

Edgar Filing: AULT INC - Form 10-Q

AULT INC  
Form 10-Q  
October 09, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 02, 2001

Commission file number 0-12611

AULT INCORPORATED

MINNESOTA

41-0842932

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

7105 Northland Terrace  
Minneapolis, Minnesota 55428-1028  
-----

(Address of principal executive offices)

Registrant's telephone number: (763) 592-1900  
-----

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

Class of Common Stock	Outstanding at September 18, 2001
----- No par value	----- 4,537,522 shares

Total pages 13  
Exhibits Index on Page 12

-----  
PART I. FINANCIAL INFORMATION

# Edgar Filing: AULT INC - Form 10-Q

## ITEM 1 - FINANCIAL STATEMENTS

### AULT INCORPORATED & SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (Dollars in Thousands, Except Amounts Per Share)

	(Unaudited) Three Months Ended	
	September 2, 2001	August 27, 2000
Net Sales	\$ 10,301	\$ 21,918
Cost of Goods Sold	7,892	17,219
Gross Profit	2,409	4,699
Operating Expenses:		
Marketing	1,011	1,530
Design Engineering	688	772
General & Administrative	1,120	1,512
	2,819	3,814
Operating (Loss) Income	(410)	885
Non Operating Income (Expense):		
Interest Expense	(148)	(152)
Interest Income	31	27
Other	(184)	200
	(301)	75
Income (Loss) Before Income Taxes	(711)	960
Income Tax (Benefit) Expense	(65)	325
Net Income (Loss) Before Accounting Change	(646)	635
Cumulative Effect of Accounting Change, Net of Tax		(50)
Net (Loss) Income	\$ (646)	\$ 585
Earnings (Loss) Per Share		
Basic:		
Net (Loss) Income Before Accounting Change	\$ (0.14)	\$ 0.14
Cumulative Effect of Accounting Change		(0.01)
Basic (Loss) Earnings Per Share	\$ (0.14)	\$ 0.13
Diluted:		
Net (Loss) Income Before Accounting Change	\$ (0.14)	\$ 0.14

Edgar Filing: AULT INC - Form 10-Q

Cumulative Effect of Accounting Change		(0.01)
Basic (Loss) Earnings Per Share	\$ (0.14)	\$ 0.13
Common and equivalent shares outstanding:		
Basic	4,535,551	4,455,432
Diluted	4,535,551	4,655,880

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Page 2

AULT INCORPORATED & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands)

	(Unaudited)	
	September 2, 2001	June 3, 2001
	-----	-----
<b>Assets:</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 3,010	\$ 3,723
Trade Receivables, Less Allowance for Doubtful Accounts of \$636,000 at September 2, 2001; \$621,000 at June 3, 2001	9,403	12,361
Inventories (Note 2)	11,925	12,423
Prepaid and Other Expenses	599	747
Deferred Taxes	364	364
	-----	-----
Total Current Assets	25,301	29,618
<b>Other Assets:</b>		
Intangibles, less accumulated amortization of \$276,000 at September 2, 2001; \$251,000 at June 3, 2001	1,228	1,253
Other	11	10
	-----	-----
	1,239	1,263
<b>Property Equipment and Leasehold Improvements:</b>		
Land	1,676	1,675
Building	7,743	5,554
Machinery and Equipment	7,560	7,517
Office Furniture	1,454	1,433
E.D.P. Equipment	2,218	2,215
Construction in Progress		1,533
	-----	-----
	20,651	19,927
Less Accumulated Depreciation	7,456	7,351
	-----	-----
	13,195	12,576
	-----	-----

Edgar Filing: AULT INC - Form 10-Q

Total Assets	\$ 39,735	\$ 43,457
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Page 3

AULT INCORPORATED & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands)

	(Unaudited)	
	September 2, 2001	June 3, 2001
	-----	-----
Liabilities and Stockholders' Equity:		
Current Liabilities		
Note Payable to Bank	\$ 3,401	\$ 4,003
Current Maturities of Long-Term Debt (Note 3)	586	617
Accounts Payable	3,489	5,285
Accrued Compensation	596	467
Accrued Commissions	435	708
Other	385	698
	-----	-----
Total Current Liabilities	8,892	11,778
Long-Term Debt, Less Current Maturities (Note 3)	2,907	3,035
Deferred Tax Liability	213	213
Retirement and Severance Benefits	146	302
Stockholders' Equity:		
Preferred Stock, No Par Value, Authorized, 1,000,000 Shares; None Issued		
Common Shares, No Par Value, Authorized 10,000,000 Shares; Issued and Outstanding 4,537,522 on September 2, 2001; and 4,528,522 on June 3, 2001;	20,713	20,684
Notes Receivable arising from the sale of common stock	(100)	(100)
Accumulated Other Comprehensive Loss	(870)	(935)
Retained Earnings	7,834	8,480
	-----	-----
	27,577	28,129
	-----	-----
	\$ 39,735	\$ 43,457
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Page 4

AULT INCORPORATED & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars In Thousands)

Edgar Filing: AULT INC - Form 10-Q

	(Unaudited)	
	Three Months Ended	
	September 2, 2001	August 2, 2000
	-----	-----
Cash Flows From Operating Activities		
Net (Loss) Income:	\$ (646)	\$
Adjustments to Reconcile Net (Loss) Income to Net Cash		
Used in Operating Activities:		
Depreciation	267	
Amortization	25	
Adjustment Related to Change in subsidiary Year End		
Changes in Assets and Liabilities:		
(Increase) Decrease In:		
Trade Receivables	2,705	(
Inventories	605	1,
Prepaid and Other Expenses	453	
Increase (Decrease) in:		
Accounts Payable	(1,759)	(1,
Accrued Expenses	(418)	
Income Tax Payable	(207)	
	-----	-----
Net Cash Provided by (Used in) Operating Activities	1,025	(
	-----	-----
Cash Flows From Investing Activities:		
Purchase of Equipment and Leasehold Improvements	(887)	(
Decrease in Other Assets		
	-----	-----
Net Cash Used in Investment Activities	(887)	(
	-----	-----
Cash Flows From Financing Activities:		
Net (Payments) Borrowings on Revolving Credit Agreements	(712)	
Proceeds from Issuance of Common Stock	29	
Principal Payments on Long-Term Borrowings	(170)	(
	-----	-----
Net Cash (Used in) Provided by Financing Activities	(853)	(
	-----	-----
Effect of Foreign Currency Exchange Rate Changes on Cash	2	
	-----	-----
Decrease in Cash and Cash Equivalents	(713)	(
Cash and Cash Equivalents at Beginning of Period	3,723	2,
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 3,010	\$ 1,
	=====	=====

## Edgar Filing: AULT INC - Form 10-Q

AULT INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FIRST QUARTER ENDED SEPTEMBER 2, 2001

### 1. Summary of Consolidation Principles

The accompanying consolidated financial statements include the accounts of Ault Incorporated, its wholly owned subsidiaries, Ault Shanghai and Ault Korea Corporation, including its wholly owned subsidiary, Ault Xianghe Co. Ltd. All significant intercompany transactions have been eliminated. The foreign currency translation adjustment represents the translation into United States dollars of the Company's investment in the net assets of its foreign subsidiary in accordance with the provisions of FASB Statement No. 52.

Effective May 29, 2000 the company changed its fiscal year end for its Korean subsidiary from May 31 to April 30 and will consolidate the subsidiary for financial reporting purposes on a one-month lag basis. This change was done to facilitate timely and accurate consolidation and in order to meet financial reporting deadlines of the Company. The result of operations for the subsidiary for May 2000 (\$61,000 net loss) was included in the consolidated results of operations for the first quarter of fiscal 2001. Retained earnings were adjusted during the first quarter of fiscal 2001 to eliminate the subsidiary net loss for May 2000, which was included in operations for the year-ended May 28, 2000. The effect of the change in year-end for future periods is expected to be insignificant.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101 REVENUE RECOGNITION IN FINANCIAL STATEMENTS. SAB No. 101 summarizes certain of the SEC staff's views in applying generally accepted accounting principles to selected revenue recognition issues. As a result, the Company changed the method of accounting for certain sales transactions. Historically, the Company recognized revenue upon shipment of products to certain customers because, even though some products were shipped FOB destination, we used a common carrier and thus gave up substantially all the risks of ownership. Under the new accounting method adopted retroactive to May 29, 2000, the Company now recognizes revenue upon delivery of products to these customers. The cumulative effect of the change on prior years resulted in a non-cash charge to income of \$50,000 (net of taxes of \$27,000) for the year ended June 3, 2001.

For the three months ended August 27, 2000, the Company recognized \$234,000 in revenue that was included in the cumulative effect adjustment as of May 29, 2000. The effect of the revenue in the first quarter was to increase income by \$50,000 (after reduction for income taxes of \$27,000).

The balance sheet of the Company as of September 2, 2001, and the related statements of income and cash flows for the three months ended September 2, 2001 have been prepared without being audited. In the opinion of the management, these statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the position of Ault Incorporated and subsidiaries as of September 2, 2001, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's June 3, 2001 Form 10-K.

The results of operations for the interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

Edgar Filing: AULT INC - Form 10-Q

Page 6

AULT INCORPORATED AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FIRST QUARTER ENDED SEPTEMBER 2, 2001

2. Inventories

The components of inventory (in thousands) at September 2, 2001 and June 3, 2001 are as follows:

	September 2, 2001	June 3, 2001
	-----	-----
Raw Materials	\$ 6,352	\$ 6,584
Work-in-process	611	550
Finished Goods	4,962	5,289
	-----	-----
	\$ 11,925	\$ 12,423
	=====	=====

3. Long-term Debt

Long-term debt (in thousands) including current maturities contain the following:

	SEPTEMBER 2, 2001	JUNE 3, 2001
	-----	-----
Various Term Loans, 7.2% - 8.0% interest due in monthly installments through December 2003, secured by equipment	\$ 239	\$ 273
Various note payables, 6.75% interest due in quarterly installments through April 2002, unsecured guaranteed by Korean government	238	314
Term loan, 7.94% interest rate due in monthly installments through September 2005, secured by furniture	196	211
Term loan, 8.05% interest rate due in monthly installments to February 2015	2,820	2,854
	-----	-----
Total	3,493	3,652
Less Current Maturities	586	617
	-----	-----
	\$ 2,907	\$ 3,035
	=====	=====

4. Stockholders' Equity

Three Months Ended

Edgar Filing: AULT INC - Form 10-Q

		September 2, 2001
		----- (\$000)
Total Stockholders' Equity - June 3, 2001		\$ 28,129
Net Loss	\$ (646)	
Net change in Foreign currency translation adjustment	65	
	-----	
Comprehensive Income (Loss)		(581)
Issue 9,000 shares of common stock in accordance with stock option plan		29
		-----
Total Stockholders' Equity		\$ 27,577 =====

Page 7

AULT INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FIRST QUARTER ENDED SEPTEMBER 2, 2001

5. Net Income Per Common Share

Basic and diluted earnings per share are presented in accordance with SFAS No. 128, EARNINGS PER SHARE. The difference between average common and common equivalent shares is the result of outstanding stock options and employee stock purchase plan.

	Three Months Ended	
	----- September 2, 2001	August 27, 2000 -----
Income (Loss) Applicable to Common Shareholders (in thousands)	\$ (646)	\$ 585
Basic - Weighted Average Shares Outstanding	4,535,551	4,455,432
Diluted Effect of Stock Options	--	200,448
Diluted - Weighted Average Shares Outstanding	4,535,551	4,655,880
Basic Income (Loss) per Share	(.14)	.13
Diluted Income (Loss) per Share	(.14)	.13

6. Accounting Pronouncements

On June 4, 2001 the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, as amended by SFAS No. 138, ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation. Management has reviewed the requirements of SFAS No. 133 and has determined that the Company has no freestanding or embedded derivatives. All agreements that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as normal purchases or sales. The Company's policy is to not use



## Edgar Filing: AULT INC - Form 10-Q

freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, BUSINESS COMBINATIONS and No. 142 GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 141 will require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the use of the pooling-of-interest method is no longer allowed. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. SFAS No. 142 is effective for the Company in its fiscal year beginning June 3, 2002. The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial position and results of operations.

Page 8

### ITEM 2 - MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

First Quarter Ended September 2, 2001

(\$000)	Fiscal 2002	Fiscal 2001	Increase / (Decrease)	
			----- Amount	Percent -----
Net Sales	\$10,301	\$21,918	(\$11,617)	(53%)
Operating Income (Loss)	(410)	885	(1,295)	(146%)

Net sales were \$10,301,000 for the first quarter of fiscal 2002 down 53% from \$21,918,000 for the first quarter of fiscal 2001. The decrease is due to the economic slowdown that has affected our largest customers.

Operating income (loss) totaled (\$410,000) for the first quarter of fiscal 2002 and \$885,000 for the same period in fiscal 2001. Margins for the first quarter of fiscal 2002 were 23.4% of sales compared to 21.4% of sales for the same period in fiscal 2001. During the first quarter of fiscal 2002, the Korean subsidiary moved a new facility. The move resulted in business interruption income from the Korean government and was the primary cause of the margin percent increase. Operating expenses decreased in the first quarter of fiscal 2002 to \$2,819,000 from \$3,814,000 in the first quarter of fiscal 2001. Commission expenses decreased by \$330,000 due to lower revenue in the first three months of fiscal 2002. The Company also reduced expenses and increased efficiencies during the first quarter of 2002. This resulted in a savings of \$665,000 for the first quarter of 2002.

**ORDER BACKLOG:** The Company's order backlog at September 2, 2001 totaled \$9,662,000 compared to \$10,792,000 at June 3, 2001. The order backlog represents sales for approximately eight weeks. Many OEMs limit their contractual commitments to the best lead-times of their suppliers.

**NON-OPERATING INCOME AND EXPENSE:** Other expense was \$184,000 for the first quarter of fiscal 2002 and other income was \$200,000 for the same period in fiscal 2001. The difference is represented by the first quarter of fiscal 2002

## Edgar Filing: AULT INC - Form 10-Q

having a currency exchange rate loss while the same period of fiscal 2001 had a currency exchange rate gain by the Korean subsidiary. The Company had interest income of \$31,000 in the first quarter of fiscal 2002 and \$27,000 for the same period in fiscal 2001. The Company incurred interest expenses of \$148,000 in the first three months of fiscal 2002 and \$152,000 in the same period of fiscal 2001, paid on bank credit facilities and long-term borrowings

**INCOME TAX:** The Company had pre-tax loss of \$711,000 for the three-month period in fiscal 2002 on which it accrued a consolidated income taxes benefit of \$65,000. For the three-month period in fiscal 2001 the Company had pre-tax income of \$960,000 on which US and Korean income taxes totaling \$325,000 were accrued. The effective tax rate was a benefit of 9.1% for the first quarter of 2002, and a charge of 33.9% for the same period in fiscal 2001. In the first quarter of fiscal 2002 the Company has not taken benefit from the foreign loss carryforwards the loss generated because it is not more likely than not they will be able to use such losses.

**NET INCOME:** The Company reported a basic per share loss of \$(0.14) for the first quarter of fiscal 2002 based on 4,536,000 outstanding weighted average shares, compared to basic per share income of \$0.13 for the first quarter of fiscal 2001, based on 4,455,000 outstanding weighted average shares. For the three months of fiscal 2002 the Company reported a diluted per share loss of \$(0.14) based on 4,536,000 outstanding weighted average shares, compared to diluted per share income of \$0.13 for the same period in fiscal 2001, which were based on 4,656,000 outstanding weighted average shares.

Page 9

### LIQUIDITY AND CAPITAL RESOURCES

The following table describes the Company's liquidity and financial position on September 2, 2001, and on June 3, 2001:

	September 2, 2001	June 3, 2001
	-----	-----
	(\$000)	(\$000)
Working capital	\$16,409	\$17,840
Cash	3,010	3,723
Unutilized bank credit facilities	4,775	4,767
Cash provided by (used in) operations	1,025	(1,953)

### CURRENT WORKING CAPITAL POSITION

As of September 2, 2001, the Company had current assets of \$25,301,000 and current liabilities of \$8,892,000 representing working capital of \$16,409,000 and a current ratio of 2.8. This represents a decrease in working capital from \$17,840,000 at June 3, 2001. The Company relies on its credit facilities and cash flows from operations as sources of working capital to support normal growth in revenue, capital expenditures and attainment of profit goals. The Company has not committed any funds to capital expenditures as of September 2, 2001.

**CASH AND INVESTMENTS:** As of September 2, 2001, the Company had cash and securities totaling \$3,010,000, down from \$3,723,000 as of June 3, 2001. This decrease in cash was primarily due to payments on the Company's lines of credit.

**CREDIT FACILITIES:** The Company maintains two credit facilities, its primary

## Edgar Filing: AULT INC - Form 10-Q

credit facility is with US Bank and a credit facility with The Korea Exchange Bank, which supports the South Korean subsidiary.

### CASH FLOWS FOR FISCAL 2002

OPERATIONS: Operations provided \$1,025,000 of cash during the three months of fiscal 2002 due principally to the following activities:

- (a) The loss net of depreciation, and amortization used cash of \$354,000.
- (b) Decreases in trade receivables mainly due to the decreased net sales in fiscal 2002 provided \$2,705,000 of cash.
- (c) Decreases in inventories provided \$605,000 of cash. The decrease is due to the decrease in net sales in fiscal 2002.
- (d) Decreases in accrued expenses and accounts payable used \$2,177,000 of cash. The decrease is due to the decrease in net sales for fiscal 2002.

INVESTING ACTIVITIES: Investing activities used net cash of \$887,000 relating to the completion of the new Korean facility.

FINANCING ACTIVITIES: Financing activities used net cash of \$853,000, primarily comprised of payments on the line of credit in Korea.

EFFECT OF FOREIGN CURRENCY EXCHANGE RATE FLUCTUATIONS: The effect of translating the Korean financial statements, which were prepared in Won to US dollars, had an increase effect on cash of approximately \$2,000 during the first three months of the year. The effect of translating the Chinese financial statements, which were prepared in Yuan to US dollars, had minimal effect on cash for the first three months of the year.

SUMMARY: The Company's cash and working capital positions are sound and, together with its credit facilities, adequate to support the Company's strategies for the remainder of fiscal 2002.

INFORMATION ABOUT PRODUCTS AND SERVICES: The Company's business operations are comprised of one activity--the design, manufacture and sale of equipment for converting electric power to a level used by OEMs in data

Page 10

communications/telecommunications and medical markets to charge batteries, and/or power equipment. The Company supports these power requirements by making available to the OEM products that have various technical features. These products are managed as one product segment under the Company's internal organizational structure and the Company does not consider any financial distinctive measures, including net profitability and segmentation of assets to be meaningful to performance assessment.

### INFORMATION ABOUT REVENUE BY GEOGRAPHY

Distribution of revenue from the US, from each foreign country that is the source of significant revenue and from all other foreign countries as a group are as follows:

THREE MONTHS ENDED	
September 2, 2001	August 27, 2000
-----	
(\$000)	(\$000)

Edgar Filing: AULT INC - Form 10-Q

US	\$ 7,382	\$13,597
Korea	1,121	2,933
Belgium	22	1,247
UK	529	1,101
China	347	783
Canada	416	654
Other Foreign	484	1,603
	-----	-----
Total	\$10,301	\$21,918
	=====	=====

The Company considers a country to be the geographic source of revenue if it has contractual obligations, including an obligation to pay for trade receivable invoices.

IMPACT OF FOREIGN OPERATIONS AND CURRENCY CHANGES:

Products manufactured by the Korean subsidiary contributed a large portion of total sales. The Company will experience normal valuation changes as the Korean and Chinese currency fluctuate. The effect of translating the Korean and Chinese financial statements resulted in a net asset increase of \$65,000.

FORWARD LOOKING STATEMENTS

From time to time, in reports filed with the Securities and Exchange Commission, in press releases, and in other communications to shareholders or the investing public, the Company may make forward-looking statements concerning possible or anticipated future results of operations or business developments which are typically preceded by the words "believes", "expects", "anticipates", "intends" or similar expressions. For such forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Shareholders and the investing public should understand that such forward-looking statements are subject to risks and uncertainties which could cause results or developments to differ significantly from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the overall level of sales by original equipment manufacturers (OEMs) in the telecommunications, data communications, computer peripherals and the medical markets; buying patterns of the Company's existing and prospective customers; the impact of new products introduced by competitors; delays in new product introductions; higher than expected expense related to sales and new marketing initiatives; availability of adequate supplies of raw materials and components; fuel prices; and other risks affecting the Company's target markets.

ACCOUNTING PRONOUNCEMENTS - On June 4, 2001 the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, as amended by SFAS No. 138, ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation. Management has reviewed the requirements of SFAS No. 133

and has determined that the Company has no freestanding or embedded derivatives. All agreements that contain provisions meeting the definition of a derivative

## Edgar Filing: AULT INC - Form 10-Q

also meet the requirements of, and have been designated as normal purchases or sales. The Company's policy is to not use freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, BUSINESS COMBINATIONS and No. 142 GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 141 will require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the use of the pooling-of-interest method is no longer allowed. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. SFAS No. 142 is effective for the Company's fiscal year beginning June 3, 2002. The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial position and results of operations.

### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company experiences foreign currency gains and losses, which are reflected in the financial statements, due to the strengthening and weakening of the U.S. dollar against currencies of the Company's foreign subsidiaries. The Company anticipates that it will continue to have exchange gains or losses in the future.

As of September 2, 2001, the Company only had fixed rate debt outstanding. Thus, interest rate fluctuations would not impact interest expense or cash flows. If the Company were to undertake additional debt, interest rate changes could impact earnings and cash flows.

## PART II

ITEMS 1-5 OTHER INFORMATION: Not Applicable

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

### Exhibits

Reference	Title of Document	Location
-----	-----	-----
	Part 1 Exhibits	

(a) None  
(b) None

### SIGNATURES

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

Edgar Filing: AULT INC - Form 10-Q

undersigned, thereunto duly authorized.

AULT INCORPORATED  
(REGISTRANT)

DATED: October 9, 2001  
-----

/s/ Frederick M. Green  
-----

Frederick M. Green, President  
Chief Executive Officer and  
Chairman

DATED: October 9, 2001  
-----

/s/ Donald L. Henry  
-----

Donald L. Henry  
Chief Financial Officer

Page 13