

Edgar Filing: AULT INC - Form 10-Q

AULT INC
Form 10-Q
April 11, 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 February 25, 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 March 21, 2001
-----	-----
No par value	4,512,782 shares

Total pages 15
Exhibits Index on Page 14

PART 1. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

AULT INCORPORATED & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

Edgar Filing: AULT INC - Form 10-Q

(Dollars in Thousands, Except Amounts Per Share)

	(Unaudited)			
	Third Quarter Ended		Nine Months Ended	
	Feb. 25 2001	Feb. 27 2000	Feb. 25 2001	Feb. 27 2000
Net Sales	\$ 22,248	\$ 17,570	\$ 70,163	\$ 45,491
Cost of Goods Sold	17,304	13,154	54,659	33,796
Gross Profit	4,944	4,416	15,504	11,695
Operating Expenses:				
Marketing	1,552	1,381	5,009	3,890
Design Engineering	792	863	2,322	2,466
General and Administrative	1,602	1,291	4,881	3,659
	3,946	3,535	12,212	10,015
Operating Income	998	881	3,292	1,680
Other Income (Expense):				
Interest Expense	(143)	(131)	(427)	(240)
Interest Income	8	3	58	20
Other	279	(59)	507	(55)
	144	(187)	138	(275)
Income Before Income Taxes	1,142	694	3,430	1,405
Income Taxes	426	180	1,240	368
Net Income	\$ 716	\$ 514	\$ 2,190	\$ 1,037
Earnings Per Share				
Basic	\$ 0.16	\$ 0.12	\$ 0.49	\$ 0.24
Diluted	\$ 0.15	\$ 0.11	\$ 0.47	\$ 0.22
Common and Equivalent Shares Outstanding				
Basic	4,495,121	4,393,224	4,475,793	4,378,045
Diluted	4,715,262	4,773,523	4,705,762	4,694,671

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: AULT INC - Form 10-Q

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	(Unaudited) February 25, 2001 -----	Ma -----
Assets:		
Current Assets		
Cash and Cash Equivalents	\$ 1,207	\$
Available-for-sale Investments		
Trade Receivables, Less Allowance for Doubtful Accounts of \$528,000 at February 25, 2001; \$94,000 at May 28, 2000	19,741	
Inventories (Note 2)	14,141	
Prepaid Expenses and Other	567	
Deferred Taxes	211	
	-----	-----
Total Current Assets	35,867	
Other Assets:		
Intangibles, less accumulated amortization of \$226,000 at February 25, 2001; \$150,000 at May 28, 2000	1,278	
Deferred Taxes	75	
Other	14	
	-----	-----
	1,367	
Property Equipment and Leasehold		
Improvements:		
Land	1,669	
Building	6,512	
Machinery and Equipment	7,526	
Office Furniture	1,427	
E.D.P. Equipment	2,145	
	-----	-----
	19,279	
Less Accumulated Depreciation	7,102	
	-----	-----
	12,177	
	-----	-----
	\$ 49,411	\$
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: AULT INC - Form 10-Q

	(Unaudited)	
	February 25, 2001	May 28, 2000
	-----	-----
Liabilities and Stockholders' Equity:		
Current Liabilities		
Note Payable to Bank	\$ 3,807	\$ 2,158
Current Maturities of Long-Term Debt (Note 3)	459	802
Accounts Payable	11,081	11,763
Accrued Compensation	636	538
Accrued Commissions	1,016	746
Other	296	135
Income Tax Payable	436	419
	-----	-----
Total Current Liabilities	17,731	16,561
Long-Term Debt, Less Current Maturities (Note 3)	3,384	3,657
Retirement and Severance Benefits	346	233
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 4,512,782 on February 25, 2001; and 4,445,432 on May 28, 2000;	20,471	20,275
Notes Receivable arising from the sale of common stock	(100)	(145)
Accumulated Other Comprehensive Loss	(895)	(548)
Retained Earnings	8,474	6,223
	-----	-----
	27,950	25,805
	-----	-----
	\$ 49,411	\$ 46,256
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Page 4

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

	(Unaudited)	
	Nine Months Ended	
	February 25, 2001	February 27, 2000
	-----	-----
Cash Flows From Operating Activities		
Net Income:	\$ 2,190	\$ 1,037
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities:		

Edgar Filing: AULT INC - Form 10-Q

Depreciation	733	643
Amortization	75	
Adjustment Related to Change in subsidiary Year End	61	
Realized Gain from Sale of Securities Available for Sale	(56)	
Stock Compensation	51	
Changes in Assets and Liabilities:		
(Increase) Decrease In:		
Trade Receivables	(3,930)	(2,736)
Inventories	(850)	(3,119)
Prepaid and Other Expenses	300	(690)
Increase (Decrease) in:		
Accounts Payable	(274)	2,207
Accrued Expenses	707	689
Income Tax Payable	(33)	214
Net Cash Used in Operating Activities	(1,027)	(1,755)
Cash Flows From Investing Activities:		
Purchase of Equipment and Leasehold Improvements	(2,428)	(5,069)
Proceeds from the sale of securities	554	542
Net Cash Used in Investment Activities	(1,874)	(4,527)
Cash Flows From Financing Activities:		
Net Borrowings on Revolving Credit Agreements	2,128	906
Proceeds from Issuance of Common Stock	203	39
Principal Payments on Long-Term Borrowings	(561)	32
Proceeds from Long-Term Borrowings		3,300
Retire Common Stock	(13)	
Net Cash Provided by Financing Activities	1,757	4,093
Effect of Foreign Currency Exchange Rate Changes on Cash	(68)	207
Decrease in Cash and Cash Equivalents	(1,212)	(1,982)
Cash and Cash Equivalents at Beginning of Period	2,419	3,303
Cash and Cash Equivalents at End of Period	\$ 1,207	\$ 1,321
Supplemental Disclosures of Cash Flow Information-		
Cash payments for:		
Interest	\$ 427	\$ 109
Taxes	1,227	138

Edgar Filing: AULT INC - Form 10-Q

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, and its wholly owned subsidiary, Ault Xianghe Co. Ltd. All significant intercompany transactions have been eliminated. The foreign currency translation adjustment in footnote 4 represents the translation into United States dollars of the Company's investment in the net assets of its foreign subsidiaries in accordance with the provisions of FASB Statement No. 52.

The balance sheet of the Company as of February 25, 2001 and the related statements of income and cash flows for the nine months ended February 25, 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 February 25, 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 generally accepted accounting principles 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 May 28, 2000 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.

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 results 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 was 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.

2 Inventories

The components of inventory (in thousands) at February 25, 2001 and May 28, 2000 are as follows:

	February 25, 2001	May 28, 2000
Raw Materials	\$ 8,372	\$ 7,275
Work-in-process	304	406
Finished Goods	5,465	6,579
	-----	-----
	\$ 14,141	\$ 14,260
	=====	=====

Edgar Filing: AULT INC - Form 10-Q

THIRD QUARTER ENDED FEBRUARY 25, 2001

3 Long-term Debt

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

	FEBRUARY 25, 2001	MAY 28, 2000
	-----	-----
Various Term Loans, 7.2% - 8.0% interest due in monthly installments through December 2003, secured by equipment	\$ 319	\$ 494
Various note payables, 7.5% interest due in quarterly installments through April 2002, unsecured	417	735
Term loan, 7.94% interest rate due in monthly installments through September 2005, secured by furniture	224	265
Term loan, 8.05% interest rate due in monthly installments to February 2015, secured by Minneapolis building	2,883	2,965
	-----	-----
Total	\$ 3,843	\$ 4,459
Less Current Maturities	459	802
	-----	-----
	\$ 3,384	\$ 3,657
	=====	=====

4 Stockholders' Equity

		Nine Months Ended February 25, 2001

		(\$000)
Total Stockholders' Equity - May 28, 2000		\$ 25,805
Net Income	\$ 2,190	
Net change in Foreign currency translation adjustment	(347)	

Comprehensive Income		1,843
Stock Compensation		51
Issue 74,205 shares of common stock in accordance with stock option plan		203
Adjust retained earnings for the change in subsidiary fiscal year end		61
7,855 shares of common stock acquired and retired for payment of receivables		(13)

Total Stockholders' Equity		\$ 27,950
		=====

5 Net Income Per Common Share

Basic and diluted earnings per share are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE. The

Edgar Filing: AULT INC - Form 10-Q

difference between average common and common equivalent shares is the result of outstanding stock options.

	Nine Months Ended	
	February 25, 2001	February 27, 2000
	-----	-----
Income Applicable to Common Shareholders	\$ 2,190	\$ 1,037
Basic - Weighted Average Shares Outstanding	4,475,793	4,378,045
Diluted Effect of Stock Options	229,969	316,626
Diluted - Weighted Average Shares Outstanding	4,705,762	4,694,671
Basic Earnings per Share	\$ 0.49	\$ 0.24
	=====	=====
Diluted Earnings per Share	\$ 0.47	\$ 0.22
	=====	=====

Page 7

AULT INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 THIRD QUARTER ENDED FEBRUARY 25, 2001

6 Accounting Pronouncements

On June 4, 2001 the Company is required to adopt 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 free-standing 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 free-standing derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

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. SAB No. 101 is to be implemented by the Company no later than the fourth quarter of fiscal 2001. Management is reviewing SAB No. 101 and believes that it will not have a material effect on financial statements on the current year.

In the fourth quarter of Fiscal 2001, the Company will be required to adopt the Emerging Issues Task Force (EITF) issue number 00-10, ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS. This EITF will require the Company to reclass certain shipping and handling costs that were netted in sales and cost of goods sold. This will result in a \$1,790,000 and \$1,074,000 increase to sales and cost of goods sold in the 2000 and 1999 statements of income, respectively. If this EITF was implemented at February 25, 2001 it would have resulted in a \$1,137,000

Edgar Filing: AULT INC - Form 10-Q

and \$1,530,000 increase to sales and cost of sales for the nine months ended February 25, 2001 and February 27, 2000, respectively.

Page 8

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

RESULTS OF OPERATIONS

Third Quarter Ended February 25, 2001

(\$000)	Fiscal	Fiscal	Increase / (Decrease)	
	2001	2000	Amount	Percent
Net Sales	\$22,248	\$17,570	\$4,678	27%
Operating Income	998	881	117	13%

Net sales were \$22,248,000 for the third quarter of fiscal 2001 up 27% from \$17,570,000 for the third quarter of fiscal 2000. The growth was primarily due to significantly higher power supply volume to major OEMs of high-speed ADSL modems of \$1,000,000. The quarter also includes growing business volumes with OEMs of PDAs of \$2,000,000. In addition, the Company has continued growth in the Asian markets, which amounted to \$2,000,000.

Gross margin for the third quarter was 22.2 percent as a percent of sales, compared with 21.8 percent for the first quarter this year and 22.2 percent for the second quarter of this year. Third quarter gross margin last year was 25.1 percent. Margins continue to be affected by a growth in lower-margin linear power supplies used by our ADSL customers (\$217,000).

As a percentage of sales, operating expenses declined to 17.7 percent in the third quarter of fiscal 2001, down from 20.1 percent in the third quarter of fiscal 2000. Operating expenses were \$3,946,000 for the third quarter of fiscal 2001 up 11.6% from \$3,535,000 for the third quarter of fiscal 2000. The increase is due to bad debt expense of \$175,000 relating to a customer who has filed chapter 11, the creation of a new subsidiary in Shanghai, China with office expenses of \$115,000, and other variable costs associated with the increase in sales.

Nine Months Ended February 25, 2001

(\$000)	Fiscal	Fiscal	Increase / (Decrease)	
	2001	2000	Amount	Percent
Net Sales	\$70,163	\$45,491	\$24,672	54%
Operating Income	3,292	1,680	1,612	96%

Net sales were \$70,163,000 for the first nine months of fiscal 2001 up 54% from \$45,491,000 for the first nine months of fiscal 2000. The growth was primarily due to significantly higher power supply volume to major OEMs of high-speed ADSL modems of \$6,000,000, PDAs of \$4,000,000. The Company is also benefiting from growing business volumes with OEMs serving the medical equipment market of \$2,000,000 and distributors \$500,000. In addition, the Company has experienced growth in both European and Asian markets of \$4,000,000 each.

Edgar Filing: AULT INC - Form 10-Q

Operating income totaled \$3,292,000 for the first nine months of fiscal 2001 and \$1,680,000 for the same period in fiscal 2000 equaling, respectively, 4.7% and 3.7% of net sales. Several factors partially offset the positive impact of Ault's strong sales growth. Bad debt expense increased (\$400,000) related to a customer-filing chapter 11. Gross margins decreased due to a shift in the sales mix toward lower-margin linear power supplies (\$684,000). In response, the Company is re-engineering the entire line of power supplies to reduce manufacturing costs. The Company has completed one new family of products, replaced two product families and two families are almost complete. The significant growth of Asian sales also had a near-term negative impact on gross margins. As an aggressive new undertaking, the Asian sales effort entails the normal array of start-up costs and pricing initiatives (\$60,000). The Company is forecasting strong Asian sales for the remainder of fiscal 2001, and believes that margins on this business should improve as the year progresses. To further strengthen margins, the Company is also implementing a global procurement system that will leverage purchasing power for key electronic components.

Page 9

ORDER BACKLOG: The Company's order backlog at February 25, 2001 totaled \$10,991,000 compared to \$17,877,000 at May 28, 2000. The order backlog represents sales for approximately nine weeks and reflected the posture of many OEMs to limit their contractual commitments to the best lead-times of their suppliers. This requires the Company to place greater reliability on its ability to forecast customer needs and requirements for on-time shipment of products.

NON-OPERATING INCOME AND EXPENSES: Other income of \$565,000 for the nine months of fiscal 2001 represented interest income \$58,000, currency exchange rate gains by the Korean subsidiary \$300,000, realized gain on the sale of securities available for sale \$56,000 and income derived from rented portions of the Korean manufacturing facility \$15,000. Other income of (\$35,000) for the same period in fiscal 2000 represented interest income \$20,000, currency exchange rate losses by the Korean subsidiary (\$40,000) and income derived from rented portions of the Korean manufacturing facility \$15,000. The Company incurred interest expenses of \$427,000 in the first nine months of fiscal 2001 and \$240,000 in the same period of fiscal 2000, paid on bank credit facilities and long-term borrowings. The interest expense increase is primarily related to additional debt on the new building in Minneapolis.

INCOME TAX: The Company had pre-tax income of \$3,430,000 for the first nine months in fiscal 2001 on which it accrued US and Korean income taxes totaling \$1,240,000. During the same period in fiscal 2000 the Company had pre-tax income of \$1,405,000 on which US and Korean income taxes totaling \$368,000 were accrued. The effective tax rate for the first nine months of fiscal 2001 is 36% and 26% in the same period of fiscal 2000. The effective income tax rate has changed year to year due to the anticipated change in Research and Development credits that would be taken.

NET INCOME: The Company reported basic per share earnings of \$0.49 for the first nine months of fiscal 2001 based on 4,476,000 outstanding weighted average shares, compared to basic per share earnings of \$0.24 for the same period of fiscal 2000, based on 4,378,000 outstanding weighted average shares. For the first nine months of fiscal 2001 the Company reported diluted per share earnings of \$0.47 based on 4,706,000 outstanding weighted average shares, compared to diluted per share earnings of \$0.22 for the same period in fiscal 2000, which were based on 4,695,000 outstanding weighted average shares.

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: AULT INC - Form 10-Q

The following table describes the Company's liquidity and financial position on February 25, 2001, and on May 28, 2000:

	February 25, 2001	May 28, 2000
	-----	-----
	(\$000)	(\$000)
Working capital	\$18,136	\$17,708
Cash	1,207	\$ 2,419
Securities Available for Sale		497
Unutilized bank credit facilities	4,000	\$ 4,041
Cash Provided by(used in) operations	(1,027)	(2,426)

CURRENT WORKING CAPITAL POSITION

As of February 25, 2001, the Company had current assets of \$35,867,000 and current liabilities of \$17,731,000, which amounted to working capital of \$18,136,000 and current ratio of 2.0 to 1.0. This represents a change from its working capital of \$17,708,000 as of May 28, 2000. 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.

CASH AND INVESTMENTS: As of February 25, 2001, the Company had cash and securities totaling \$1,207,000, compared to \$2,916,000 as of May 28, 2000. The decrease is primarily due to timing of payables and receivables.

Page 10

CREDIT FACILITIES: The Company maintains two credit facilities. Its primary credit facility is with US Bank and a facility with Korea Exchange Bank supports the South Korean subsidiary.

CASH FLOWS FOR FISCAL 2001

OPERATIONS: Operations used \$1,207,000 of cash during the first nine months of fiscal 2001 due principally to the following activities in trade receivables, inventories and accounts payables:

- (a) Increases in trade receivables mainly due to the increased net sales in fiscal 2001 and to a general slow down of payments by our customers used \$3,930,000 of cash.
- (b) Increases in inventories used \$850,000 of cash. The increases are due primarily to inventory increases in Korea.
- (c) Decreases in accounts payable used \$274,000 of cash from liabilities associated with the accelerated payments to our Chinese subcontractors for the Chinese New Year used \$1,000,000 of cash while increased purchases of material to support customer orders and emergency stockings of finished product provided \$700,000 in cash. Increased liabilities for these purposes are anticipated for the remainder of fiscal year 2001.

INVESTING ACTIVITIES: Investing activities used net cash of \$1,874,000 relating to the construction of a new facility in Korea (\$1,300,000) the purchase of manufacturing and IS equipment (\$1,000,000) and the sale of securities available

Edgar Filing: AULT INC - Form 10-Q

for sale provided \$500,000. The Company is committed to completing the facility in Korea for approximately an additional \$1,000,000. This will be paid for by funds already received from the sale of the existing building. This should be complete by the end of the fourth quarter.

FINANCING ACTIVITIES: Financing activities provided net cash of \$1,757,000, primarily comprised of borrowings for raw material purchases in Korea and general funding due to the requirements of the building construction 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 a decrease effect on cash of approximately \$68,000 during the first nine 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 nine months of the year.

SUMMARY: The Company's cash and working capital positions are sound and together with its credit facilities, are adequate to support the Company's strategies for the remainder of fiscal 2001.

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 communications/telecommunications and medical markets to charge batteries, and/or power equipment. The Company supports these power requirements by making available to the OEMs 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.

Page 11

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:

	NINE MONTHS ENDED	
	February 25, 2001	February 27, 2000
	----- (\$000)	----- (\$000)
US	\$44,786	\$35,441
Korea	5,636	2,235
Belgium	2,728	1,350
UK	5,087	2,538
China	4,791	583
Canada	1,987	1,426
Other Foreign	5,148	1,918
	-----	-----
Total	\$70,163	\$45,491
	=====	=====

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

Edgar Filing: AULT INC - Form 10-Q

ACCOUNTING PRONOUNCEMENTS

On June 4, 2001 the Company is required to adopt 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 free-standing 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 free-standing derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

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. SAB No. 101 is to be implemented by the Company no later than the fourth quarter of fiscal 2001. Management is reviewing SAB No. 101 and believes that it will not have a material effect on financial statements on current year.

In the fourth quarter of Fiscal 2001, the Company will be required to adopt the Emerging Issues Task Force (EITF) issue number 00-10, ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS. This EITF will require the Company to reclass certain shipping and handling costs that were netted in sales and cost of goods sold. This will result in a \$1,790,000 and \$1,074,000 increase to sales and cost of goods sold in the 2000 and 1999 statements of income, respectively. If this EITF was implemented at February 25, 2001 it would have resulted in a \$1,137,000 and \$1,530,000 increase to sales and cost of sales for the nine months ended February 25, 2001 and February 27, 2000, respectively.

IMPACT OF FOREIGN OPERATIONS AND CURRENCY CHANGES:

Products manufactured by the Korean subsidiary contributed a large portion of total sales. The value of the Won had no significant impact on the Company's consolidated sales for the quarter. The Company will experience normal valuation changes as the Korean and Chinese currency fluctuates. The effect of translating the Korean and Chinese financial statements resulted in a net asset value decrease of \$347,000 during the first nine months of the year, the majority relating to the Korean currency fluctuations.

Page 12

FORWARD LOOKING INFORMATION

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

Edgar Filing: AULT INC - Form 10-Q

investing public should understand that such forward-looking statements are subject to risks and uncertainties that 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.

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. The company realized an exchange gain of \$300,000 for the nine months ended February 25, 2001 and a loss of \$40,000 for the same period ending February 27, 2000.

As of February 25, 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, an interest rate changes would impact earnings and cash flows.

PART II

ITEMS 1-3 OTHER INFORMATION: Not Applicable

ITEMS 4 Submission of Matters to a Vote of Security Holders; Not Applicable

ITEM 5 OTHER INFORMATION: Not Applicable

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

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

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 undersigned, thereunto duly authorized.

AULT INCORPORATED

Edgar Filing: AULT INC - Form 10-Q

(REGISTRANT)

DATED: April 11, 2001

/s/ Frederick M. Green

Frederick M. Green, President
Chief Executive Officer and
Chairman

DATED: April 11, 2001

/s/ Donald L. Henry

Donald L. Henry
Chief Financial Officer

Page 15