

Edgar Filing: AULT INC - Form 10-Q

AULT INC  
Form 10-Q  
April 14, 2003

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 March 2, 2003

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 25, 2003
-----	-----
No par value	4,627,806 shares

Total pages 22  
Exhibits Index on Page 18

PART 1. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

# Edgar Filing: AULT INC - Form 10-Q

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

	(Unaudited)		
	Third Quarter Ended		Nine Months En
	March 2 2003	March 3 2002	March 2 2003
Net Sales	\$9,940	\$9,484	\$31,311
Cost of Goods Sold	8,078	7,527	24,448
Gross Profit	1,862	1,957	6,863
Operating Expenses:			
Marketing	1,185	865	3,485
Design Engineering	1,154	611	3,062
General and Administrative	1,320	1,126	4,010
	3,659	2,602	10,557
Operating Loss	(1,797)	(645)	(3,694)
Other Income (Expense):			
Interest Expense	(94)	(124)	(329)
Interest Income	6	31	29
Other	62	47	(62)
	(26)	(46)	(362)
Loss Before Income Taxes	(1,823)	(691)	(4,056)
Income Tax Benefit	(30)	(81)	(302)
Net Loss	(1,793)	(610)	(3,754)
Preferred Stock Dividends	(36)		(91)
Net Loss Applicable to Common Stock	\$ (1,829)	\$ (610)	\$ (3,845)
Loss Per Share			
Basic:	\$ (0.40)	\$ (0.13)	\$ (0.84)
Diluted:	\$ (0.40)	\$ (0.13)	\$ (0.84)
Common and Equivalent Shares Outstanding:			
Basic	4,597,283	4,538,489	4,583,374
Diluted	4,597,283	4,538,489	4,583,374

Edgar Filing: AULT INC - Form 10-Q

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Page 2

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

	(Unaudited)	
	March 2, 2003	June 2, 2002
	-----	-----
Assets:		
Current Assets		
Cash and Cash Equivalents	\$1,204	\$4,775
Trade Receivables, Less Allowance for Doubtful Accounts of \$585,000 at March 2, 2003; \$320,000 at June 2, 2002	7,599	7,012
Inventories (Note 2)	9,851	8,502
Prepaid and Other Expenses	1,756	2,551
	-----	-----
Total Current Assets	20,410	22,840
Other Assets:		
Goodwill	1,153	1,153
Other	333	262
	-----	-----
	1,486	1,415
Property Equipment and Leasehold Improvements:		
Land	1,704	1,704
Building and Leasehold Improvements	7,780	7,780
Machinery and Equipment	9,145	7,586
Office Furniture	1,824	1,480
E.D.P. Equipment	2,207	2,234
	-----	-----
	22,660	20,784
Less Accumulated Depreciation	9,110	8,342
	-----	-----
	13,550	12,442
	-----	-----
	\$35,446	\$36,697
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Page 3

Edgar Filing: AULT INC - Form 10-Q

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

	(Unaudited)	
	March 2, 2003	June 2, 2002
	-----	-----
Liabilities and Stockholders' Equity:		
Current Liabilities		
Note Payable to Bank	\$3,507	\$2,890
Current Maturities of Long-Term Debt (Note 3)	290	281
Accounts Payable	3,711	4,717
Accrued Compensation	620	435
Accrued Commissions	254	286
Other	733	148
	-----	-----
Total Current Liabilities	9,115	8,757
Long-Term Debt, Less Current Maturities (Note 3)	2,537	2,754
Deferred Tax Liability	276	273
Retirement and Severance Benefits	269	160
Redeemable Convertible Preferred Stock, No Par Value, 2,074 Shares Issued and Outstanding	2,074	
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 4,604,594 on March 2, 2003; and 4,563,610 on June 2, 2002;	20,955	20,858
Notes Receivable arising from the sale of common stock	(100)	(100)
Accumulated Other Comprehensive Loss	(752)	(922)
Retained Earnings	1,072	4,917
	-----	-----
	21,175	24,753
	-----	-----
	\$35,446	\$36,697
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: AULT INC - Form 10-Q

	(Unaudited)	
	Nine Months Ended March 2, 2003	March 3, 2002
	-----	-----
Cash Flows From Operating Activities:		
Net Loss	\$ (3,754)	\$ (3,316)
Adjustments to Reconcile Net Income to Net Cash		
Used in Operating Activities:		
Depreciation	769	662
Amortization		75
Provision for Bad Debt	205	1,415
Changes in Assets and Liabilities:		
(Increase) Decrease In:		
Trade Receivables	(50)	4,954
Inventories	145	3,348
Prepaid and Other Expenses	(497)	142
Increase (Decrease) in:		
Accounts Payable	(1,159)	(1,910)
Accrued Expenses	648	(707)
Income Tax Payable\Receivable	619	(1,168)
	-----	-----
Net Cash (Used in) Provided by Operating Activities	(3,074)	3,495
	-----	-----
Cash Flows From Investing Activities:		
Purchase of Equipment and Leasehold Improvements	(279)	(810)
Power General Acquisition, net of cash acquired	(366)	
	-----	-----
Net Cash Used in Investment Activities	(645)	(810)
	-----	-----
Cash Flows From Financing Activities:		
Net Proceeds (Payments) on Revolving Credit Agreements	299	(1,218)
Proceeds from Issuance of Common Stock	24	29
Principal Payments on Long-Term Borrowings	(208)	(557)
	-----	-----
Net Cash Provided by (Used in) Financing Activities	115	(1,746)
	-----	-----
Effect of Foreign Currency Exchange Rate Changes on Cash	33	3
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	(3,571)	942
Cash and Cash Equivalents at Beginning of Period	4,775	3,723
	-----	-----
Cash and Cash Equivalents at End of Period	\$1,204	\$4,665
	=====	=====
Non-Cash Transaction:		
Issuance of Redeemable Convertible Preferred Stock to Acquire Power General	\$2,074	
Issuance of Common Stock to Pay Preferred Stock Dividends	73	

AULT INCORPORATED AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 THIRD QUARTER ENDED MARCH 2, 2003

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.

The consolidated balance sheet of the Company as of March 2, 2003, the related consolidated statements of operations for the three and nine months ended March 2, 2003 and March 3, 2002, and the consolidated statements of cash flows for the nine months ended March 2, 2003 and March 3, 2002 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 March 2, 2003 and March 3, 2002, 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 2, 2002 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.

2. Inventories

The components of inventory (in thousands) at March 2, 2003 and June 2, 2002 are as follows:

	March 2, 2003	June 2, 2002
	-----	-----
Raw Materials	\$5,623	\$4,609
Work-in-process	937	789
Finished Goods	3,291	3,104
	-----	-----
	\$9,851	\$8,502
	=====	=====

3. Financing Arrangements and Long-term Debt

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

March 2, 2003	June 2, 2002
-----	-----

Edgar Filing: AULT INC - Form 10-Q

Term loan, 7.2% interest, due in monthly installments through December 2003, secured by equipment	\$84	\$149
Term loan, 7.94% interest, due in monthly installments through September 2005, secured by furniture	104	151
Term loan, 8.05% interest, due in monthly installments through February 2015, secured by Company's headquarters building	2,639	2,735
	-----	-----
Total	\$2,827	\$3,035
Less current maturities	290	281
	-----	-----
	\$2,537	\$2,754
	=====	=====

Page 6

AULT INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
THIRD QUARTER ENDED MARCH 2, 2003

The Company currently has two credit facilities. It has a credit facility supporting the South Korean subsidiary of approximately \$4,100,000 of which \$3,200,000 is outstanding. The other facility is for \$299,000, all of which is outstanding, and supports the Xianghe subsidiary. The US operations currently are without a credit facility. The Company is in negotiations to secure a credit facility during the fourth quarter. The Company anticipates that it has sufficient cash on hand and availability on its South Korean facility to fund the operations.

4. Stockholders' Equity

		Nine Months Ended March 2, 2003
		-----
		(\$000)
Total Stockholders' Equity - June 2, 2002		\$24,753
Net Loss	\$ (3,754)	
Net change in Foreign currency translation adjustment	170	
	-----	
Comprehensive Income (Loss)		(3,584)
Preferred Stock Dividends Declared		(91)
Preferred Stock Dividends Paid with Common Stock		73
Issue 9,500 shares of common stock in accordance with stock option plan		24
		-----
Total Stockholders' Equity		\$21,175
		=====

5. Net 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 Redeemable Convertible Preferred Stock and stock options had no effect on diluted weighted average shares outstanding, as they were anti-dilutive.

Edgar Filing: AULT INC - Form 10-Q

	Third Quarter Ended		Nine Mont
	March 2, 2003	March 3, 2002	March 2, 2003
Loss Applicable to Common Shareholders (in thousands)	\$ (1,829)	\$ (610)	\$ (3,845)
Basic - Weighted Average Shares Outstanding	4,597,283	4,538,489	4,583,374
Diluted - Weighted Average Shares Outstanding	4,597,283	4,538,489	4,583,374
Basic Loss per Share	\$ (0.40)	\$ (0.13)	\$ (0.84)
Diluted Loss per Share	\$ (0.40)	\$ (0.13)	\$ (0.84)

6. Acquisition

On July 16, 2002, the Company purchased a portion of the operating assets of the Power General division of Nidec America Corporation. The Power General division developed, manufactured, and sold high efficiency DC/DC converters and custom power supplies at various power levels up to 1200 watts under the Power General brand name. Pursuant to the Purchase Agreement, the Company paid the Seller \$366,000 in cash and issued \$2,074,000 face amount of the Company's newly-created Series B 7% Convertible Preferred Stock, no par value (the "Preferred Stock"). The Preferred Stock issued to Seller is convertible into 488,000 shares of the Company's Common Stock. The Company has filed a registration statement covering the shares of Common Stock issuable upon conversion of the Preferred Stock with the Securities and Exchange Commission. The Company has maintained Power General's engineering group in Massachusetts and has moved Power General's manufacturing operations and related functions to Ault's other facilities in North America and Asia.

Page 7

AULT INCORPORATED AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 THIRD QUARTER ENDED MARCH 2, 2003

The addition of Power General will benefit Ault in a number of ways. First, the additional engineering capabilities will enhance product development. Second, the acquisition brings greater product breadth to Ault through the addition of AC/DC power supplies and DC/DC converter products. This broader offering affords Ault new business opportunities.

Ault filed a Form 8-K with the Securities and Exchange Commission on July 31, 2002 to announce the acquisition, filed a Form 8-K/A on September 30, 2002 which included audited financial statement and pro forma financials and filed a Form 8-K/A Amendment 2 on October 18, 2002 which included the consent of the auditors.

The total cost of the acquisition, which closed on July 16, 2002, was \$2,559,278 and was accounted for under the purchase method of accounting. Accordingly, the



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

acquired assets and liabilities assumed have been recorded at their respective fair values as of the date of acquisition. The results of operations of the acquired business is included in the financial statements since the date of the acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed from Nidec on the date of the acquisition:

Inventories	\$ 1,048,675
Property and equipment	1,634,971
	-----
Total assets acquired	2,683,646
	-----
Current liabilities	124,368
	-----
Net assets acquired	\$ 2,559,278
	-----

Pro-forma results of the Company, assuming the acquisition had been made at the beginning of each period presented, are:

Amounts in thousands, except per share amounts

	Third Quarter Ended		Nine Months Ended	
	March 2, 2003	March 3, 2002	March 2, 2003	March 3, 2002
	-----	-----	-----	-----
Revenue	\$ 9,940	\$ 10,831	\$ 31,680	\$ 33,780
Net Loss	(1,793)	(1,700)	(4,088)	(6,586)
Preferred Stock Dividends	36	37	110	111
	-----	-----	-----	-----
Net Loss Applicable to Common Stock	\$ (1,829)	\$ (1,737)	\$ (4,198)	\$ (6,697)
	-----	-----	-----	-----
Basic/Diluted Loss Per Share	\$ (0.40)	\$ (0.38)	\$ (0.92)	\$ (1.48)
Common and equivalent shares outstanding:	4,597	4,538	4,583	4,537

Included in the nine months ended March 2, 2003 are approximately \$522,000 of nonrecurring expenses for transition services relating to the transfer of Power General operations out of the Nidec facility and into an Ault facility.

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

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, effective June 3, 2002. Under SFAS No. 142, goodwill is no longer amortized but reviewed for impairment annually, or more frequently if certain indicators arise. Based on the initial impairment test, it was determined that none of the goodwill recorded was impaired. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses. Had the Company been accounting for its goodwill under SFAS No. 142 for all periods presented, the Company's net loss and loss per share would have been as follows:

Amounts in thousands, except per share amounts

	Third Quarter Ended		Nine Months Ended	
	March 2, 2003	March 3, 2002	March 2, 2003	March 3, 2002
Reported net loss	\$ (1,829)	\$ (610)	\$ (3,845)	\$ (3,316)
Add back goodwill amortization, net of tax	--	25	--	75
Pro forma adjusted net loss	(1,829)	(585)	(3,845)	(3,241)
Basic and diluted net loss per share:				
Reported net loss	\$ (0.40)	(0.13)	\$ (0.84)	\$ (0.73)
Goodwill amortization, net of tax	--	0.01	--	0.02
Pro forma adjusted basic and diluted net loss per share	\$ (0.40)	\$ (0.12)	\$ (0.84)	\$ (0.71)
Common and equivalent shares outstanding:	4,597	4,538	4,583	4,537

### 8. Redeemable Convertible Preferred Stock

During the first quarter, in connection with the purchase of certain assets and liabilities of Power General, the Company issued 2,074 shares of redeemable 7% convertible preferred stock at \$1,000 face value. The preferred stock shares are convertible into common stock at the holders' option at a conversion price of \$4.25 per share and has a mandatory redemption of one-third of the outstanding shares of unconverted preferred stock on July 16, 2006, one-half of the remaining outstanding on July 16, 2007, and the rest on July 16, 2008. The dividends on the preferred stock are cumulative and payable quarterly beginning October 15, 2002, and can be paid in cash; however, during the first three years the Company can pay dividends in shares of common stock in lieu of cash. The Company has declared dividends of \$91,000 of which \$72,000 have been paid with common stock.

### 9. Warranty

The Company offers its customers a three-year warranty on products. Warranty expense is determined by calculating the historical relationship between sales and warranty costs and applying the calculation to the current period's sales. Based on warranty repair costs and the rate of return, the Company periodically reviews and adjusts its warranty accrual. Actual repair costs are offset against the reserve. The following table shows the fiscal 2003 year-to-date activity for the Company's warranty accrual (in thousands):

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

Beginning Balance	\$113
Charges and Costs Accrued	62
Less Repair Costs Incurred	(82)
	-----
Ending Balance	\$93

Page 9

### 10. Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING TRANSACTIONS. SFAS 144 requires that long-lived assets to be disposed of be measured at the lower of carrying amount or fair value less cost to sell. The Company adopted SFAS 144 on June 3, 2002 and it did not have an effect on its financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE, which amends SFAS 123, ACCOUNTING FOR STOCK-BASED COMPENSATION. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 is not expected to have a material impact on the Company's consolidated balance sheet or results of operations.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS. FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The recognition and measurement provisions of this Interpretation are effective for all guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has made the additional required disclosures in this quarterly report; see Note 9 regarding product warranty liability. The Company has no guarantees of others, which require disclosure.

Page 10

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

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

#### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the financial condition and results of operations are based on the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those involving significant judgments and uncertainties which could potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of the financial condition and results of operations. The Company believes the accounting policies described below meet these characteristics. All significant accounting policies are more fully described in the notes to the consolidated financial statements included in the Company's annual report on Form 10-K.

**INVENTORY VALUATION** - Inventory is written down for estimated surplus and discontinued inventory items. The amount of the write-down is determined by analyzing historical and projected sales information, plans for discontinued products and other factors. Changes in sales volumes due to unexpected economic or competitive conditions are among the factors that may result in materially different amounts for this item.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS** - An allowance is established for estimated uncollectible accounts receivable. The required allowance is determined by reviewing customer accounts and making estimates of amounts that may be uncollectible. Factors considered in determining the amount of the reserve include the age of the receivable, the financial condition of the customer, general business, economic and political conditions, and other relevant facts and circumstances. Unexpected changes in the aforementioned factors may result in materially different amounts for this item.

**DEFERRED TAXES** - The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax basis of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is likely that some portion or the entire deferred tax asset will not be realized. Based upon prior taxable income and estimates of future taxable income, the Company has determined that it is likely that a portion of the net deferred tax asset will not be fully realized in the future. Thus a valuation allowance has been established. If actual taxable income varies from these estimates, the Company may be required to change the valuation allowance against the deferred tax assets resulting in a change in income tax expense (benefit), which will be recorded in the consolidated statement of operations.

#### RESULTS OF OPERATIONS

Third Quarter Ended March 2, 2003

Edgar Filing: AULT INC - Form 10-Q

(\$000)	Fiscal 2003	Fiscal 2002	Favorable / (Unfavorable)	
			Amount	Percent
Net Sales	\$9,940	\$9,484	\$456	5%
Operating Loss	(1,797)	(645)	(1,152)	(179%)

Net sales were \$9,940,000 for the third quarter of fiscal 2003 up 5% from \$9,484,000 for the third quarter of fiscal 2002. The increase is due to sales resulting from the acquisition of certain assets and certain liabilities of Power General of \$450,000, an increase in sales into the Asia Pacific area of \$1,994,000, offset tax decrease in sales to North America and Europe of \$1,988,000. The Company is anticipating a continuation of the increases in the Asia Pacific region and a stabilization of the sales in North America and Europe.

Page 11

Gross margin for the third quarter was 18.7 percent as a percent of sales, compared with 20.6 percent for the same period last year. Current year margins were down due to the lower revenue numbers for the North American and European markets. These markets tend to have higher margin and lower volumes. Future margins will depend on the strength of the North American and European markets.

Operating expenses increased in the third quarter of fiscal 2003 to \$3,659,000 from \$2,602,000 in the third quarter of fiscal 2002. The increase of expenses in the third quarter of fiscal 2003 is primarily related to the July 2002 acquisition of certain assets and certain liabilities of Power General. This acquisition added costs of \$978,000 relating to the engineering and sales staff hired as a result of the acquisition. These costs will continue in the future.

Nonoperating expense is \$26,000 for the third quarter of fiscal 2003 compared to \$46,000 for the same period in fiscal 2002. The Company had interest income of \$6,000 in the three months ended March 2, 2003 and \$31,000 for the same period in fiscal 2002. Other income is \$62,000 for the third quarter of fiscal 2003 and \$47,000 for the same period in fiscal 2002. Both amounts are primarily related to the currency exchange rate gain in Korea. The Company incurred interest expenses of \$94,000 in the third quarter of fiscal 2003 and \$124,000 in the same period of fiscal 2002, paid on bank credit facilities and long-term borrowings.

The Company had a pre-tax loss of \$1,823,000 for the three-month period ended March 2, 2003 on which it accrued a consolidated income tax benefit of \$30,000. For the same three-month period in fiscal 2002 the Company had a pre-tax loss of \$691,000 on which a tax benefit of \$81,000 was accrued. The effective tax rate is a benefit of 2% for the third quarter of 2003, and a benefit of 12% for the same period in fiscal 2002. In the third quarter of fiscal 2003 the Company had a higher pre-tax loss than previously anticipated. This loss taken with the anticipated results for the fourth quarter decreased the effective tax benefit for the year. The adjustment in that rate resulted in a lower tax benefit for the third quarter.

Nine Months Ended March 2, 2003

(\$000)	Fiscal 2003	Fiscal 2002	Favorable / (Unfavorable)	
			Amount	Percent
-----				

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

Net Sales	\$31,311	\$29,738	\$1,573	5%
Operating Loss	(3,694)	(3,793)	99	3%

Net sales were \$31,311,000 for the first nine months of fiscal 2003 up 5% from \$29,738,000 for the first nine months of fiscal 2002. The increase is due to sales resulting from the acquisition of certain assets and certain liabilities of Power General of \$1,511,000, an increase in sales into the Asia Pacific area of \$4,159,000, offset by a decrease in sales to North America and Europe of \$4,097,000.

Operating loss totaled \$3,694,000 for the first nine months of fiscal 2003 compared a loss of \$3,793,000 for the same period in fiscal 2002. Margins for the first three quarters of fiscal 2003 is 21.9% of sales compared to 19.3% of sales for the same period in fiscal 2002. The increase in margin is primarily due to 1) a \$780,000 inventory write down in the second quarter of fiscal 2002. 2) The increase in the value of orders that were manufactured by the Company's subsidiaries as opposed to the Company's subcontractors. This contributed \$47,000 of higher margins. 3) The volume of orders at the China facility exceeded the fixed cost mark in the first nine months of fiscal 2003 compared to the first nine months of fiscal 2002. This increased margins by \$518,000. 4) The higher cost of the transition of Power General production into an Ault facility resulted in higher costs of \$288,000 and decreased margins. As of the end of the second quarter the transition has been complete. 5) Lower revenue in North America and Europe decreased margin by \$230,000.

Operating expenses increased in the first nine months of fiscal 2003 to \$10,557,000 from \$9,525,000 in the first nine months of fiscal 2002. The increase in expenses is primarily related to 1) a decrease in the bad debt expense for fiscal 2003. The Company recognized \$1,300,000 of additional bad debt expense for accounts that were uncollectible in fiscal 2002. 2) The July 2002 acquisition of certain assets and certain liabilities of Power General increased costs from fiscal 2002 by \$1,977,000. These additional costs are related to the engineering and sales staff hired as a result of the acquisition. These costs will continue in the future. 3) Transition costs of \$404,000 for temporary operations in the current Power General location. The transition for the manufacturing of these products is complete and these costs will not continue.

Page 12

**ORDER BACKLOG:** The Company's order backlog at March 2, 2003 totaled \$8,881,000 compared to \$8,365,000 at June 2, 2002. The order backlog represents sales for approximately ten weeks.

**NON-OPERATING INCOME AND EXPENSES:** Nonoperating expense is \$362,000 for the first nine months of fiscal 2003 compared to \$522,000 for the same period in fiscal 2002. The Company had interest income of \$29,000 in the first three quarters of fiscal 2003 and \$92,000 for the same period in fiscal 2002. Other expense is \$62,000 for the first nine months of fiscal 2003 and \$205,000 in the first nine months of fiscal 2002. Both amounts are primarily related to the currency exchange rate loss in Korea. The Company incurred interest expenses of \$329,000 in the first nine months of fiscal 2003 and \$409,000 in the same period of fiscal 2002, paid on bank credit facilities and long-term borrowings.

**INCOME TAX:** The Company had a pre-tax loss of \$4,056,000 for the nine-month period in fiscal 2003 on which it accrued a consolidated income tax benefit of \$302,000. For the nine-month period in fiscal 2002 the Company had a pre-tax

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

loss of \$4,315,000 on which a tax benefit of \$999,000 was accrued. The effective tax rate is a benefit of 7% for the first three quarters of 2003, and a benefit of 23% for the same period in fiscal 2002. In the first three quarters of fiscal 2003 the Company did not take a benefit from either foreign or U.S. loss carryforwards generated because it was likely the Company will be unable to use such losses to offset future taxable income. The Company has recognized the benefit that will be realized from the loss carrybacks. In the first three quarters of fiscal 2002 the Company did not take a benefit from the foreign loss carryforwards the loss generated because management believes it was likely the Company will be unable to use such losses.

NET LOSS: The Company reported a basic and diluted per share loss of \$0.84 for the first nine months of fiscal 2003, based on 4,583,000 outstanding weighted average shares, compared to basic and diluted per share loss of \$0.73 for the same period of fiscal 2002, based on 4,537,000 outstanding weighted average shares.

### LIQUIDITY AND CAPITAL RESOURCES

The following table describes the Company's liquidity and financial position on March 2, 2003, and on June 2, 2002:

	March 2, 2003	June 2, 2002
	-----	-----
	(\$000)	(\$000)
Working capital	\$11,295	\$14,083
Cash and cash equivalents	1,204	4,775
Unutilized bank credit facilities	900	4,975

### CURRENT WORKING CAPITAL POSITION

As of March 2, 2003, the Company had current assets of \$20,410,000 and current liabilities of \$9,115,000, which amounted to working capital of \$11,295,000 and a current ratio of 2.2 to 1.0. This represents a decrease from its working capital of \$14,083,000 as of June 2, 2002. 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 March 2, 2003.

CASH AND INVESTMENTS: As of March 2, 2003, the Company had cash totaling \$1,204,000, compared to \$4,775,000 as of June 2, 2002. This decrease was primarily due to payments for the acquisition of Power General of \$366,000, and payments to fund operations including the operations of Power General after the acquisition of \$3,205,000.

CREDIT FACILITIES: The Company currently has two credit facilities. It has a credit facility supporting the South Korean subsidiary of approximately \$4,100,000 of which \$3,200,000 is outstanding. The other facility is supporting the Xianghe subsidiary of \$299,000 of which \$299,000 is outstanding. The US operations currently are without a credit facility. The Company is in negotiations to secure a credit facility during the fourth quarter. The Company anticipates that it has sufficient cash on hand and availability on its South Korean facility to fund the operations.

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

### CASH FLOWS FOR FISCAL 2003

**OPERATIONS:** Operations used \$3,074,000 of cash during the first nine months of fiscal 2003 due principally to the loss net of depreciation.

**INVESTING ACTIVITIES:** Investing activities used net cash of \$645,000 relating to the acquisition of Power General (\$366,000) and purchase of new equipment (\$279,000).

**FINANCING ACTIVITIES:** Financing activities provided net cash of \$115,000, comprised of \$208,000 payment on debt, \$24,000 from proceeds from the issuance of common stock and proceeds from the revolving credit line of \$299,000.

**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 \$33,000 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 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 2003.

**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.

### 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	
	March 2, 2003	March 3, 2002
	----- (\$000)	----- (\$000)
US	\$18,844	\$20,577
China	4,437	1,693
Korea	3,822	3,304
UK	1,970	1,820
Canada	493	684
Belgium	408	305
Other Foreign	1,337	1,355
	-----	-----
Total	\$31,311	\$29,738
	=====	=====

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

### 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 \$170,000 during the first nine months of fiscal 2003.

Page 14

### 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; availability of adequate supplies of raw materials and components; fuel prices; and other risks affecting the Company's target markets.

Page 15

### 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 March 2, 2003, the Company had only 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.

### ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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

The Company's Chief Executive Officer, Frederick M. Green, and Chief Financial Officer, Donald L. Henry, have reviewed the Company's disclosure controls and procedures within 90 days prior to the filing of this report. Based upon this review, these officers believe that the Company's disclosure controls and procedures are effective in ensuring that material information related to the Company is made known to them by others within the Company.

### (b) Changes in Internal Controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter covered by this report or from the date of the review to the date of this Form 10-Q.

Page 16

## PART II

### ITEM 1 LEGAL PROCEEDINGS:

Not Applicable

### ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

#### (c) Recent Sales of Unregistered Securities

As previously disclosed, on July 16, 2002, the Company purchased a portion of the operating assets of the Power General division of Nidec America Corporation (the "Seller") pursuant to an Asset Purchase Agreement between the Company and the Seller dated July 16, 2002 (the "Purchase Agreement"). Pursuant to the Purchase Agreement, the Company paid Seller \$366,000 in cash and issued \$2,074,000 in face amount of the Company's newly-created Series B 7% Redeemable Convertible Preferred Stock, no par value (the "Preferred Stock"). The cash portion of the purchase price was paid from the Company's working capital. At the current conversion price of \$4.25 per share, the Preferred Stock issued to Seller is convertible into 488,000 shares of the Company's Common Stock and the Company agreed to file a registration statement covering the shares of Common Stock issuable upon conversion of the Preferred Stock with the Securities and Exchange Commission ("SEC"). The Company filed a Form S-3 Registration Statement with SEC on October 8, 2002.

The Company believes that the issuance of the Preferred Stock was exempt pursuant to Section 4(2) of the Securities Act of 1993. Under the terms of the Purchase Agreement, the Seller agreed that it was acquiring the Preferred Stock for its own account and not with a present view to public resale.

### ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Not Applicable

### ITEM 5 OTHER INFORMATION

Edgar Filing: AULT INC - Form 10-Q

Not Applicable

Page 17

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

- (a) The following exhibits are included herein:
  - 99.1 Certificate pursuant to 18 U.S.C. ss.1350
- (b) Reports on form 8-K

On July 31, 2002, Ault filed a Form 8-K dated July 16, 2002 to report an event under Item 2, Acquisition or Disposition of Assets. On September 30, 2002, Ault filed Amendment No. 1 to Form 8-K on Form 8-K/A to provide under Item 7, Financial Statements and Exhibits, the required financial statements and pro forma financial information. On October 18, 2002, Ault filed Amendment No. 2 to Form 8-K on Form 8-K/A to provide under Item 7, Financial Statements and Exhibits, the required consent of the auditors.

Page 18

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: April 10, 2003  
-----

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

Frederick M. Green, President  
Chief Executive Officer and  
Chairman

DATED: April 10, 2003  
-----

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

Donald L. Henry  
Chief Financial Officer

Page 19

Edgar Filing: AULT INC - Form 10-Q

CERTIFICATION

-----

I, Frederick M. Green, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ault Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 10, 2003  
-----

/ s / Frederick M. Green  
-----  
President and  
Chief Executive Officer

CERTIFICATION

-----

I, Donald L. Henry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ault Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 10, 2003

-----

/ s / Donald L. Henry

-----

