AULT INC
Form 10-Q
October 01, 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 August 29, 2004

Commission File Number 0-12611

AULT INCORPORATED

MINNESOTA	**41-0842932**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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 September 8, 2004
No par value	4,765,291 shares

Total pages 20

Exhibit Index on Page 16

PART 1. FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

	(Unaudited) Three Months Ended	
	August 29, 2004	**August 31, 2003**
Net Sales	$ 13,139	$ 10,816
Cost of Goods Sold	9,576	8,276
Gross Profit	3,563	2,540
Operating Expenses:		
Marketing	972	954
Design Engineering	866	879
General & Administrative	1,433	1,404
Plant Closing Costs		98
	3,271	3,335
Operating Income (Loss)	292	(795)
Non Operating Income (Expense):		
Interest Expense	(138)	(159)
Other	7	30
	(131)	(129)
Income (Loss) Before Income Taxes	161	(924)
Income Tax Expense	8	
Net Income (Loss)	153	(924)
Redeemable Convertible Preferred Stock Dividends	(36)	(36)
Net Income (Loss) Applicable to Common Stockholders	$ 117	$ (960)
Earnings (Loss) Per Share:		
Basic	$ 0.02	$ (0.21)
Diluted	$ 0.02	$ (0.21)

	(Unaudited) Three Months Ended	
Common and equivalent shares outstanding:		
Basic	4,787,937	4,657,421
Diluted	4,826,587	4,657,421

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) August 29, 2004	May 30, 2004
Assets:		
Current Assets		
Cash and Cash Equivalents	$ 1,820	$ 1,058
Trade Receivables, Less Allowance for Doubtful Accounts of $621 at August 29, 2004; $476 at May 30, 2004	8,384	8,399
Inventories	9,378	8,737
Prepaid and Other Expenses	1,997	1,384
Total Current Assets	21,579	19,578
Other Assets	136	177
Property Equipment and Leasehold Improvements:		
Land	1,735	1,735
Building and Leasehold Improvements	6,711	6,711
Machinery and Equipment	7,059	7,050
Office Furniture	1,933	1,911
Data Processing Equipment	2,009	2,009
	19,447	19,416
Less Accumulated Depreciation	8,986	8,743
	10,461	10,673

	(Unaudited)	
Total Assets	$ 32,176	$ 30,428

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) August 29, 2004	May 30, 2004
Liabilities and Stockholders Equity:		
Current Liabilities		
Note Payable to Bank	$ 4,666	$ 4,650
Current Maturities of Long-Term Debt	442	460
Accounts Payable	7,599	6,265
Accrued Compensation	1,426	1,165
Accrued Commissions	279	281
Other	412	487
Total Current Liabilities	14,824	13,308
Long-Term Debt, Less Current Maturities	2,276	2,313
Retirement and Severance Benefits	249	203
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;		
Common Shares, No Par Value, Authorized 10,000,000 Shares; Issued and Outstanding 4,765,291 on August 29, 2004; and 4,705,083 on May 30, 2004;	21,279	21,173
Notes Receivable arising from the sale of common stock	(45)	(45)
Accumulated Other Comprehensive Loss	(870)	(870)
Accumulated Deficit	(7,611)	(7,728)

	(Unaudited)	
	12,753	12,530
	$ 32,176	$ 30,428

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) Three Months Ended August 29, 2004	August 31, 2003
Cash Flows From Operating Activities:		
Net Income (Loss)	$ 153	$ (924)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	242	349
Changes in Assets and Liabilities:		
(Increase) Decrease In:		
Trade Receivables	11	(1,020)
Inventories	(645)	415
Prepaid and Other Expenses	(570)	(260)
Increase (Decrease) in:		
Accounts Payable	1,336	303
Accrued Expenses	230	459
Net Cash Provided by (Used in) Operating Activities	757	(678)
Cash Flows From Investing Activities:		
Purchase of Equipment and Leasehold Improvements	(31)	(90)
Net Cash Used in Investment Activities	(31)	(90)

	(Unaudited) Three Months Ended	
Cash Flows From Financing Activities:		
Net Borrowings on Revolving Credit Agreements	20	927
Proceeds from Issuance of Common Stock	70	
Principal Payments on Long-Term Borrowings	(55)	(73)
Net Cash Provided by Financing Activities	35	854
Effect of Foreign Currency Exchange Rate Changes on Cash	1	4
Increase (Decrease) in Cash and Cash Equivalents	762	90
Cash and Cash Equivalents at Beginning of Period	1,058	1,100
Cash and Cash Equivalents at End of Period	$ 1,820	$ 1,190
Non-Cash Transaction:		
Issuance of Common Stock to Pay Preferred Stock Dividends	$ 36	$ 36

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 29, 2004

1. Summary of Consolidation Principles, Management Plans

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

The balance sheet of the Company as of August 29, 2004, and the related statements of operations and cash flows for the three months ended August 29, 2004 and August 31, 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 August 29, 2004, 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 May 30, 2004 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.

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 $4,952,667 in 2004 and $7,692,073 in 2003 and at May 30, 2004 had an accumulated deficit of $7,728,065. The Company utilized $913,911 of cash for operating activities in 2004. In the first quarter of fiscal 2005, the Company has recorded net income applicable to common stockholders of $117,000. The Company has provided $757,000 of cash for operating activities in the first quarter of fiscal year 2005. Future operations will require the Company to borrow additional funds. The Company has a financing agreement, which includes a $7,000,000 line-of-credit agreement through December 6, 2006. There was an outstanding balance on this line-of-credit at August 29, 2004 of $2,156,000. The Company believes they can remain in compliance with covenants in the financing agreement, as amended, throughout fiscal 2005.

Based on available funds, current plans and business conditions management believes that the Company s available cash, borrowings and amounts generated from operations, will be sufficient to meet the Company s cash requirements for the next 12 months. The assumptions underlying this belief include, among other things, that there will be no material adverse developments in the business or market in general. There can be no assurances however that those assumed events will occur. 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.

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 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 earnings (loss) and net earnings (loss) per share would have changed to the pro forma amounts indicated below:

Amounts in thousands, except per share amounts

	Period Ending	
	Aug. 29 2004	**Aug. 31 2003**

Net Earnings (loss) applicable to stockholders:		
as reported	$ 117	$ (960)
pro forma	86	(1,039)
per share, basic, as reported	0.02	(0.21)
per share, diluted, as reported	0.02	(0.21)
per share, basic, pro forma	0.02	(0.22)
per share, diluted, pro forma	0.02	(0.22)

3. Inventories

The components of inventory (in thousands) at August 29, 2004 and May 30, 2004 are as follows:

	August 29, 2004	**May 30, 2004**
Raw Materials	$ 4,895	$ 4,601
Work-in-process	2,082	2,000
Finished Goods	2,401	2,136
	$ 9,378	$ 8,737

4. 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 2005 year-to-date activity for the Company s warranty accrual (in thousands):

Beginning Balance	$ 125
Charges and Costs Accrued	16
Less Repair Costs Incurred	(1)
Ending Balance	$ 140

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 29, 2004

5. Plant Closing

On July 17, 2003, the Company announced the consolidation of its manufacturing operations. The consolidation includes 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 in February 2004 with the last payment for related liabilities made in August 2004.

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

	Balance at May 30, 2004	**Current Period Plant Closing Charges**	**Cash Payments**	**Restructuring Liabilities at August 29, 2004**
Employee termination costs	$15,000	$0	$15,000	$0

6. Debt

The Company has a financing agreement, which includes a $7,000,000 revolving line-of-credit agreement through December 6, 2006. Interest on advances is at the prime rate plus 2% (prime plus 5% default rate) for fiscal year 2005. The rate at August 29, 2004 was 6.25% and on August 31, 2003 was 11.00%. All advances are due on demand and are secured by all assets of the Company. 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. At the end of fiscal 2004, the Company s actual net book worth and income before taxes did not meet the minimum of the credit agreement. The Company received a waiver and amendment for these covenants. Following the July 2004 waiver, the Company believes the provisions imposed by this credit agreement are achievable based on the Company s expected operating results for the next year. The availability of the line is based on the outstanding receivables of the Company; the amount available at August 29, 2004 was $3,961,000. There were advances outstanding on the revolving line of credit of $2,156,000 and $1,965,000 at August 29, 2004 and May 30, 2004. Also, the Company s Korean subsidiary maintains an unsecured $3,370,000 credit facility agreement to cover bank overdrafts, short-term financing, and export financing at a rate of 6.11%. Advances outstanding relating to the Korean facility were $2,510,000 and $2,685,000 at August 29, 2004 and May 30, 2004, respectively.

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

	August 29, 2004	**May 30, 2004**
8.05% term loan, due in monthly installments of $28,756, including interest to February 2015, collateralized by the Company's headquarters building in Minneapolis	$ 2,427	$ 2,465
5.3% uncollateralized term loan, due in January 2005	290	290
7.94% term loan, due in monthly installments of $6,144 including interest to September 2004, secured by furniture	1	18
Total	2,718	2,773
Less Current Maturities	442	460
	$ 2,276	$ 2,313

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 29, 2004

7. Stockholders Equity

		Three Months Ended August 29, 2004
		($000)
Total Stockholders Equity May 30, 2004		$ 12,530
Net Income	$ 153	
Net change in Foreign currency translation adjustment		
Comprehensive Income		153