AULT INC
Form 10-Q/A
October 21, 2005

FORM 10-Q/A

(Amendment No. 1 to Form 10-Q)

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended November 28, 2004

Commission file number 0-12611

AULT INCORPORATED

MINNESOTA		**41-0842932**
(State or other jurisdiction of		(I.R.S. Employer
incorporation or organization)		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 ý NO o

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

YES o NO ý

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 10, 2005
No par value	4,861,192 shares

Total pages 25

Exhibits Index on Page 21

AULT INCORPORATED

FORM 10-Q/A

FOR THE QUARTER ENDED NOVEMBER 28, 2004

Restatement

This Amendment No. 1 on Form 10-Q/A (Form 10-Q/A) to the Company s Quarterly Report on Form 10-Q for the three and six month periods ended November 28, 2004, initially filed with the Securities and Exchange Commission (the SEC) on January 12, 2005, (Original Filing) reflects a restatement of the consolidated financial statements of Ault Incorporated (the Company) for the quarter ended November 28, 2004, as discussed in Note 1 to the consolidated financial statements. The determination to restate these financial statements and other financial information was made as a result of management s identification, in connection with the preparation of the Company s financial statements for the year ended May 29, 2005, of accounting errors at the Company s China subsidiary related to inventory build-up and relief, and inadequate reconciliation of intercompany accounts. The adjustments totaled $70,000 for the three-month period ending November 28, 2004 and $306,000 for the six-month period. The restatement increased the Company s net loss applicable to common shareholders for the six-month period to $723,000 from $417,000 as originally reported. Further information on the restatement adjustments can be found on Note 1 to the accompanying consolidated financial statements. The effects of the restatement on fiscal year 2004 can be found in Note 1 to the consolidated financial statements filed on the Company s May 30, 2004 annual report on Form 10-K/A, and Note 16 to the consolidated financial statements filed on the Company s May 29, 2005 annual report on Form 10-K.

This Form 10-Q/A amends and restates Items 1, 2 and 4 of Part I of the Original Filing. In addition, currently dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, are included with this filing.

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)			
	Restated Three Months Ended		Restated Six Months Ended	
	Nov. 28 2004	Nov. 30 2003	Nov. 28 2004	Nov. 30 2003
Net Sales	$ 8,223	$ 8,768	$ 18,559	$ 17,199
Cost of Goods Sold	5,828	6,468	13,403	13,033
Gross Profit	2,395	2,300	5,156	4,166
Operating Expenses:				
Marketing	912	820	1,696	1,618
Design Engineering	758	721	1,479	1,466
General and Administrative	1,157	1,117	2,456	2,414
Plant Closing Costs		223		321
	2,827	2,881	5,631	5,819
Operating Loss	(432)	(581)	(475)	(1,653)
Other Income (Expense):				
Interest Expense	(101)	(96)	(189)	(211)
Other	(29)	(41)	(16)	(22)
	(130)	(137)	(205)	(233)
Loss Before Income Taxes	(562)	(718)	(680)	(1,886)
Income Tax Expense	1		2	
Loss From Continuing Operations	(563)	(718)	(682)	(1,886)
Discontinued Operations	(5)	(11)	31	50
Net Loss	(568)	(729)	(651)	(1,836)
Redeemable Convertible Preferred Stock Dividends	(36)	(36)	(72)	(72)
Net Loss Applicable to Common Stockholders	$ (604)	$ (765)	$ (723)	$ (1,908)
Net Basic and Diluted Loss Per Common Share:				
Continuing Operations	$ (0.13)	$ (0.16)	$ (0.16)	$ (0.42)
Discontinued Operations			0.01	0.01
Loss Per Common Share	$ (0.13)	$ (0.16)	$ (0.15)	$ (0.41)
Common and Equivalent Shares Outstanding:				
Basic	4,803,318	4,673,706	4,795,870	4,665,659
Diluted	4,803,318	4,673,706	4,795,870	4,665,659

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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AULT INCORPORATED & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	(Unaudited) Restated November 28, 2004	May 30, 2004
Assets:		
Current Assets		
Cash and Cash Equivalents	$ 1,247	$ 837
Trade Receivables, Less Allowance for Doubtful Accounts of $410 at November 28, 2004; $291 at May 30, 2004	4,940	5,903
Inventories	4,181	4,898
Prepaid Expenses and Other	1,279	946
Assets related to discontinued operations	7,066	6,401
Total Current Assets	18,713	18,985
Property, Equipment and Leasehold Improvements:		
Land	729	729
Building and Leasehold Improvements	4,068	4,059
Machinery and Equipment	5,399	5,586
Office Furniture	483	402
E.D.P. Equipment	1,629	1,451
	12,308	12,227
Less Accumulated Depreciation	6,382	6,101
Net Property Equipment and Leasehold Improvements	5,926	6,126
Other Assets	127	146
Non-Current Assets Related To Discontinued Operations	4,396	4,578
Total Assets	$ 29,162	$ 29,835

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	(Unaudited) Restated November 28, 2004	May 30, 2004
Liabilities and Stockholders Equity:		
Current Liabilities		
Note Payable to Bank	$ 1,849	$ 1,965
Current Maturities of Long-Term Debt	445	460
Accounts Payable	4,130	3,915
Accrued Compensation	866	777
Accrued Commissions	211	281
Other	318	487
Liabilities Related to Discontinued Operations	5,365	5,423
Total Current Liabilities	13,184	13,308
Long-Term Debt, Less Current Maturities	2,219	2,313
Non-Current Liabilities Related to Discontinued Operations	288	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; None Issued.		
Common Shares, No Par Value, Authorized 10,000,000 Shares; Issued and Outstanding 4,778,955 on November 28, 2004; and 4,705,083 on May 30, 2004;	21,317	21,173
Notes Receivable arising from the sale of common stock	(45)	(45)
Accumulated Other Comprehensive Loss	(831)	(870)
Accumulated Deficit	(9,044)	(8,321)
	11,397	11,937
	$ 29,162	$ 29,835

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AULT INCORPORATED & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	(Unaudited) Six Months Ended			
		Restated November 28, 2004		**Restated November 30, 2003**
Cash Flows From Operating Activities:				
Net Loss	$	(651)	$	(1,836)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:				
Depreciation		322		496
Changes in Assets and Liabilities:				
(Increase) Decrease In:				
Trade Receivables		778		51
Inventories		676		291
Prepaid and Other Expenses		(130)		175
Increase (Decrease) in:				
Accounts Payable		215		(485)
Accrued Expenses		(149)		308
Discontinued Operations		(102)		216
Net Cash Provided by (Used in) Operating Activities		959		(784)
Cash Flows From Investing Activities:				
Purchase of Equipment and Leasehold Improvements		(122)		(208)
Discontinued Operations		(18)		(28)
Net Cash Used in Investment Activities		(140)		(236)
Cash Flows From Financing Activities:				
Net Borrowings (Payments) on Revolving Credit Agreements		(116)		1,056
Proceeds from Issuance of Common Stock		72		2
Principal Payments on Long-Term Borrowings		(109)		(143)
Discontinued Operations		(256)		(84)
Net Cash Provided by (Used in) Financing Activities		(409)		831
Effect of Foreign Currency Exchange Rate Changes on Cash				
Increase (Decrease) in Cash and Cash Equivalents		410		(189)
Cash and Cash Equivalents at Beginning of Period		837		920
Cash and Cash Equivalents at End of Period	$	1,247	$	731
Non-Cash Transaction:				
Issuance of Common Stock to Pay Preferred Stock Dividends		72		72
Trade Receivable Converted to a Note Receivable		185		

AULT INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SECOND QUARTER ENDED NOVEMBER 28, 2004

1. Summary of Consolidation Principles

The accompanying consolidated financial statements include the accounts of Ault Incorporated, its wholly owned subsidiaries, Ault Electronics Shanghai Ltd., Ault International Trade Shanghai Co., Ltd., 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 November 28, 2004, and the related statements of operations and cash flows for the three and six months ended November 28, 2004 and November 30, 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 November 28, 2004 and November 30, 2003, 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/A.

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 stockholders of $5,545,646 in fiscal year 2004 and $7,692,073 in fiscal year 2003 and at May 30, 2004 had an accumulated deficit of $8,321,044. The Company utilized $949,680 of cash for operating activities in fiscal year 2004. In the first six months of fiscal 2005, the Company has recorded a net loss applicable to common stockholders of $723,000. The Company has provided $959,000 of cash from operating activities in the first six months of fiscal year 2005. Future operations may 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 4, 2006. There was an outstanding balance on this line-of-credit at November 28, 2004 of $1,849,000. The Company believes it can remain in compliance with covenants in the financing agreement, as amended, through 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 and the foreseeable future. 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.

Restatement The consolidated financial statements as of and for the fiscal quarter ended November 28, 2004 were restated as a result of the Company s identification, in connection with the preparation of the Company s financial statements for the fiscal year ended May 29, 2005, of accounting errors at the Company s China subsidiary related to inventory build-up and relief and inadequate reconciliation of intercompany accounts. The accounting errors resulted in a misstatement in inventories, current assets, total assets, accumulated deficit, total shareholders equity, cost of goods sold, gross profit, general and administrative expense, total operating expenses, operating loss, loss before taxes, net loss, net loss applicable to common stockholders, and net loss per share. There were also related adjustments to the Company s consolidated statement of cash flows and consolidated statement of stockholders equity.

Effects on Consolidated Balance Sheet as of November 28, 2004

(Dollars in thousands)

	As previously reported	(1) As restated
Inventories	$ 8,828	$ 7,815
Total current assets	19,612	18,713
Total assets	30,061	29,162
Accumulated deficit	(8,145)	(9,044)
Total stockholders equity	12,296	11,397

Effects on Consolidated Statement of Operations for the six months-ended November 28, 2004

(Dollars in thousands, except per share amounts)

	As previously reported	(1) As restated
Sales	$ 24,186	$ 24,300
Cost of goods sold	17,654	18,018
Gross profit	6,532	6,282
General and administrative	2,702	2,758
Total operating expenses	6,563	6,619
Operating loss	(31)	(337)
Loss before income taxes	(337)	(643)
Net loss	(345)	(651)
Net loss applicable to common stockholders	(417)	(723)
Net loss per share basic	(0.09)	(0.15)
Net loss per share diluted	(0.09)	(0.15)

1). The restated amounts do not reflect the adjustment for discontinued operations as discussed below.

Discontinued operations - On May 20, 2005, the Company completed the sale of its wholly owned subsidiary, Ault Korea Corporation (Ault Korea), to JEC Korea Co., Ltd (JEC) for $3.7 million. The agreement includes the receipt of $1,472,000 in cash and a secured note in the amount of $2,250,000. The transaction resulted in a loss of approximately $2,442,000 and the reclassification of the Korean subsidiary activity as discontinued operations for all periods presented.

The sale includes all assets and liabilities of Ault Korea Corporation and the use of the Ault Korea name in Korea for a period of three years. Ault Korea includes the property in Seoul, South Korea and approximately 110 employees. As part of the terms of the agreement, JEC has the rights to sell power conversion products in Korea while Ault will have rights to sell the same power conversion products throughout the rest of the world. Prior to this transaction, JEC was a supplier of Ault, but otherwise no material relationship existed between Ault and JEC, or their respective affiliates, directors or officers, or any associates of their directors and officers.

The secured note receivable is scheduled to be paid in four equal installments of $562,500 in December 2005, June 2006, December 2006 and the final installment in June 2007.

Revenues and results of operations for the Korean subsidiary for the six month period presented include the following:

(in thousands)

	Quarter Ended November 28, 2004	Quarter Ended November 30, 2003
Net Sales	$ 5,740	$ 4,751
Income from Discontinued Operations	31	50

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The balance sheet information of discontinued operations includes the following:

(in thousands)		November 28, 2004
Current Assets related to Discontinued Operations:		
Cash	$	259
Accounts Receivable		2,462
Inventories		3,634
Prepaid and Other Expenses		711
Total Current Assets	$	7,066
Non-Current Assets Related to Discontinued Operations:		
Property, Plant and Equipment, net	$	4,396
Other Assets		
Total Non-Current Assets	$	4,396
Current Liabilities Related to Discontinued Operations:		
Notes Payable to Bank	$	2,519
Accounts Payable		2,157
Accrued Compensation		689
Total Current Liabilities	$	5,365
Non-Current Liabilities Related to Discontinued Operations:		
Other Long-Term Liabilities	$	288

2. Stock Compensation

The Company s 1986 and 1996 stock option plan has reserved 600,000 and 1,500,000 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				Six Months Ended			
		Nov. 28 2004		Nov. 30 2003		Nov. 28 2004		Nov. 30, 2003
Net loss applicable to common stockholders:								
as reported	$	(604)	$	(765)	$	(723)	$	(1,908)
pro forma		(666)		(847)		(836)		(2,066)

per share, basic, as reported	(0.13)	(0.16)	(0.15)	(0.41)
per share, diluted, as reported	(0.13)	(0.16)	(0.15)	(0.41)
per share, basic, pro forma	(0.14)	(0.18)	(0.17)	(0.44)
per share, diluted, pro forma	(0.14)	(0.18)	(0.17)	(0.44)

3. Inventories

The components of inventory (in thousands) at November 28, 2004 and May 30, 2004 are as follows:

	November 28, 2004	May 30, 2004
Raw Materials	$ 2,480	$ 2,870
Work-in-process	93	116
Finished Goods	1,608	1,912
	$ 4,181	$ 4,898

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

	FY 2005	FY 2004
Beginning Balance	$ 125	$ 134
Charges and Costs Accrued	34	11
Less Repair Costs Incurred	15	
Ending Balance	$ 144	$ 145

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 six-month period ending November 28, 2004 is as follows:

	Balance at May 30, 2004	Current Period Plant Closing Charges	Cash Payments	Restructuring Liabilities at November 28, 2004
Employee termination costs	$ 15,000	$ 0	$ 15,000	$ 0

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6. Debt

The Company has a financing agreement, which includes a $7,000,000 revolving line-of-credit agreement through December 4, 2006. Interest on advances is at the prime rate plus 2% (prime plus 5% default rate) for fiscal year 2005. The rate at November 28, 2004 was 7.00% and on November 30, 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, which 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 net worth and income before taxes did not meet the minimum of the credit agreement. The Company received a waiver and amendment for these covenants. During the second quarter of fiscal 2005, the Company violated the financing agreement covenants and subsequent to quarter-end received a waiver and an amended agreement with less restrictive covenants. Following the January 2005 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 November 30, 2004 was $2,995,000. There were advances outstanding on the revolving line of credit of $1,849,000 and $1,965,000 at November 28, 2004 and May 30, 2004.

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

		November 28, 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	$	2,374	$	2,465
5.3% uncollateralized term loan, due in January 2005		290		290
7.94% term loan, paid during 2004				18
Total	$	2,664	$	2,773
Less current maturities		445		460
	$	2,219	$	2,313

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7. Stockholders Equity

		Six Months Ended November 28, 2004 ($000)
Total Stockholders Equity May 30, 2004		$11,937
Net Loss	$(651)	
Net change in Foreign currency translation adjustment	39	
Comprehensive Income (Loss)		(612)
Issue 48,875 shares of common stock in accordance with stock purchase plan		72
Preferred Stock Dividends Declared		(72)
Preferred Stock Dividends Paid with Common Stock		72
Total Stockholders Equity		$11,397

8. 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		Six Months Ended	
	November 28, 2004	November 30, 2003	November 28, 2004	November 30, 2003
Loss Applicable to Common Shareholders (in thousands)	$ (604)	$ (765)	$ (723)	$ (1,908)
Basic Weighted Average Shares Outstanding	4,803,318	4,673,706	4,795,870	4,665,659
Diluted Weighted Average Shares Outstanding	4,803,318	4,673,706	4,795,870	4,665,659
Basic Loss per Share	$ (0.13)	$ (0.16)	$ (0.15)	$ (0.41)
Diluted Loss per Share	$ (0.13)	$ (0.16)	$ (0.15)	$ (0.41)

9. Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards 123 (SFAS 123(R)), *Share-Based Payment*. The revision requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees. The statement eliminates the alternative method of accounting for employee share-based payments previously available under Accounting Principles Board Opinion No. 25. The Statement is effective for the Company beginning in the first quarter of fiscal 2007. The Company has not completed the process of evaluating the impact that will result from adopting SFAS 123(R).

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