AULT INC
Form 10-Q
April 14, 2004

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 29, 2004

Commission file number 0-12611

AULT INCORPORATED

MINNESOTA (State or other jurisdiction of incorporation or organization)	41-0842932 (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 __X___ NO _______

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES _____ NO ___X___

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 April 2, 2004**
No par value	4,694,465 shares

Total pages 22
Exhibits Index on Page 18

PART 1. FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

AULT INCORPORATED & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Share and Per Share Amounts)

	(Unaudited)			
	Three Months Ended		Nine Months Ended	
	February 29 2004	March 2 2003	February 29 2004	March 2 2003
Net Sales	$ 10,730	$ 9,940	$ 32,680	$ 31,311
Inventory Writedown From Exit	545		545	
Cost of Goods Sold	7,893	8,078	24,496	24,448
Gross Profit	2,292	1,862	7,639	6,863
Operating Expenses:				
Marketing	972	1,185	2,911	3,485
Design Engineering	1,026	1,154	2,768	3,062
General and Administrative	1,354	1,320	3,994	4,010
Exit Costs	1,743		2,064	
	5,095	3,659	11,737	10,557
Operating Loss	(2,803)	(1,797)	(4,098)	(3,694)
Other Income (Expense):				
Interest Expense	(168)	(94)	(466)	(329)
Interest Income		6		29
Other	43	62	28	(62)
	(125)	(26)	(438)	(362)
Loss Before Income Taxes	(2,928)	(1,823)	(4,536)	(4,056)
Income Tax Benefit		(30)		(302)
Net Loss	(2,928)	(1,793)	(4,536)	(3,754)
Preferred Stock Dividends	(36)	(36)	(108)	(91)
Net Loss Applicable to Common Shareholders	$ (2,964)	$ (1,829)	$ (4,644)	$ (3,845)
Loss Per Share				
Basic:	$ (0.63)	$ (0.40)	$ (0.99)	$ (0.84)
Diluted:	$ (0.63)	$ (0.40)	$ (0.99)	$ (0.84)
Common and Equivalent Shares Outstanding:				
Basic	4,687,597	4,597,283	4,672,769	4,583,374
Diluted	4,687,597	4,597,283	4,672,769	4,583,374

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) February 29, 2004	June 1, 2003
Assets:		
Current Assets		
Cash and Cash Equivalents	$ 989	$ 1,100
Trade Receivables, Less Allowance for Doubtful Accounts of $629 at February 29, 2004; $500 at June 1, 2003	7,618	7,417
Inventories	9,331	9,868
Assets Held for Sale	10	--
Prepaid and Other Expenses	1,486	1,064
Total Current Assets	19,434	19,449
Other Assets	166	333
Property Equipment and Leasehold Improvements:		
Land	1,735	1,735
Building and Leasehold Improvements	6,711	7,845
Machinery and Equipment	7,093	8,961
Office Furniture	1,890	1,887
E.D.P. Equipment	2,001	2,226
	19,430	22,654
Less Accumulated Depreciation	8,617	9,371
	10,813	13,283
	$ 30,413	$ 33,065

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AULT INCORPORATED & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share and Per Share Amounts)

	(Unaudited) February 29, 2004	June 1, 2003
Liabilities and Stockholders' Equity:		
Current Liabilities		
Note Payable to Bank	$ 4,927	$ 3,104
Current Maturities of Long-Term Debt	475	560
Accounts Payable	5,705	5,696
Accrued Compensation	1,171	1,162
Accrued Commissions	236	300
Other	418	195
Total Current Liabilities	12,932	11,017
Long-Term Debt, Less Current Maturities	2,352	2,483
Deferred Tax Liability	23	23
Retirement and Severance Benefits	236	148
Redeemable Convertible Preferred Stock, No Par Value, 2,074 Shares Issued and Outstanding	2,074	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 4,695,465 on February 29, 2004; and 4,648,499 on June 1, 2003;	21,136	21,026
Notes Receivable arising from the sale of common stock	(45)	(45)
Accumulated Other Comprehensive Loss	(876)	(886)
Accumulated Deficit	(7,419)	(2,775)
	12,796	17,320
	$ 30,413	$ 33,065

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) Nine Months Ended February 29, 2004	March 2, 2003

	(Unaudited) Nine Months Ended	
Cash Flows From Operating Activities:		
Net Loss	$ (4,536)	$ (3,754)
Adjustments to Reconcile Net Loss to Net Cash		
Used in Operating Activities:		
Depreciation	939	769
Asset Impairment	1,742	
Changes in Assets and Liabilities:		
(Increase) Decrease In:		
Trade Receivables	(304)	155
Inventories	601	145
Prepaid and Other Expenses	(116)	(497)
Increase (Decrease) in:		
Accounts Payable	(24)	(1,159)
Accrued Expenses	244	1,267
Net Cash Used in Operating Activities	(1,454)	(3,074)
Cash Flows From Investing Activities:		
Purchase of Equipment and Leasehold Improvements	(210)	(279)
Power General Acquisition, net of cash acquired		(366)
Net Cash Used in Investment Activities	(210)	(645)
Cash Flows From Financing Activities:		
Net Borrowings on Revolving Credit Agreements	1,765	299
Proceeds from Issuance of Common Stock	2	24
Principal Payments on Long-Term Borrowings	(217)	(208)
Net Cash Provided by Financing Activities	1,550	115
Effect of Foreign Currency Exchange Rate Changes on Cash	3	33
Decrease in Cash and Cash Equivalents	(111)	(3,571)
Cash and Cash Equivalents at Beginning of Period	1,100	4,775
Cash and Cash Equivalents at End of Period	$ 989	$ 1,204
Non-Cash Transaction:		
Issuance of Redeemable Convertible Preferred Stock to Acquire Power General	$	$ 2,074
Issuance of Common Stock to Pay Preferred Stock Dividends	108	73

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THIRD QUARTER ENDED FEBRUARY 29, 2004

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 intercompany transactions have been eliminated. The foreign currency translation adjustment in footnote 7 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 February 29, 2004, the related consolidated statements of operations for the three and nine months ended February 29, 2004 and March 2, 2003, and the consolidated statements of cash flows for the nine months ended February 29, 2004 and March 2, 2003 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 29, 2004 and March 2, 2003, and the results of operations and cash flows for all periods presented. The accompanying balance sheet as of June 1, 2003 has been derived from the audited financial statements of that date.

Management plans The financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company sustained net losses applicable to common stock of $4,644,000 for the nine months ended February 29, 2004, $7,692,000 in fiscal 2003 and $3,564,000 in fiscal 2002, and at February 29, 2004 had an accumulated deficit of $7,419,000. Net cash used in operating activities was $1,454,000 for the nine months ended February 29, 2004 and $3,179,000 in fiscal 2003. Future operations will require the Company to borrow additional funds. On December 4, 2003, the Company entered into a new financing agreement, which includes a $7,000,000 line-of-credit agreement through December 2006. The availability of the line is based on the outstanding receivables of the Company; the amount available at February 29, 2004 was $3,120,000. During the third quarter of fiscal 2004, the Company violated the financing agreements covenants and subsequent to quarter-end received a waiver and an amended agreement with less restrictive covenants. The Company continues to take steps to reduce expenses, improve cash flow and return to profitability, including the consolidation of its manufacturing operations. This consolidation included the closing of its Minneapolis production operations, eliminating approximately 40 jobs in assembly, equipment maintenance, procurement and administrative support and the integration of production into Ault s other manufacturing plants. Ault s engineering, documentation, safety certification/reliability, sales, marketing and administrative services will remain at the Minneapolis headquarters facility. The consolidation was complete by the end of February.

Based on available funds, current plans and business conditions management believes that the Company s available cash, amounts available on its line-of-credit agreement, and amounts generated from operations, will be sufficient to meet the Company s cash requirements for the next 12 months. Supporting this belief are several assumptions including that there will be no material adverse developments in the business or the general market. There can be, however, no assurances regarding these assumptions. If management s plans are not achieved, there may be further negative effects on the results of operations and cash flows, which could have a material adverse effect on the Company.

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 1, 2003 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.

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THIRD QUARTER ENDED FEBRUARY 29, 2004

2. Stock Compensation

The Company s 1986 and 1996 stock option plan has reserved 600,000 and 1,200,000 common shares, respectively, for issuance under qualified and nonqualified stock options for its key employees and directors. Option prices are the market value of the stock at the time the option was granted. Options become exercisable as determined at the date of grant by a committee of the Board of Directors. Options expire ten years after the date of grant unless an earlier expiration date is set at the time of grant.

The Company has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, no compensation cost has been recognized for the stock option plan, as all options were issued with exercised prices at or above fair value. Had compensation cost for the Company s stock option plans been determined based on the fair value at the grant date for awards in 2004 and 2003 consistent with the provisions of SFAS No. 123, the Company s net loss and net loss per share would have changed to the pro forma amounts indicated below:

Amounts in thousands, except per share amounts

	Three Months Ended		Nine Months Ended	
	Feb. 29, 2004	**March 2, 2003**	**Feb. 29, 2004**	**March 2, 2003**
Net loss, as reported	$ (2,964)	$ (1,829)	$ (4,644)	$ (3,845)
Net loss, pro forma	(3,018)	(1,943)	(4,862)	(4,210)
Net loss, per share, basic, as reported	(0.63)	(0.40)	(0.99)	(0.84)
Net loss, per share, diluted, as reported	(0.63)	(0.40)	(0.99)	(0.84)
Net loss, per share, basic, pro forma	(0.64)	(0.42)	(1.04)	(0.92)
Net loss, per share, diluted, pro forma	(0.64)	(0.42)	(1.04)	(0.92)

3. Inventories

The components of inventory (in thousands) at February 29, 2004 and June 1, 2003 are as follows:

	February 29, 2004	**June 1, 2003**
Raw Materials	$ 6,327	$ 6,020
Work-in-Process	1,160	1,163
Finished Goods	1,844	2,685
	$ 9,331	$ 9,868

4. Warranty

The Company offers its customers up to 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 2004 year-to-date activity for the Company s warranty accrual (in thousands):

Beginning Balance	$ 134
Charges and Costs Accrued	19
Less Repair Costs Incurred	
Ending Balance	$ 153

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THIRD QUARTER ENDED FEBRUARY 29, 2004

5. Plant Closing

On July 17, 2003, the Company announced the consolidation of its manufacturing operations. The consolidation included the closing of its Minneapolis production operations, eliminating approximately 40 jobs in assembly, equipment maintenance, procurement and administrative support and the integration of production into Ault s other manufacturing plants. Ault s engineering, documentation, safety certification/reliability, sales, marketing and administrative services will remain at the Minneapolis headquarters facility. The consolidation is complete at the end of February. The consolidation was implemented to reduce expenses, improve cash flow and help return the Company to profitability. Ault s management estimates that the consolidation will reduce expenses by approximately $1.3 million annually.

As a result of these decisions, the Company recorded charges of $301,000, for severance related to workforce reductions of approximately 40 employees, $1,743,000 for asset impairment write down, $545,000 for obsolete inventory, and $20,000 related to other costs associated with the consolidation restructuring. Cash of $301,000 is expected to be used in connection with severance charges, which began to be paid in the second quarter and will be completely paid by the end of fiscal year 2004.

A summary of the restructuring activity during the nine-month period ending February 29, 2004 is as follows:

	Balance at June 2, 2003	**Current Period Restructuring Charges**	**Paid/ Expensed**	**Restructuring Liabilities at February 29, 2004**
Employee termination costs		301,000	224,000	77,000
Obsolete Inventory		545,000	545,000	
Fixed asset impairment		1,743,000	1,743,000	
Miscellaneous costs		20,000	20,000	
Total		2,609,000	2,532,000	77,000

6. Debt

The Company has a $7,000,000 revolving line-of-credit agreement through December 2006. Interest on advances is at the prime rate plus 2% for fiscal year 2004. The rate at February 29, 2004 was 6% and at June 1, 2003 the rate was 11.00%. All advances are due on demand and are secured by all assets of the Company. There were advances outstanding on the revolving line of credit of $1,933,000 at February 29, 2004 and none at June 1, 2003. The Company s financing agreement contains financial covenants. These covenants require the Company, among other things, to maintain a minimum capital base, a minimum earnings level, and also impose certain limitations on additional capital expenditures and the payment of dividends. During the third quarter of fiscal 2004, the Company violated the financing agreement covenants and subsequent to quarter-end received a waiver and an amended agreement with less restrictive covenants. The Company s Korean subsidiary maintains an unsecured $3,333,000 credit facility agreement to cover bank overdrafts, short-term financing, and export financing at a rate of 6.25%. Advances outstanding relating to the Korean facility were $2,993,000 and $3,104,000 at February 29, 2004 and June 1, 2003, respectively.

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

	February 29, 2004	June 1, 2003
Term loan, 7.2% interest, due in monthly installments through December 2003, secured by equipment	$ 0	$ 61
Term loan, 7.94% interest, due in monthly installments through September 2005, secured by furniture	36	87
Term loan, 5.3% interest rate due in January 2005	290	290
Term loan, 8.05% interest, due in monthly installments through February 2015, secured by Company's headquarters building	2,501	2,605
Total	$ 2,827	$ 3,043
Less current maturities	475	560
	$ 2,352	$ 2,483

7. Stockholders Equity

		Nine Months Ended February 29, 2004 ($000)
Total Stockholders' Equity - June 1, 2003		$ 17,320
Net Loss	$ (4,536)	
Net change in Foreign currency translation adjustment	10	
Comprehensive Income (Loss)		(4,526)
Issue 1,000 shares of common stock in accordance with stock option plan		2
Preferred Stock Dividends Declared		(108)
Preferred Stock Dividends Paid with Common Stock		108
Total Stockholders' Equity		$ 12,796

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.

	Three Months Ended		Nine Months Ended	
	February 29, 2004	March 2, 2003	February 29, 2004	March 2, 2003
Loss Applicable to Common Shareholders (in thousands)	$ (2,964)	$ (1,829)	$ (4,644)	$ (3,845)
Basic - Weighted Average Shares Outstanding	4,687,597	4,597,283	4,672,769	4,583,374
Diluted - Weighted Average Shares Outstanding	4,687,597	4,597,283	4,672,769	4,583,374

	Three Months Ended		Nine Months Ended	
Basic Loss per Share	$ (0.63)	$ (0.40)	$ (0.99)	$ (0.84)
Diluted Loss per Share	$ (0.63)	$ (0.40)	$ (0.99)	$ (0.84)

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THIRD QUARTER ENDED FEBRUARY 29, 2004

9. 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% Redeemable 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 at the holders option. 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 Asia.

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.

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 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

Three Months Ended	Nine Months Ended

	Feb. 29, 2004	March 2, 2003	Feb. 29, 2004	March 2, 2003
Revenue	$ 10,730	$ 9,940	$ 32,680	$ 31,680
Net Loss	(2,928)	(1,793)	(4,536)	(4,088)
Preferred Stock Dividends	36	36	108	108
Net Loss Applicable to Common Shareholders	$ (2,964)	$ (1,829)	$ (4,644)	$ (4,196)
Basic/Diluted Loss Per Share	$ (0.63)	$ (0.40)	$ (0.99)	$ (0.92)
Common and equivalent shares outstanding:	4,688	4,597	4,673	4,583

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THIRD QUARTER ENDED FEBRUARY 29, 2004

10. Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 establishes standards for issuer classification and measurement of certain financial instruments with characteristics of both liabilities and equity. Instruments that fall within the scope of SFAS No. 150 must be classified as a liability. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. For financial instruments issued prior to June 1, 2003 SFAS No. 150 is effective for the Company this quarter. The adoption of SFAS No. 150 did not have an impact on the Company s financial position or results of operations.

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.

MANAGEMENT PLANS

The financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company sustained net losses applicable to common stock of $4,644,000 for the nine months ended February 29, 2004, $7,692,000 in fiscal 2003 and $3,564,000 in fiscal 2002, and at February 29, 2004 had an accumulated deficit of $7,419,000. Net cash used in operating activities was $1,454,000 for the nine months ended February 29, 2004 and $3,179,000 in fiscal 2003. Future operations will require the Company to borrow additional funds. On December 4, 2003, the Company entered into a new financing agreement, which includes a $7,000,000 line-of-credit agreement through December 2006. The availability of the line is based on the outstanding receivables of the Company; the amount available at February 29, 2004 was $3,120,000. The Company continues to take steps to reduce expenses, improve cash flow and return to profitability, including the consolidation of its manufacturing operations. This consolidation included the closing of its Minneapolis production operations, eliminating approximately 40 jobs in assembly, equipment maintenance, procurement and administrative support and the integration of production into Ault s other manufacturing plants. Ault s engineering, documentation, safety certification/reliability, sales, marketing and administrative services will remain at the Minneapolis headquarters facility. The consolidation was complete by the end of February.

Based on available funds, current plans and business conditions management believes that the Company s available cash, amounts available on its line-of-credit agreement, and amounts generated from operations, will be sufficient to meet the Company s cash requirements for the next 12 months. Supporting this belief are several assumptions including that there will be no material adverse developments in the business or the general market. There can be, however, no assurances regarding these assumptions. If management s plans are not achieved, there may be further negative effects on the results of operations and cash flows, which could have a material adverse effect on the Company.

RESULTS OF OPERATIONS

Three Months Ended February 29, 2004

($000)	Fiscal 2004	Fiscal 2003	Favorable / (Unfavorable) Amount	Favorable / (Unfavorable) Percent
Net Sales	$ 10,730	$ 9,940	$ 790	8%
Operating Loss	(2,803)	(1,797)	(1,006)	(56%)

Net sales were $10,730,000 for the third quarter of fiscal 2004 up 8% from $9,940,000 for the third quarter of fiscal 2003. The increase is due to higher sales from North America and Europe of $1,577,000 offset by a decrease in sales from Asia Pacific of $787,000.

Gross margin for the third quarter of fiscal 2004 was 21.4 percent as a percent of sales, compared with 18.7 percent for the same period last year. Current year margin increased $319,000 resulting from cost reduction related to the closing of Minneapolis manufacturing, $256,000 due to higher sales in North America, which have higher margin than Asia Pacific offset by $545,000 for inventory writedown due to the closing of the Minneapolis manufacturing. The prior year margin was adversely affected by $360,000 from the acquisition and integration of Power General.

Operating expenses increased in the third quarter of fiscal 2004 to $5,095000 from $3,659,000 in the third quarter of fiscal 2003. The increase in expenses in the third quarter of fiscal 2004 is primarily due to the related costs of closing the Minneapolis manufacturing facility. The $1,743,000 increase is offset by the reduction in headcount of $345,000.

Nonoperating expense is $125,000 for the third quarter of fiscal 2004 compared to $26,000 for the same period in fiscal 2003. The Company had no interest income in the three months ended February 29, 2004 and $6,000 for the same period in fiscal 2003. Other income is $43,000 for the third quarter of fiscal 2004 and $62,000 for the same period in fiscal 2003. Both amounts are primarily related to the currency exchange rate gain in Korea. The Company incurred interest expenses of $168,000 in the third quarter of fiscal 2004 and $94,000 in the same period of fiscal 2003, paid on bank credit facilities and long-term borrowings.

Nine Months Ended February 29, 2004

($000)	Fiscal 2004	Fiscal 2003	Favorable / (Unfavorable) Amount	Favorable / (Unfavorable) Percent
Net Sales	$ 32,680	$ 31,311	$ 1,369	4%
Operating Loss	(4,098)	(3,694)	(404)	(11%)

Net sales were $32,680,000 for the first nine months of fiscal 2004 up 4% from $31,311,000 for the first nine months of fiscal 2003. The increase is due to higher sales from Asia Pacific of $1,139,000 and an increase in sales from North America and Europe of $230,000.

Gross margin for the first nine months of fiscal 2004 was 23.4 percent as a percent of sales, compared with 21.9 percent for the same period last year. Current year margin increased $478,000 from cost reduction related to the closing of the Minneapolis manufacturing offset by $545,000 for inventory writedown due to the closing of the Minneapolis manufacturing, and prior year margin was adversely affected by $740,000 from the acquisition of Power General.

Operating expenses increased in the first nine months of fiscal 2004 to $11,737,000 from $10,557,000 in the first nine months of fiscal 2003. The increase of expenses for the first nine months of fiscal 2004 is primarily related to the closing of the Minneapolis manufacturing facility of $2,064,000 offset by the reduction in headcount of $690,000, and fiscal year 2003 transition costs related to the Power General acquisition of $168,000.

Order Backlog: The Company s order backlog at February 29, 2004 totaled $10,710,000 compared to $13,850,000 at June 1, 2003. The order backlog represents sales for approximately twelve weeks.

Non-Operating Income and Expenses: Nonoperating expense is $438,000 for the first nine months of fiscal 2004 compared to $362,000 for the same period in fiscal 2003. The Company had no interest income in the first three quarters of fiscal 2004 and $29,000 for the same period in fiscal 2003. Other income is $28,000 for the first nine months of fiscal 2004 and other expense is $62,000 in the first nine months of fiscal 2003. Both amounts are primarily related to the currency exchange rate gain and loss in Korea. The Company incurred interest expenses of $466,000 in the first nine months of fiscal 2004 and $329,000 in the same period of fiscal 2003, paid on bank credit facilities and long-term borrowings.

Income Tax: The Company had a pre-tax loss of $4,536,000 for the nine-month period in fiscal 2004 on which it accrued no consolidated income tax benefit. For the nine-month period in fiscal 2003 the Company had a pre-tax loss of $4,056,000 on which an income tax benefit of $302,000 was accrued. The effective tax rate is 0% for the first three quarters of 2004, and a benefit of 7% for the same period in fiscal 2003. In 2003, the Company recognized its remaining loss carrybacks. In the first three quarters of fiscal 2004 and 2003 the Company did not take a benefit from the loss carryforwards the losses generated, and has a full valuation allowance because it was likely the Company will be unable to use such loss carryforwards.

Net Loss: The Company reported a basic and diluted per share loss of $0.99 for the first nine months of fiscal 2004, based on 4,673,000 outstanding weighted average shares, compared to basic and diluted per share loss of $0.84 for the same period of fiscal 2003, based on 4,583,000 outstanding weighted average shares.

LIQUIDITY AND CAPITAL RESOURCES

The following table describes the Company s liquidity and financial position on February 29, 2004, and on June 1, 2003:

	February 29, 2004	June 1, 2003
	($000)	($000)
Working capital	$ 6,502	$ 8,432
Cash and cash equivalents	989	1,100
Unutilized bank credit facilities	1,527	2,297

Current Working Capital Position

As of February 29, 2004, the Company had current assets of $19,434,000 and current liabilities of $12,932,000, which amounted to working capital of $6,502,000 and a current ratio of 1.5. This represents a decrease of $1,930,000 from its working capital as of June 1, 2003. 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 February 29, 2004.

Cash and Investments: As of February 29, 2004, the Company had cash totaling $989,000, compared to $1,100,000 as of June 1, 2003. This decrease in cash was principally due to the net loss from operations.

Credit Facilities: The Company has an asset-based credit facility of $7 million, secured by company assets through December 2006. There were advances outstanding on the revolving line of credit of $1,933,000 at February 29, 2004 and none at June 1, 2003 at an interest rate of 6%. The Company s financing agreement contains financial covenants. These covenants require the Company, among other things, to maintain a minimum capital base, and also impose certain limitations on additional capital expenditures and the payment of dividends. During the third quarter of fiscal 2004, the Company violated the financing agreements covenants and subsequent to quarter-end received a waiver and an amended agreement with less restrictive covenants. The Company believes they can remain in compliance with the agreement, as amended, throughout fiscal 2004.

The South Korean credit facility is approximately $3,333,000 of which borrowings at February 29, 2004 totaled $2,993,000.

CASH FLOWS FOR FISCAL 2004

Operations: Operations used $1,454,000 of cash during the first nine months of fiscal 2004 due principally to the loss net of depreciation and loss on the sale of capital assets.

Investing Activities: Investing activities used net cash of $210,000 relating to the purchase of tooling in the Asian facilities.

Financing Activities: Financing activities provided net cash of $1,550,000, comprised of $216,000 payment on debt, and $1,766,000 of additional borrowing on the Company's domestic line-of-credit.

Effect of Foreign Currency Exchange Rate Fluctuations: The effect of translating the Korean financial statements, which were prepared in Won to US dollars, and 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 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 2004.

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	
	February 29, 2004	March 2, 2003

	Nine Months Ended	
	($000)	($000)
US	$ 18,344	$ 18,844
Korea	6,881	3,822
China	2,819	4,437
UK	2,993	1,970
Canada	730	493
Belgium	85	408
Other Foreign	828	1,337
Total	$ 32,680	$ 31,311

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.

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 was not significant for the first nine months of fiscal 2004.

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.

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 the line of credit agreement because of the variable interest rate charged. 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 assuming an average outstanding debt balance of $5.0 million would result in an annual interest expense increase of approximately $50,000.

ITEM 4 CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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.

PART II

ITEM 1 LEGAL PROCEEDINGS:

Not Applicable

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

Not Applicable

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

Not Applicable

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are included herein:

31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on form 8-K
A. Form 8-K filed February 11, 2004 announcing the change in auditors.

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 12, 2004

/s/ Frederick M. Green
Frederick M. Green, President
Chief Executive Officer and
Chairman

DATED: April 12, 2004

/s/ Donald L. Henry
Donald L. Henry
Chief Financial Officer