AULT INC
Form 10-Q
October 15, 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 August 31, 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 __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 October 6, 2003
No par value	4,666,774 shares

Total pages 21
Exhibit Index on Page 17

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 31, 2003	September 1, 2002
Net Sales	$10,816	$10,848
Cost of Goods Sold	8,276	7,990
Gross Profit	2,540	2,858
Operating Expenses:		
Marketing	954	1,125
Design Engineering	879	815
General & Administrative	1,404	1,336
Plant Closing Costs	98	
	3,335	3,276
Operating Loss	(795)	(418)
Non Operating Income (Expense):		
Interest Expense	(159)	(109)
Interest Income		5
Other	30	(83)
	(129)	(187)
Loss Before Income Taxes	(924)	(605)
Income Tax Benefit		(103)
Net Loss	(924)	(502)
Preferred Stock Dividends	(36)	(19)
Net Loss Applicable to Common Stock	$(960)	$(521)
Loss Per Share:		
Basic	$(0.21)	$(0.11)
Diluted	$(0.21)	$(0.11)
Common and equivalent shares outstanding:		
Basic	4,657,421	4,571,973
Diluted	4,657,421	4,571,973

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	June 1, 2003	(Unaudited) August 31, 2003
Assets:		
Current Assets		
Cash and Cash Equivalents	$1,190	$1,100
Trade Receivables, Less Allowance for Doubtful Accounts of $565,000 at August 31, 2003; $500,000 at June 1, 2003	8,429	7,417
Inventories (Note 3)	9,517	9,868
Prepaid and Other Expenses	1,648	1,064
Total Current Assets	20,784	19,449
Other Assets	53	333
Property Equipment and Leasehold Improvements:		
Land	1,735	1,735
Building and Leasehold Improvements	7,845	7,845
Machinery and Equipment	9,015	8,961
Office Furniture	1,923	1,887
Data Processing Equipment	2,227	2,226
	22,745	22,654
Less Accumulated Depreciation	9,719	9,371
	13,026	13,283
Total Assets	$33,863	$33,065

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) June 1, 2003	August 31, 2003
Liabilities and Stockholders' Equity:		
Current Liabilities		
Note Payable to Bank	$4,090	$3,104
Current Maturities of Long-Term Debt (Note 6)	542	560
Accounts Payable	6,026	5,696
Accrued Compensation	1,297	1,162
Accrued Commissions	346	300
Other	450	195
Total Current Liabilities	12,751	11,017
Long-Term Debt, Less Current Maturities (Note 6)	2,428	2,483
Deferred Tax Liability	23	23
Retirement and Severance Benefits	182	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;		
Common Shares, No Par Value, Authorized 10,000,000 Shares; Issued and Outstanding 4,665,774 on August 31, 2003; and 4,648,499 on June 1, 2003;	21,062	21,026
Notes Receivable arising from the sale of common stock	(45)	(45)
Accumulated Other Comprehensive Loss	(877)	(886)
Accumulated Deficit	(3,735)	(2,775)
	16,405	17,320
	$33,863	$33,065

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) Three Months Ended August 31, 2002	September 1, 2003
Cash Flows From Operating Activities:		

Net Loss	$(924)	$(502)
Adjustments to Reconcile Net Loss to Net Cash		
Used in Operating Activities:		
Depreciation	349	238
Changes in Assets and Liabilities:		
(Increase) Decrease In:		
Trade Receivables	(1,020)	(416)
Inventories	415	(294)
Prepaid and Other Expenses	(260)	(159)
Increase (Decrease) in:		
Accounts Payable	303	(194)
Accrued Expenses	459	234
Net Cash Used in Operating Activities	(678)	(1,093)
Cash Flows From Investing Activities:		
Purchase of Equipment and Leasehold Improvements	(90)	(107)
Acquisition Cost		(366)
Net Cash Used in Investment Activities	(90)	(473)
Cash Flows From Financing Activities:		
Net Borrowings (Payments) on Revolving Credit Agreements	927	
Proceeds from Issuance of Common Stock		24
Principal Payments on Long-Term Borrowings	(73)	(68)
Net Cash Provided by (Used in) Financing Activities	854	(44)
Effect of Foreign Currency Exchange Rate Changes on Cash	4	26
Increase (Decrease) in Cash and Cash Equivalents	90	(1,584)
Cash and Cash Equivalents at Beginning of Period	1,100	4,775
Cash and Cash Equivalents at End of Period	$1,190	$3,191
Non-Cash Transaction:		
Issuance of Redeemable Convertible Preferred Stock for Acquisition		$2,074
Issuance of Common Stock to Pay Preferred Stock Dividends	$36	

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 31, 2003

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 31, 2003, and the related statements of operations and cash flows for the three months ended August 31, 2003 and September 1, 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 August 31, 2003, and the results of operations and cash flows for all periods presented.

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 $7,692,073 in 2003 and $3,563,726 in 2002 and at June 1, 2003 had an accumulated deficit of $2,775,398. The Company utilized $3,179,410 of cash for operating activities in 2003. This trend has continued in the first quarter of fiscal 2004, with $960,000 of net losses applicable to common stock. Future operations will require the Company to borrow additional funds. The Company has a financing agreement, which includes a $1,250,000 line-of-credit agreement through April 30, 2005. There was an outstanding balance on this line-of-credit at August 31, 2003 of $1,024,000. The Company believes they can remain in compliance with covenants in the financing agreement, as amended, throughout fiscal 2004. The Company continues to take steps to reduce expenses, improve cash flow and return to profitability, including the consolidation of its manufacturing operations in this current quarter. This 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 is anticipated to take up to four months to complete to ensure continuing service to Ault's global customer base.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 31, 2003

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 2003 and 2002 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

	Period Ending	
	Aug. 31 2003	Sept. 1, 2002
Net loss, as reported	$ (960)	$ (521)
Net loss, pro forma	(1,039)	(644)
Net loss, per share, basic, as reported	(0.21)	(0.11)
Net loss, per share, diluted, as reported	(0.21)	(0.11)
Net loss, per share, basic, pro forma	(0.22)	(0.14)
Net loss, per share, diluted, pro forma	(0.22)	(0.14)

3. Inventories
The components of inventory (in thousands) at August 31, 2003 and June 1, 2003 are as follows:

	August 31, 2003	June 1, 2003
Raw Materials	$5,890	$6,020
Work-in-process	920	1,163
Finished Goods	2,707	2,685
	$9,517	$9,868

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 31, 2003

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 2004 year-to-date activity for the Company's warranty accrual (in thousands):

Beginning Balance	$ 134
Charges and Costs Accrued	18
Less Repair Costs Incurred	--
Ending Balance	$ 152

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 is anticipated to take up to four months to complete to ensure continuing service to Ault's global customer base. The consolidation was implemented to reduce expenses, improve cash flow and 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 $98,000, for severance related to workforce reductions of approximately 40 employees. Cash of $300,000 is expected to be used in connection with severance charges, which will begin to be paid in the second quarter and completely paid by the end of fiscal year 2004.

A summary of the restructuring activity during the three-month period ending August 31, 2003 is as follows:

	Balance at June 1, 2003	Current Period Plant Closing Charges	Cash Payments	Restructurin Liabilities a August 31, 20
Employee termination costs	$0	$98,000	$0	$98,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 31, 2003

6. Debt

The Company has a financing agreement, which includes a $1,250,000 revolving line-of-credit agreement through April 30, 2005. Interest on advances is at the prime rate plus 2% (prime plus 7% default rate) for fiscal year 2004. The rate at August 31, 2003 and June 1, 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 restrictive 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 2003, the Company's actual capital base did not meet the minimum capital base of the credit agreement. The Company has received a waiver and amendment for this covenant. Following the August 29, 2003 amendment, the Company believes the provisions imposed by this credit agreement are achievable based on the Company's expected operating results for the next year. There were advances outstanding on the revolving line of credit of $1,024,000 and $0 at August 31, 2003 and June 1, 2003. Also, the Company's Korean subsidiary maintains an unsecured $3,637,000 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 $3,078,000 and $3,104,000 at August 31, 2003 and June 1, 2003, respectively.

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

	August 31, 2003	June 1, 2003
Term loan, 7.2% interest due in monthly installments through December 2003, secured by equipment	$38	$61
Term loan, 7.94% interest rate due in monthly installments through September 2005, secured by furniture	71	87
Term loan, 5.3% interest rate due in January 2004	290	290
Term loan, 8.05% interest rate due in monthly installments to February 2015, secured by Company's headquarters building	2,571	2,605
Total	2,970	3,043
Less Current Maturities	542	560
	$2,428	$2,483

7. Stockholders' Equity

		Three Months Ended August 31, 2003 ($000)
Total Stockholders' Equity - June 1, 2003		$17,320
Net Loss	$(924)	

Net change in Foreign currency translation adjustment	9	
Comprehensive Loss		(915)
Preferred Stock Dividends Declared		(36)
Preferred Stock Dividends Paid with Common Stock		36
Total Stockholders' Equity		$16,405

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 31, 2003

8. Net Income Per Common Share

Basic and diluted earnings per share are presented in accordance with 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	
	August 31, 2003	Septemb
Loss Applicable to Common Shareholders (in thousands)	$(960)	
Basic - Weighted Average Shares Outstanding	4,657,421	
Diluted - Weighted Average Shares Outstanding	4,657,421	
Basic Loss per Share	(0.21)	
Diluted Loss per Share	(0.21)	

9. Aquisition

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. Diluted EPS reflects the potential dilution that could occur if the Preferred Stock was converted into common stock of the Company during reported periods. The Preferred Stock was excluded from Diluted EPS in the current year as the effect of its inclusion would be antidilutive. The Company has maintained Power General's engineering group in Massachusetts and has moved Power General's manufacturing operations and related functions to The Company's other facilities in North America and Asia.

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

AULT INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER ENDED AUGUST 31, 2003

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

	Period Ending	
	Aug. 31 2003	Sept. 1, 2002
Revenue	$ 10,816	$ 11,217
Net Loss	(924)	(836)
Preferred Stock Dividends	36	36
Net Loss Applicable to Common Stock	$ (960)	$ (872)
Basic/Diluted Loss Per Share	$ (0.21)	$ (0.19)

Common and equivalent shares outstanding:	4,657	4,572

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 in the second quarter of fiscal year 2004. Management is assessing the impact that SFAS No. 150 may have on the Company's financial statements.

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 would 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 would 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 $7,692,073 in 2003 and $3,563,726 in 2002 and at June 1, 2003 had an accumulated deficit of $2,775,398. The Company utilized $3,179,410 of cash for operating activities in 2003. This trend has continued in the first quarter of fiscal 2004, with $960,000 of net losses applicable to common stock. Future operations will require the Company to borrow additional funds. The Company has a financing agreement, which includes a $1,250,000 line-of-credit agreement through April 30, 2005. There was an outstanding balance on this line-of-credit at August 31, 2003 of $1,024,000. The Company believes they can remain in compliance with covenants in the financing agreement, as amended, throughout fiscal 2004. The Company continues to take steps to reduce expenses, improve cash flow and return to profitability, including the consolidation of its manufacturing operations in this current quarter. This 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 is anticipated to take up to four months to complete to ensure continuing service to Ault's global customer base.

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.

RESULTS OF OPERATIONS
First Quarter Ended August 31, 2003

($000)	Fiscal 2004	Fiscal 2003	Increase / (Decrease) Amount	Percent

Net Sales	$10,816	$10,848	($32)	0%
Operating Loss	(795)	(418)	(377)	(90%)

Net sales were $10,816,000 for the first quarter of fiscal 2004 down from $10,848,000 for the first quarter of fiscal 2002. The decrease is due to lower sales from North America and Europe of $1,167,000, offset by in increase in sales from Asia Pacific of $1,135,000.

The gross margin for fiscal 2004 was 23.5%, compared to 26.3% for fiscal 2003. Margins decreased primarily due to higher sales in the Asia Pacific area, which have lower margins than North America and Europe.

Operating expenses increased in the first quarter of fiscal 2004 to $3,335,000 from $3,276,000 in the first quarter of fiscal 2003. The additional expenses in the first quarter of fiscal 2004 are primarily related to the closing of the Company's US manufacturing plant to Asia of $98,000.

ORDER BACKLOG: The Company's order backlog at August 31, 2003 totaled $12,293,000 compared to $13,850,000 at June 2, 2002. The order backlog represents sales for approximately fifteen weeks.

NON-OPERATING INCOME AND EXPENSE: Nonoperating expense is $129,000 for the first quarter of fiscal 2004 compared to $187,000 for the same period in fiscal 2003. Other income was $30,000 for the first quarter of fiscal 2004 and an expense of $83,000 in the first quarter of fiscal 2003. Both amounts are primarily related to the currency exchange rate gains and losses in Korea. The Company incurred interest expenses of $159,000 in the first three months of fiscal 2004 and $109,000 in the same period of fiscal 2003, paid on bank credit facilities and long-term borrowings. The increase is due to higher amounts outstanding on the credit facilities and higher interest rates.

INCOME TAX: The Company had a pre-tax loss of $924,000 for the three-month period in fiscal 2004 on which it accrued no consolidated income tax benefit. For the three-month period in fiscal 2003 the Company had a pre-tax loss of $605,000 on which a tax benefit of $103,000 was accrued. The effective tax rate is 0% for the first quarter of 2004, and a benefit of 17% for the same period in fiscal 2003. In the first quarter of fiscal 2004 and 2003 the Company did not take a benefit from the loss carryforwards the loss generated, and has a full valuation allowance because it was likely the Company will be unable to use such losses. In 2003, the Company recognized the remaining loss carrybacks.

NET LOSS: The Company reported a basic and diluted per share loss of $0.21 for the first quarter of fiscal 2004 based on 4,657,000 outstanding weighted average shares, compared to basic and diluted per share loss of $0.11 for the first quarter of fiscal 2003, based on 4,572,000 outstanding weighted average shares.

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LIQUIDITY AND CAPITAL RESOURCES

The following table describes the Company's liquidity and financial position on August 31, 2003, and on June 1, 2003:

	August 31, 2003	June 1, 2003
	($000)	($000)
Working capital	$8,033	$8,432

Cash	1,190	1,100
Unutilized bank credit facilities	785	2,297

CURRENT WORKING CAPITAL POSITION

As of August 31, 2003, the Company had current assets of $20,784,000 and current liabilities of $12,751,000 representing working capital of $8,033,000 and a current ratio of 1.6. This represents an decrease in working capital from $8,432,000 at June 1, 2003. The Company relies on its credit facilities 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 August 31, 2003.

CASH AND INVESTMENTS: As of August 31, 2003, the Company had cash and securities totaling $1,190,000, up from $1,100,000 as of June 1, 2003. This increase in cash was primarily due to additional borrowings on the credit facility offset by cash used for operations.

CREDIT FACILITIES: The credit arrangement with Associated Bank is an asset-based credit facility of $1.25 million, secured by company assets. At August 31, 2003, there were borrowings against this facility of $1,024,000. The financing agreement contains restrictive 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 2003, the Company's actual capital base did not meet the minimum capital base of the credit agreement. The Company has received a waiver and amendment for this covenant. Following the August 29, 2003 amendment, 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 South Korean credit facility is approximately $3,637,000 of which borrowings at August 31, 2003 totaled $3,078,000.

CASH FLOWS FOR FISCAL 2004

OPERATIONS: Operations used $678,000 of cash during the first three months of fiscal 2004 due principally to the following activities:

- (a) The loss net of depreciation used cash of $575,000.
- (b) Increases in trade receivables used $1,020,000 of cash, primarily related to additional sales from the Asia Pacific area.
- (c) Decreases in inventories provided $415,000 of cash, primarily related to the consolidation of the Minneapolis manufacturing facility.
- (d) Increases in accounts payable and accrued expenses provided $762,000, primarily related to extended payment terms from several vendors.

INVESTING ACTIVITIES: Investing activities used net cash of $90,000 principally relating to the purchase of tooling in the Asia facilities.

FINANCING ACTIVITIES: Financing activities provided cash of $854,000, primarily comprised of additional borrowing on the US 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, had an increase effect on cash of approximately $4,000 during the first three months of fiscal 2004. The effect of translating the Chinese financial statements, which were prepared in Yuan to US dollars, had minimal effect on cash for the first three months of fiscal 2004.

SUMMARY: The Company's cash and working capital positions are sound and, together with its credit facilities, 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 OEM 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:

	THREE MONTHS ENDED	
	August 31, 2003	September 1, 2002
	($000)	($000)
US	$5,969	$6,977
Korea	2,386	1,318
China	1,191	905
UK	707	694
Canada	271	233
Other Foreign	292	721
Total	$10,816	$10,848

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

IMPACT OF FOREIGN OPERATIONS AND CURRENCY CHANGES:

Products manufactured by the Korean subsidiary contributed a large portion of total sales. The Company will experience normal valuation changes as the Korean and Chinese currencies fluctuate. The effect of translating the Korean and Chinese financial statements resulted in a net asset increase of $9,000.

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 that 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 which 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; dependence on outside contractors; reliance on third party distribution; successful integration of the Power General assets; dependence on foreign operations; and other risks affecting the Company's target markets generally.

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 evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that review, they have concluded that these 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 Control Over Financial Reporting

There have been no significant changes in internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonable likely to materially affect, the registrant's internal control over financial reporting.

PART II

ITEM 1 LEGAL PROCEEDINGS:

Not Applicable

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) Recent Sales of Unregistered Securities

Not Applicable

ITEM 3 DEFAULTS UPON SENIOR SECURITIES:

Not Applicable

ITEM 4 SUMBMISSION 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 August 11, 2003 announcing the fourth quarter fiscal 2003 financial results.

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: October 14, 2003	/s/ Frederick M. Green
	Frederick M. Green, President Chief Executive Officer and Chairman
DATED: October 14, 2003	/s/ Donald L. Henry
	Donald L. Henry Chief Financial Officer