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AULT INC
Form 10-Q
January 14, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended December 2, 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 December 21, 2001
----- No par value	----- 4,538,522 shares

Total pages 15
Exhibits Index on Page 14

PART 1. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

	(Unaudited)		
	Second Quarter Ended		Six
	Dec. 2 2001	Nov. 26 2000	Dec. 2 2001
Net Sales	\$ 9,953	\$ 26,573	\$ 20,
Cost of Goods Sold	8,587	20,752	16,
Gross Profit	1,366	5,821	3,
Operating Expenses:			
Marketing	953	1,927	1,
Design Engineering	603	758	1,
General and Administrative	2,548	1,767	3,
	4,104	4,452	6,
Operating (Loss) Income	(2,738)	1,369	(3,
Other Income (Expense):			
Interest Expense	(137)	(132)	(
Interest Income	30	23	(
Other	(68)	28	(
	(175)	(81)	(
Income (Loss) Before Income Taxes	(2,913)	1,288	(3,
Income Tax (Benefit) Expense	(853)	475	(
Net Income (Loss) Before Accounting Change	(2,060)	813	(2,
Cumulative Effect of Accounting Change, Net of Tax			
Net Income (Loss)	\$ (2,060)	\$ 813	\$ (2,
Earnings (Loss) Per Share			
Basic:			
Net (Loss) Income Before Accounting Change	\$ (0.45)	\$ 0.18	\$ (0
Cumulative Effect of Accounting Change			
Basic (Loss) Earnings Per Share	\$ (0.45)	\$ 0.18	\$ (0
Diluted:			
Net (Loss) Income Before Accounting Change	\$ (0.45)	\$ 0.17	\$ (0
Cumulative Effect of Accounting Change			
Basic (Loss) Earnings Per Share	\$ (0.45)	\$ 0.17	\$ (0

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Common and Equivalent Shares Outstanding:			
Basic	4,537,522	4,479,825	4,536,
Diluted	4,537,522	4,751,542	4,536,

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited)	
	December 2, 2001	June 3, 2001
	-----	-----
Assets:		
Current Assets		
Cash and Cash Equivalents	\$ 6,691	\$ 3,723
Trade Receivables, Less Allowance for Doubtful Accounts of \$1,844,000 at December 2, 2001; \$621,000 at June 3, 2001	6,488	12,361
Inventories (Note 2)	9,974	12,423
Prepaid Expenses and Other	1,387	747
Deferred Taxes	364	364
	-----	-----
Total Current Assets	24,904	29,618
Other Assets:		
Intangibles, less accumulated amortization of \$301,000 at December 2, 2001; \$251,000 at June 3, 2001	1,203	1,253
Other	260	10
	-----	-----
	1,463	1,263
Property Equipment and Leasehold		
Improvements:		
Land	1,676	1,675
Building	7,677	5,554
Machinery and Equipment	7,600	7,517
Office Furniture	1,494	1,433
E.D.P. Equipment	2,222	2,215
Construction in Progress		1,533
	-----	-----
	20,669	19,927
Less Accumulated Depreciation	7,756	7,351
	-----	-----
	12,913	12,576
	-----	-----
	\$ 39,280	\$ 43,457
	=====	=====

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SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited)	
	December 2, 2001	June 3, 2001
	-----	-----
Liabilities and Stockholders' Equity:		
Current Liabilities		
Note Payable to Bank	\$ 5,419	\$ 4,003
Current Maturities of Long-Term Debt (Note 3)	378	617
Accounts Payable	3,785	5,285
Accrued Compensation	570	467
Accrued Commissions	313	708
Other	186	698
	-----	-----
Total Current Liabilities	10,651	11,778
Long-Term Debt, Less Current Maturities (Note 3)	2,898	3,035
Deferred Tax Liability	213	213
Retirement and Severance Benefits	34	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 December 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	(903)	(935)
Retained Earnings	5,774	8,480
	-----	-----
	25,484	28,129
	-----	-----
	\$ 39,280	\$ 43,457
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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	(Unaudited)	
	Six Months Ended	
	December 2, 2001	November 26, 2000
	-----	-----
Cash Flows From Operating Activities		
Net (Loss) Income:	\$ (2,706)	\$ 1,398
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities:		
Depreciation	387	468
Amortization	50	50
Provision for Bad Debt	1,355	240
Adjustment Related to Change in subsidiary Year End Stock Compensation		61 44
Changes in Assets and Liabilities:		
(Increase) Decrease In:		
Trade Receivables	4,346	(3,608)
Inventories	2,799	(682)
Prepaid and Other Expenses	44	(294)
Increase (Decrease) in:		
Accounts Payable	(1,726)	1,750
Accrued Expenses	(756)	637
Income Tax Payable\Receivable	(1,059)	19
	-----	-----
Net Cash Provided by Operating Activities	2,734	83
	-----	-----
Cash Flows From Investing Activities:		
Purchase of Equipment and Leasehold Improvements	(724)	(1,071)
Decrease in Other Assets		8
	-----	-----
Net Cash Used in Investment Activities	(724)	(1,063)
	-----	-----
Cash Flows From Financing Activities:		
Net Borrowings on Revolving Credit Agreements	1,313	1,311
Proceeds from Issuance of Common Stock	29	74
Principal Payments on Long-Term Borrowings	(388)	(385)
	-----	-----
Net Cash Provided by Financing Activities	954	1,000
	-----	-----
Effect of Foreign Currency Exchange Rate Changes on Cash	4	(239)
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	2,968	(219)
Cash and Cash Equivalents at Beginning of Period	3,723	2,419
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 6,691	\$ 2,200
	=====	=====

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AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SECOND QUARTER ENDED DECEMBER 2, 2001

1 Summary of Consolidation Principles

The accompanying consolidated financial statements include the accounts of Ault Incorporated, its wholly owned subsidiaries, Ault Shanghai, Ault Korea Corporation, and 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.

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 December 2, 2001 and the related statements of income and cash flows for the three and six months ended December 2, 2001 and November 26, 2000 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 December 2, 2001 and November 26, 2000, 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.

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2 Inventories

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

	December 2, 2001	June 3, 2001
	-----	-----
Raw Materials	\$ 5,773	\$ 6,584
Work-in-process	470	550
Finished Goods	3,731	5,289
	-----	-----
	\$ 9,974	\$ 12,423
	=====	=====

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AULT INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SECOND QUARTER ENDED DECEMBER 2, 2001

3 Long-term Debt

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

	December 2, 2001	June 3, 2001
	-----	-----
Various term loans, 7.2% - 8.0% interest, due in monthly installments through December 2003, secured by equipment	\$ 198	\$ 273
Various note payables, 6.75% interest, due in quarterly installments through April 2002, unsecured guaranteed by the Korean government	100	314
Term loan, 7.94% interest, due in monthly installments through September 2005, secured by furniture	182	211
Term loan, 8.05% interest, due in monthly installments to February 2015, secured by Minneapolis building	2,796	2,854
	-----	-----
Total	\$ 3,276	\$ 3,652
Less current maturities	378	617
	-----	-----
	\$ 2,898	\$ 3,035
	=====	=====

4 Stockholders' Equity

Six Months Ended
 December 2, 2001

 (\$000)

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Total Stockholders' Equity - June 3, 2001		\$	28,129
Net Loss	\$	(2,706)	
Net change in Foreign currency translation adjustment		32	

Comprehensive Income (Loss)			(2,674)
Issue 9,000 shares of common stock in accordance with stock option plan			29

Total Stockholders' Equity	\$		25,484
			=====

5 Net Income (Loss) 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 difference between weighted average common and common equivalent shares is the result of outstanding stock options.

	Six Months Ended	
	December 2, 2001	November 26, 2000
	-----	-----
Income (Loss) Applicable to Common Shareholders (in thousands)	\$ (2,706)	\$ 1,398
Basic - Weighted Average Shares Outstanding	4,536,536	4,468,129
Diluted Effect of Stock Options	--	234,953
Diluted - Weighted Average Shares Outstanding	4,536,536	4,703,082
Basic Income (Loss) per Share	\$ (0.60)	\$ 0.31
	=====	=====
Diluted Income (Loss) per Share	\$ (0.60)	\$ 0.30
	=====	=====

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AULT INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SECOND QUARTER ENDED DECEMBER 2, 2001

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

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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 requires 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.

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

RESULTS OF OPERATIONS

Second Quarter Ended December 2, 2001

(\$000)	Fiscal 2002	Fiscal 2001	Increase / (Decrease)	
			----- Amount	Percent -----
Net Sales	\$9,953	\$26,573	\$(16,620)	(63%)
Operating Income (Loss)	(2,738)	1,369	(4,107)	(300%)

Net sales were \$9,953,000 for the second quarter of fiscal 2002 down 63% from \$26,573,000 for the second quarter of fiscal 2001. The decrease is due to the economic slowdown, primarily in the telecommunication and data communication industries.

Gross margin for the second quarter was 13.7 percent as a percent of sales, compared with 23.4 percent for the first quarter this year. Second quarter gross margin last year was 21.9 percent. Margins in the second quarter of fiscal year 2002 were affected by an inventory write down of \$780,000 due to identification of obsolete inventory caused by the continued economic slowdown.

Operating expenses were \$4,104,000 for the second quarter of fiscal 2002 down 7.8% from \$4,452,000 for the second quarter of fiscal 2001. Commission expenses decreased by \$570,000 due to lower revenues in the second quarter of fiscal 2002. Bad debt expense increased \$1,310,000 due to the increased likelihood of bad debts arising from the continued economic slowdown. The Company had a charge of \$63,000 for restructuring and severance costs from the November 2001 restructuring. The Company also reduced expenses and increased efficiencies during the second quarter of 2002. This resulted in a savings of \$1,151,000 for the second quarter of 2002.

Six Months Ended December 2, 2001

(\$000)	Increase / (Decrease)
---------	-----------------------

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	Fiscal 2002	Fiscal 2001	----- Amount	Percent
Net Sales	\$20,254	\$48,491	\$(28,237)	(58%)
Operating Income (Loss)	(3,148)	2,254	(5,402)	(240%)

Net sales were \$20,254,000 for the first six months of fiscal 2002 down 58% from \$48,491,000 for the first six months of fiscal 2001. The decrease is due to the economic slowdown, primarily in the telecommunication and data communication industries.

Operating loss totaled \$3,148,000 for the first six months of fiscal 2002 compared to operating income of \$2,254,000 for the same period in fiscal 2001. The decrease of \$28,237,000 in sales reduced operating income by \$6,165,000. This decrease was partially offset by a reduction of commission expense of \$900,000. Due to the economic slowdown bad debt reserve was increased by \$1,310,000 and the inventory reserve was increased by \$780,000. The Company also recorded a charge for restructuring cost of \$63,000. The Company's Korean subsidiary recorded a reduction of expenses of \$200,000 from a business interruption payment due to moving into their new facility. The Company has been decreasing expenses and increasing efficiencies during the first half of fiscal 2002. This resulted in a savings of \$1,816,000 for the first six months of fiscal 2002.

ORDER BACKLOG: The Company's order backlog at December 2, 2001 totaled \$9,320,000 compared to \$10,792,000 at June 3, 2001. The order backlog represents sales for approximately eleven weeks. Many OEMs limit their contractual commitments to the best lead-times of their suppliers.

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NON-OPERATING INCOME AND EXPENSES: Other expense was \$252,000 for the first six months of fiscal 2002 and other income was \$228,000 for the same period in fiscal 2001. The difference is represented by fiscal 2002 having a currency exchange rate loss of \$252,000 while the same period of fiscal 2001 had a currency exchange rate gain of \$210,000 by the Korean subsidiary. The Company had interest income of \$61,000 in the first half of fiscal 2002 and \$50,000 for the same period in fiscal 2001. The Company incurred interest expenses of \$252,000 in the first six months of fiscal 2002 and \$228,000 in the same period of fiscal 2001, paid on bank credit facilities and long-term borrowings.

INCOME TAX: The Company had a pre-tax loss of \$3,624,000 for the first six months in fiscal 2002 on which it accrued a consolidated income tax benefit of \$918,000. During the same period in fiscal 2001 the Company had pre-tax income of \$2,248,000 on which US and Korean income taxes totaling \$800,000 were accrued. The effective tax rate was a benefit of 25.3% for the first six months of fiscal 2002, and a charge of 35.6% for the same period in fiscal 2001. In the first six months 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 basic per share loss of \$(0.60) for the first six months of fiscal 2002, based on 4,537,000 outstanding weighted average shares, compared to basic per share income of \$0.31 for the same period of fiscal 2001, based on 4,468,000 outstanding weighted average shares. For the first six months of fiscal 2002 the Company reported diluted per share loss of \$(0.60), based on 4,537,000 outstanding weighted average shares, compared to diluted per share income of \$0.30 for the same period in fiscal 2001, which was

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based on 4,703,000 outstanding weighted average shares.

LIQUIDITY AND CAPITAL RESOURCES

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

	December 2, 2001	June 3, 2001
	-----	-----
	(\$000)	(\$000)
Working capital	\$14,253	\$17,840
Cash and cash equivalents	6,691	3,723
Unutilized bank credit facilities	2,775	4,767
Cash Provided by operations (six and twelve months ended respectfully)	2,734	1,953

CURRENT WORKING CAPITAL POSITION

As of December 2, 2001, the Company had current assets of \$24,904,000 and current liabilities of \$10,651,000, which amounted to working capital of \$14,253,000 and a current ratio of 2.3 to 1.0. This represents a decrease from its working capital of \$17,840,000 as of 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 December 2, 2001.

CASH AND INVESTMENTS: As of December 2, 2001, the Company had cash and securities totaling \$6,691,000, compared to \$3,723,000 as of June 3, 2001. The increase was due to an increase in bank debt of \$2,000,000 and cash generated in operations.

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.

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CASH FLOWS FOR FISCAL 2002

OPERATIONS: Operations provided \$2,734,000 of cash during the first six months of fiscal 2002 due principally to the following activities:

- (a) The loss net of depreciation and amortization used cash of \$2,269,000.
- (b) Decreases in trade receivables mainly due to the decreased net sales in fiscal 2002 provided \$5,701,000 of cash net of write offs.
- (c) Decreases in inventories provided \$2,799,000 of cash net of write offs. The decrease is due to the decreases in net sales in fiscal 2002.
- (d) Decreases in accrued expenses and accounts payable used \$3,541,000 of cash. The decrease is due to the decrease in net sales for fiscal 2002.

INVESTING ACTIVITIES: Investing activities used net cash of \$724,000 relating to the completion of the new Korean facility.

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FINANCING ACTIVITIES: Financing activities provided net cash of \$954,000, comprised of an additional \$2,000,000 borrowing on the US line of credit, \$687,000 payment on the Korean line of credit, \$388,000 payment on long term debt, and \$29,000 from proceeds from the issuance of common stock.

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 \$4,000 during the first six 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 six months of the fiscal 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 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 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.

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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:

	Six Months Ended	
	December 2, 2001	November 26, 2000
	----- (\$000)	----- (\$000)
US	\$14,846	\$30,304
Korea	2,208	4,871
Belgium	111	2,704
UK	1,208	3,121
China	680	1,631
Canada	454	1,621
Other Foreign	747	4,239
	-----	-----
Total	\$20,254	\$48,491
	=====	=====

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.

ACCOUNTING PRONOUNCEMENTS

On June 4, 2001 the Company adopted Statement of Financial Accounting Standard

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(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 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 requires 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.

IMPACT OF FOREIGN OPERATIONS AND CURRENCY CHANGES:

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 increase of \$32,000 during the first six months of fiscal 2002.

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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 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;

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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 is exposed to certain market risks on outstanding variable interest rate obligations totaling \$2 million at December 2, 2001. Market risk is the potential loss arising from the adverse changes in market rates and prices, such as interest rates. Market risk is estimated as the potential increase in fair value resulting from a hypothetical one percent increase in interest rates which would result in an annual interest expense increase of approximately \$20,000

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PART II

ITEMS 1-3 OTHER INFORMATION: Not Applicable

ITEM 4 Submission of Matters to a Vote of Security Holders;

The following matter was voted upon at the Annual Meeting of Stockholders held on September 25, 2001, and received the votes set forth below:

All of the following persons nominated were elected to serve as directors and received the number of votes set opposite their respective names:

	For	Withheld
	-----	-----
F. Green	4,326,415	67,323
J. Colwell	4,326,315	67,423
C. Barnett	4,326,315	67,423
D. Johnson	4,326,315	67,423
J. Kassakian	4,326,415	67,323
F. Sims	4,326,315	67,423
M. Walker	4,326,415	67,323
D. Larkin	4,326,315	67,423

ITEM 5 OTHER INFORMATION: Not Applicable

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

Exhibits		
Reference	Title of Document	Location
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	Part 1 Exhibits	

- (a) None
- (b) None

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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
(REGISTRANT)

DATED:

/s/ Frederick M. Green

Frederick M. Green, President
Chief Executive Officer and
Chairman

DATED:

/s/ Donald L. Henry

Donald L. Henry
Chief Financial Officer

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