the loan agreement was $1.9 million and we had availability approximately $2.0million.

Interest accrues on the outstanding balance at a variable rate, adjusted daily, equal to prime plus 2.75%. The prime rate generally means the greater of (a) 5% or (b) the prime commercial rate of interest per annum as announced from time to time on-line by the Wall Street Journal. All interest accrued on the outstanding principal balance will be calculated on the basis of a year of 360 days and the actual number of days elapsed in each month. Upon an event of default, the interest rate on the unpaid balance will immediately be increased by 3%. We must pay accrued interest monthly, in arrears. Accrued interest and fees will be added to the unpaid principal amount on the day such amounts are due, unless the lender elects to invoice us for such amounts. At December 31, 2008, the interest rate was 7.75%.

We are required to pay to the lender a monthly servicing fee of $2,500. We are also required to pay a credit facility fee in the amount of 1.0% of the credit limit, which was due on the effective date of the Loan Agreement and 0.5% on each anniversary of the effective date of the Loan Agreement. We will also be required to pay a field examination fee for each fee examination performed by the lender.

We must pay to the lender all cash receipts received by us. Following credit for collected funds, the lender has 3 business days as float days for which it may not apply such funds against the principal outstanding. The lender is entitled to charge us for the float days at the interest rate on all collections received. We must maintain a lock-box for collection of accounts at a bank designated by the lender. The lender may charge our accounts or advance funds under the revolving credit facility to make any payments of principal, interest, fees, costs or expenses required to be made by us under the Loan Agreement.

Events of default, include, but are not limited to: (i) our failure to make a payment on any obligation of borrowed money or other indebtedness or observe a convent which results in the payment of such obligation to be due before its stated maturity, (ii) the lender determining that an adverse change has occurred in our financial condition or business prospects or the prospect for payment or performance of any covenant, agreement or obligation under the Loan Agreement is impaired, (iii) bankruptcy, reorganization or insolvency proceedings are instituted by or against us, (iv) a settlement, judgment or order for the payment of money by us in excess of $100,000, (v) any loss, theft, damage or destruction of any item or items of collateral or our other property which materially and adversely affects the property, business, operations, prospects, or condition of us, (vi) an over advance arises which was not approved by lender, and (vii) we move any collateral to, or stores or maintains any collateral at, any location other than as stated in the Loan Agreement.

The Loan Agreement provides that upon the occurrence of an event of default, the lender may, without notice, (i) discontinue making any further advances under the revolving credit facility, (ii) terminate the Loan Agreement, (iii)declare all our obligations under the Loan Agreement, including principal amount outstanding and accrued interest, to be immediately due and payable, (iv) take possession of all or any portion of the collateral, (v) use, without charge, any of our patents, copyrights, trade names, trade secrets, trademarks, advertising materials or any license therefore or any property of a similar nature, in advertising for sale and selling any of the collateral, (vi) renew, modify or extend any account, grant waivers or indulgences with respect to any account, accept partial payments on any account, release, surrender or substitute any security for payment of any account or compromise with, or release, any person liable on any account in such a manner as lender may, in its sole discretion deem advisable, all without affecting or diminishing our obligations; and (vii) obtain the appointment of a receiver, trustee, or similar official over us to effect all of the transactions contemplated by the Loan Agreement or as is otherwise necessary to perform the Loan Agreement. Additionally, the Loan Agreement provides that upon the occurrence of an event of default, the lender may, with notice, sell or otherwise dispose of all or any portion of the collateral at public or private sale for cash or credit.

The Loan Agreement contains representations, warranties and covenants that are customary in connection with a transaction of this type. The Loan Agreement contains certain covenants including, but not limited to: (i) notifying the lender of any amounts due and owing in excess of $50,000 that are in dispute by any account debtor on an eligible account or eligible pre-billed account, (ii) the immediate payment of any excess amount above the credit limit plus accrued interest and other charges owed with respect to such excess amount, (iii) in the event accounts arise out of government contracts, we will assign to the lender all amounts due under government contracts, (iv) we may not make a change in management, enter into any merger or consolidation, or liquidate, wind up or dissolve , or convey, lease, sell, transfer or otherwise dispose of any substantial portion of our business or property or acquire all or substantially all of the assets or business of any other company, person or entity, (v) without lender s prior written consent, we may not encumber the collateral in favor of any person other than lender, other than (a) the permitted prior encumbrances on equipment; or (b) liens permitted under the terms of any intercreditor agreements, (vi) without lender s prior written consent, we may not sell, consign, lease, license or remove from our business locations any of our assets except that, so long as no event of default has occurred, we may sell inventory in the ordinary course of our business (any sale or exchange of inventory in satisfaction of our indebtedness will not be a sale of inventory in the ordinary course of business) and may sell or dispose of obsolete assets which we have determined, in good faith, not to be useful in the conduct of our business and which, in any fiscal year, do not have an aggregate fair market value in excess of the $100,000, (vii) we may not make any loan or contribute money, goods or services to any person, or borrow money or incur any indebtedness from any person, or guaranty or agree to become liable for any obligation of, any person, other than: (a) loans to our employees for reimbursable expenses incurred by such employees in the normal course of our business; (b) extensions of credit in the ordinary course of business to our customers; (c) purchase money indebtedness incurred solely for the purchase of equipment; and (d) indebtedness identified in the Loan Agreement, (viii) we may not make capital expenditures of any kind or nature, including leases of property which are required to be capitalized on our balance sheet, in an aggregate amount in excess of the $250,000 in any fiscal year, (ix) we may not declare or pay any dividend upon, make any distribution with respect to, or purchase, redeem or otherwise acquire any of our capital stock or increase, whether by election, promotion or otherwise, the aggregate salaries and other compensation paid to our officers by more than 10% in any fiscal year, (x) we may not cause, permit, or suffer, directly or indirectly a change in control (as defined in the Loan Agreement), (xi) we may not enter into or be a party to certain agreements and transactions with an interested party (as defined in the Loan Agreement) or borrower affiliate (as defined in the Loan Agreement), and (xii) we may not make any payment with respect to indebtedness that is subordinate to our obligations under the Loan Agreement except as specifically provided for in an intercreditor agreement. The Loan Agreement also contains certain financial covenants which we are required to maintain including, but not limited to, maintaining an adjusted tangible net worth that is not less than $0 and not permit our accounts receivable turnover days to exceed 75 days.

We were in compliance with the covenants of our Loan Agreement at December 31, 2008. There can be no assurances we will be able to comply with the covenants or other terms contained in the Loan Agreement. We may not be successful in obtaining a waiver of non-compliance with these financial covenants. If we are unable to comply with the covenants or other terms of the Loan Agreement, absent a waiver, we will be in default of the Loan Agreement and the lender can take any of the actions discussed above.

Our revenues will continue to be impacted by the loss of customers due to price competition and technological advances. Our future financial performance could be negatively affected by unforeseen factors and unplanned expenses. See Item 1A. and Risk Factors in our Form 10-K for the year ended March 31, 2008.

In furtherance of our business strategy, transactions we may enter into could increase or decrease our liquidity at any point in time. If we were to obtain a significant contract or make contract modifications, we may be required to expend our cash or incur debt, which will decrease our liquidity. Conversely, if we dispose of assets, we may receive proceeds from such sales which could increase our liquidity. From time to time, we may entertain discussions concerning acquisitions and dispositions which, if consummated, could impact our liquidity, perhaps significantly.

We expect to continue to require funds to meet remaining interest and principal payment obligations, capital expenditures and other non-operating expenses. Our future capital requirements will depend on many factors, including revenue growth, expansion of our service offerings and business strategy.

At December 31, 2008 we had working capital of $437,000 and at March 31, 2008, we had a deficit in working capital of $510,000, respectively. The current ratio was 1.05 at December 31, 2008 compared to .96 at March 31, 2008. Capital expenditures for the nine months ended December 31, 2008 were $81,000 as compared to $353,000 for the same period in 2007. We anticipate fiscal year 2009 technology requirements to result in capital expenditures totaling approximately $250,000. We continue to sublease a portion of our headquarters building which reduces our rent expense by approximately $400,000 annually.

Our subordinated debt agreements with Nancy Scurlock and the Arch C. Scurlock Children s Trust, which are referred to as affiliates, totaled $1.0 million at December 31, 2008. Pursuant to a subordination agreement between Textron Financial Corporation and the subordinated debt holders, principal repayment and interest payable on the subordinated debt agreements may not be paid without the consent of Textron Financial Corporation. On December 31, 2008, each of the affiliates referred to above, held $500,000 face amounts of our 8% promissory notes, with an aggregate outstanding principal balance of $1.0 million. Interest payable to the affiliates was approximately $282,000 at December 31, 2008. The 8% promissory notes mature on July 1, 2009.

If any act of default occurs, the principal and interest due under the 8% promissory notes issued under the subordinated debt agreement will be due and payable immediately without any action on behalf of the note holders and if not cured, could trigger cross default provisions under our loan agreement with Textron Financial Corporation

If we do not make a payment of any installment of interest or principal when it becomes due and payable, we are in default. If we breach or default in the performance of any covenants contained in the notes and continuance of such breach or default for a period of 30 days after the notice to us by the note holders or breach or default in any of the terms of borrowings by us constituting superior indebtedness, unless waived in writing by the holder of such superior indebtedness within the period provided in such indebtedness not to exceed 30 days, we would be in default on the 8% promissory notes.

Off Balance Sheet Arrangements

In conjunction with a government contract, we act as a conduit in a financing transaction on behalf of a third party. We routinely transfer receivables to a third party in connection with equipment sold 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 us for the receivables by the transferee is equal to our carrying value and therefore there is no gain or loss recognized. The end user remits its monthly payments directly to an escrow account held by a third party from which payments are made to the transferee and us, for various services provided to the end users. We provide limited monthly servicing whereby we invoice the end user on behalf of the transferee. The off-balance sheet transactions had no impact on our liquidity or capital resources. We are not aware of any event, demand or uncertainty that would likely terminate the agreement or have an adverse affect on our operations.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in interest rates, primarily as a result of using bank debt to finance our business. The floating interest debt exposes us to interest rate risk, with the primary interest rate exposure resulting from changes in the prime rate. It is assumed in the table below that the prime rate will remain constant in the future. Adverse changes in the interest rates or our inability to refinance our long-term obligations may have a material negative impact on our results of operations and financial condition.

The definitive extent of the interest rate risk is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. We do not customarily use derivative instruments to adjust our interest rate risk profile.

The information below summarizes our sensitivity to market risks as of December 31, 2008. The table presents principal cash flows and related interest rates by year of maturity of our funded debt. The carrying value of our debt approximately equals the fair value of the debt. Note 6 to the consolidated financial statements in our annual report on Form 10-K for the year ended March 31, 2008 contains descriptions of funded debt and should be read in conjunction with the table below.

(In thousands)		December 31, 2008
Debt obligations		
Revolving credit agreement at the prime rate plus 1/4%. Due September 30, 2008. Interest rate at December 31, 2008 of 7.75%.	$	1,987
Total variable rate debt		1,987
8% subordinated notes payable to affiliate due July 1, 2009		1,000
Long Term lease payable		504
Total fixed rate debt		1,504
Total debt	$	3,491

At December 31, 2008, we had approximately $3.5 million of debt outstanding of which $1.5 million bore fixed interest rates. If the interest rates charged to us on our variable rate debt were to increase significantly, the effect could be materially adverse to our current and future operations.

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

Item 4T. Controls and Procedures

Quarterly Evaluation of the Company s Disclosure Controls and Internal Controls. The Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Act), as of the end of the period covered by this Form 10-Q (Disclosure Controls). This evaluation (Disclosure Controls Evaluation) was done under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

The Company s management, with the participation of the CEO and CFO, also conducted an evaluation of the Company s internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, to determine whether any changes occurred during the period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting (Internal Controls Evaluation).

Limitations on the Effectiveness of Controls. Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluation of its internal controls to enhance, where necessary, its procedures and controls.

Conclusions. The Company s CEO and CFO concluded that the Company s disclosure controls and procedures were not effective as of December 31, 2008 in reaching a reasonable level of assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The company previously reported on Form 10K for the year ended March 31, 2008 there were two material weaknesses in our internal controls over financial reporting. The Company is in the process of remediating these weaknesses.

There were no changes in internal controls over financial reporting as defined in Rule 13a-15(f) of the Act that have materially affected, or are reasonably likely to materially affect internal controls over the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit 31.1	Certification of Charles L. McNew, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Joseph Sciacca, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Charles L. McNew, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
Exhibit 32.2	Certification of Joseph Sciacca, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

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 OF VIRGINIA
(Registrant)

Date: February 17, 2009

By: /s/ Charles L. McNew
Charles L. McNew
President & Chief Executive Officer
(principal executive officer)

Date: February 17, 2009

By: /s/ Joseph Sciacca
Joseph Sciacca
Vice President, Finance &
Chief Financial Officer
(principal financial officer)