AULT INC
Form 10-K/A
October 07, 2005

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D. C. 20549**

# FORM 10-K/A

**(Amendment No. 1 to Form 10-K)**

**(Mark One)**

**ý** **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]**

**FOR THE FISCAL YEAR ENDED MAY 30, 2004**

**Commission File Number 0-12611**

# AULT INCORPORATED

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **MINNESOTA** | **41-0842932** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

**7105 Northland Terrace, Brooklyn Park, MN 55428-1028**
Address of principal executive offices

Registrant s telephone number, including area code: **(763) 592-1900**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, No Par Value**

(Title of Class)

Indicate by check mark whether the 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. o

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

YES o NO ý

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $14,037,000 based upon the closing price of the Company s common stock on the NASDAQ National Market on August 2, 2004, multiplied by the number of outstanding shares of the Company held by persons other than officers, directors and 10% or more shareholders referred to in the Security Ownership of Principal Shareholders and Management table referred to under Item 12 herein.

On September 6, 2005, there were outstanding 4,861,192 shares of the Registrant s common stock.

The Form 10-K/A consists of 76 pages. The Exhibit Index is located on page 55.

Documents Incorporated by Reference: Portions of the definitive Proxy Statement to be delivered to shareholders for the Annual Meeting of Shareholders held September 28, 2004 were incorporated by reference into Part III.

**AULT INCORPORATED**

**FORM 10-K/A**

**FOR THE FISCAL YEAR ENDED MAY 30, 2004**

**Restatement**

This Amendment No. 1 on Form 10-K/A ( Form 10-K/A ) to the Company s Annual Report on Form 10-K for the year ended May 30, 2004, initially filed with the Securities and Exchange Commission (the SEC ) on August 25, 2004, ( Original Filing ) reflects a restatement of the consolidated financial statements of Ault Incorporated (the Company ) for the year ended May 30, 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 $592,979 and increased the Company s net loss applicable to common shareholders to ($5,545,646) from ($4,952,667) as originally reported. Further information on the restatement adjustments can be found on Note 1 to the accompanying consolidated financial statements.

This Form 10-K/A amends and restates Items 6, 7, 8 and 9A of Part II and Item 15 of Part IV of the Original Filing. In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the Original Filing has been amended to contain an updated consent of the Company s independent registered public accounting firm and 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.

## PART I

## ITEM 1. BUSINESS

(a) **General Development of Business**

Ault Incorporated (herein Ault or the Company) was incorporated under the laws of the State of Minnesota in 1961. The Company designs, manufactures, and markets power conversion products and is a leading domestic supplier of such products to original equipment manufacturers (OEMs) of data communications equipment, telecommunications equipment, portable medical devices and equipment as well as scanning and printing equipment and industrial equipment.

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). Further information regarding this acquisition is contained in Note 14 of the Notes to Financial Statements under Item 8 herein. Since the acquisition of the Power General division significant time and resources have been expended integrating the Massachusetts engineering group and internal power supply line into Ault s existing processes and team structure. As planned, production of Power General s open-frame AC-DC power supplies and the DC/DC converters was transferred from Massachusetts to Ault s existing facilities in Asia. In addition, through training provided to Ault s field sales organization worldwide, Ault s customers and prospects are familiar with the additional products and design engineering capabilities provided by this acquisition.

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 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.

The Company maintains a website at www.aultinc.com.  The annual reports on Form 10-K, quarterly reports on Form 10-Q and periodic reports on Form 8-K (and any amendments to these reports) are available free of charge on the website as soon as reasonably practical after the reports are filed with the SEC.  To obtain copies of these reports, go to www. http://www.aultinc.com.

## (b) Financial Information About Industry Segments

The Company operates in only one industry segment - the manufacture and sale of power conversion devices.

## (c) Narrative Description of the Business

Ault s power conversion products are used to adapt alternating current (AC) to provide a source of power at various levels up to more than one kilowatt of continuous power for a wide variety of electronic equipment.  A significant amount of the Company s products are located outside the equipment they power as a wall plug-in or as in-line components.  Both of these styles are generally referred to as external power conversion products.  A smaller percentage of the Company s products are located inside the equipment they power and are generally known as internal power conversion devices.  Each product configuration, external and internal, offers distinct advantages to the OEM buyer.  Internal power products are more generally accepted among design engineers across all segments of the electronic original equipment market (EOEM).  Internal power has traditionally been the norm in product design and, in terms of range, it provides greater latitude especially in applications beyond 100 watts.  External power still ranks as a high growth area in the power supply industry due to the increasing emphasis on smaller and portable products that perform increasingly sophisticated functions.  Ault s business strategy is to offer OEMs in these markets an expanding line of high-quality power conversion products, diverse design engineering expertise and customized customer services.

## (1) Products

Ault s product line includes internal AC/DC and DC/DC switching power supplies, DC/DC converters, DC mobile adapters and four major categories of external power conversion products:  switching power supplies, linear power supplies, transformers and battery chargers.  The Company s broad range of power conversion products --- ranging from 1 watt to more than 1 kilowatt --- are capable of providing power at most output levels that OEMs require.  The Company s design and application engineers work closely with customers to ensure that these products are customized to meet each OEM customer s unique power conversion needs.

The following table summarizes the proportion of sales of each of the Company s five major product categories for its last three fiscal years ended May 30, 2004:

**Sale of Products by Category**

**as a Percentage of Total Sales**

| Product Type | Years Ended May 30, 2004 | June 1, 2003 | June 2, 2002 |
|---|---|---|---|
| Switching Power Supplies | 59% | 54% | 48% |
| Linear Power Supplies | 25 | 30 | 32 |
| Transformers | 5 | 6 | 11 |
| Battery Chargers | 7 | 7 | 9 |
| DC/DC Converters | 4 | 3 | |
| Total | 100% | 100% | 100% |

***Power Supplies.*** The Company s traditional power supplies provide all power conversion elements for electronic equipment in power outputs ranging from 1 to 1200 watts. The majority of the Company s products contain a component level transformer, which reduces the voltage level, as well as other circuitry and components, which convert alternating current (AC) to direct current (DC) and, in most cases, maintain voltage within specific limits.

***Internal and External Switching Power Supplies.*** The Company believes the market for switching power supplies in the 1-500 watt range is generally the fastest growing segment of the overall power supply industry. For internals, switching power supplies are efficient and easily modified to meet an OEM s specific footprint and power requirements. In externals, switching power supplies use switching transistors to convert power from AC to DC and are more energy efficient, smaller and lighter in weight than linear units with comparable power outputs. The applications in which these internal and external products are currently used include telecommunications (wireless, wire line, cellular), data communications (networking, broadband modem, Power over Ethernet, routers, hubs, switches), computer and related peripherals, medical equipment, microprocessor controlled systems, printing and scanning equipment, security systems, automatic teller terminals, test equipment, multiplexers, digital cameras and point of sale equipment.

Most of the Company s internal and external switching power supplies incorporate a universal input ranging from 90 to 265 volts AC. This universal input means that the power supplies can be used in virtually any country for applications such as local area networks (LANs), printers and fiber optic links. The Company has also designed medical grade switching power supplies with similar universal input ranges.

***Linear Power Supplies.*** Linear power supplies are larger and generally less expensive than switching power supplies because their design is based on technology employing steel laminations with windings of copper wire rather than switching transistors. Linear power supplies tend to be used when the wattage output required is relatively low. Ault manufactures linear power supplies that provide up to 12 watts of regulated power and 25 watts of unregulated power. The Company s linear power supplies are used in a variety of applications including modems, telecommunications products, local area networks, microprocessor controlled systems, test equipment and multiplexers.

***Transformers.*** The Company manufactures a wide variety of wall plug-in transformers as part of its full range of power conversion products. Transformers are used primarily in applications where OEMs desire to remove heat, electromagnetic interference and weight from electronic equipment, while incorporating the rest of the power conversion system within the product. These products reduce AC voltage from approximately 110 volts (230 volts in some countries) down to lower voltages that range from 5 to 60 volts AC. The Company s product line also includes highly customized transformers that operate within stringent power output tolerances, features that are not offered by most of the Company s competitors. The Company s transformers are utilized in a broad spectrum of applications including modems, telephone sets, multimedia products and scanners.

***Battery Chargers.*** Ault has been an innovator in battery charging technology since the early 1980s. Ault specializes in providing custom designed, advanced solutions for manufacturers of portable and battery powered equipment. Applications for the Company s battery chargers include medical devices, mobile telecom devices, notebook computers, global positioning equipment and radio frequency communications products.

The Company s products serve the entire range of widely used battery chemistries such as nickel cadmium, sealed lead acid, gel cell and nickel-metal hydride. In addition, the Company has developed battery chargers for the particular requirements of newer battery chemistries such as zinc air, lithium ion and lithium polymer. The Company is committed to supporting these new emerging chemistries and to developing battery charger products to be introduced as these new battery chemistries become commercially accepted.

The Company sells primarily smart battery chargers as distinguished from trickle chargers. Smart charger products use integrated circuits to control various charging characteristics while allowing for fast charge time and extended battery life. Trickle charging is typically used for slow (8 to 10 hours) charging and/or standby battery maintenance.

The Company believes that the demand for high-quality battery chargers will continue to increase to accommodate the growing sophistication of portable electronic equipment.

***High-Efficiency and High-Density DC/DC Converters.*** The addition of DC/DC converters to the Company s product offering was in response to customer requests for on-the-board power solutions and Ault s strategy to fulfill the total solution approach as a preferred supplier to valued OEM customers. In fiscal 2003, as part of the Power General product offering, Ault acquired a line of DC/DC converters and seasoned engineers who have developed new, innovative high-density quarter-brick and eighth-brick designs. These products provide Ault with a wide range of converter options to meet the needs of OEMs using distributed power architecture in their next generation and new electronic product designs. In fiscal 2002, Ault signed a private label agreement with a third party manufacturer for distribution of high-efficiency DC/DC converters. The terms of this agreement are subject to an annual review by each party.

***Mobile Products.*** In late 2002, the Company expanded its product offering to include a line of mobile products for powering laptop computers in a broad range of field and service applications. The product focus is on mobile adapters in a single and dual output with a primary sales focus on laptop OEMs and value-added resellers (VARs). The Company anticipates nearly 65% of the market to be field and service applications in the business travel, insurance, trucking and delivery industries. The remainder of the applications is in emergency fire, police and medical services (20%); military and government (10%); and a small percentage in miscellaneous uses (5%). The product family, known as Transport, was introduced in fiscal 2003. The TR75 (75watts) is a single output mobile adapter that has generated approximately $300,000 in revenue. The next models in the product family are the TR100 (up to 100 watts) and the TR120 (up to 120 watts) in a same footprint as the TR75. These products will power the next generation of laptop computers that require 90, 100 or 120 watts.

## (2) Markets and Customers

The Company s marketing efforts are directed primarily toward OEMs producing non-consumer electronic equipment for broadband modems, wireless and wire line telecommunications product, networking, Power over Ethernet, as well as industrial and retail data acquisition. These markets are characterized by trends toward smaller, portable products capable of performing increasingly sophisticated functions, as well as intense competitive pressure to rapidly introduce new products and product enhancements. Based on its expertise to tailor a broad range of products to meet customer requirements, the Company believes it is well positioned to serve the needs of its OEM customers as they respond to these trends and competitive factors.

Historically, the most significant market for the Company s products has been OEMs of telecommunications/data communications equipment (broadband modems, wireless and wire line); in fiscal 2004 sales in this market represented approximately 40% of net sales. The Company s products power cable and ADSL modems, network termination equipment (devices which interface between telephone network and the customer s PBX or other telephone system), line conditioning equipment (devices which prepare telephone lines for the transmission of computer generated data), Wi-Fi and Power over Ethernet applications and various items of equipment ancillary to business telephones, including speaker phones, automatic dialers, caller identification units and alpha numeric displays, low to medium speed PC modems and multiplexers (equipment which enables the simultaneous transmission of multiple channels of information over the same telephone line).

In fiscal 2004, the telecommunications industry overall began to rebound as OEMs began launching new projects/designs and had the need to replenish existing product inventory that had been slow-moving over the past two years. A couple of telecommunication segments have been particularly strong: wireless and networking. There are new applications such as broadband wireless routers and wireless Ethernet devices that require cost-effective switching power supplies in the 12-32 watt range. The Company introduced a family of single-port Power-over-Ethernet power supplies that combine power through integrated RJ45 jacks as well as data over a single CAT 5 Ethernet cable. Two versions of the product are available: one that is 100% compliant to the Institute of Electrical and Electronics Engineers (IEEE) 802.3af standard that addresses Power over Ethernet requirements. A second version in the PW130 family is available to power OEM devices that are not compliant to the standard. Both versions can be sold as a standard product or be modified to suit specific requirements.

Approximately 26% of net sales in fiscal 2004 were to OEMs of portable medical equipment such as infusion pumps, patient monitoring systems, apnea monitors, and portable terminals for patient history input diagnostics.

In fiscal 2004 approximately 19% of the Company s net sales were to OEMs in the industrial market segment that includes digital cameras, load survey equipment, industrial lighting, outdoor and specialty lighting as well as power tools, metal detectors and GPS equipment. The remaining 15% of the Company s net sales were to OEMs of computers and computer peripherals such as digitizers, printers, plotters, portable terminals, point of sale scanners and optical character readers, LAN hardware and multimedia speakers for computer applications.

The Company has worked diligently to support the growth of sales through our network of regional, national and international distributors. In fiscal 2004, approximately 32% of the Company s net sales were to our distributors and their broad base of customers. While the specific percentages per market segment are not available, the Company s distributors target the same market segments as those outlined above. (i.e. the data communications/telecommunications segment ranks at the top of their market mix as well).

## (3) Design Engineering and Product Development

Design engineering teams at the Company s facilities in the United States, People Republic of China and South Korea are responsible for developing new power conversion products and customizing existing products to meet customer needs. The Company also utilizes the significant engineering resources of its Asian subcontractors for the development of products targeted for subcontract manufacturing. The Company s product development activities are divided equally between developing products to satisfy customer needs and new products based upon anticipated customer needs and market trends. New product development opportunities are evaluated based upon criteria such as global market potential, return on investment and technological advantages. The Company believes that its collaborative efforts with customers, combined with its forward-looking concern for power technology and market trends, have enabled it to gain a reputation as a leading innovator in the development of new power conversion products.

## (4) Sales and Distribution

The Company markets its products primarily in the U.S. and Canada through a network of 18 manufacturer representatives employing approximately 125 salespersons, each of whom represents, in addition to Ault s products, several different but complementary product lines of other manufacturers. The Company also sells through four national distributor organizations, which employ over 1,000 salespersons, and 14 regional distributors, which employ over 100 salespersons. The Company selects representatives based upon their industry knowledge as well as account expertise with products that are synergistic with the Company s products. Individual salespersons are trained, mentored and technically assisted by the Company s application engineers and other sales administration staff. Any reduction in the efforts of these manufacturer representatives or distributors could adversely affect the Company s business and operating results.

The Company begins the sales process by identifying a potential customer or market; researching the target or potential customer s total business, product and strategic needs; and then preparing a total solution proposal that includes engineering, product development, safety agency approvals, logistics and project development processes, coordinating pilot runs and assisting OEMs with their product introductions.

The Company focuses its selling efforts primarily on OEMs in the U.S. and Canada. However, many of the larger OEM customers of the Company manufacture and sell their products globally. As a result, the Company has extended its presence to markets throughout the world. The Company s sales in the Pacific Rim are primarily to customers in South Korea and China.

The Company markets its products in Europe through a network of distributors who are managed through the Company s customer team located in Norwood, Massachusetts. In the Pacific Rim, the Company markets its products through direct sales teams located in Seoul, South Korea and

Shanghai, People s Republic of China.

(5) **Safety Agency Certification**

The power conversion system is potentially the most hazardous element in most electronic equipment because the power supply modifies standard power to a level appropriate for such equipment. Virtually all of the Company s customers require that the power conversion products supplied by the Company meet or exceed established international safety and quality standards, since many of the Company s products are used in conjunction with equipment that is distributed through the world. In response to these customer requirements, the vast majority of the Company s products are designed and manufactured in accordance with certification requirements of many safety agencies, including Underwriters Laboratories Incorporated (UL) in the United States; the Canadian Standards Association (CSA) in Canada; Technischer Uberwachungs-Verein (TUV) in Germany; the British Approval Board for Telecommunication (BABT) in the United Kingdom; the International Electrotechnical Committee (IEC), a European standards organization and (CE) a standard for the European Community. In addition, some of the Company s products have also received Japanese Ministry of International Trade and Industry (MITI) approval. For certain safety applications, the Company s products conform to FCC Class B requirements, which regulate the levels of electronic magnetic interference that may be emitted by electronic equipment. Unlike most of its competitors, the Company is a certified test laboratory for UL, CSA and TUV and is able to conduct most certification tests at its Minneapolis headquarters. This procedure reduces the time required to obtain safety certifications.

(6) **Competition**

The Company competes primarily with various manufacturers of external power conversion products. The industry is highly fragmented, with manufacturers generally focusing their marketing on specific segments. The Company has experienced strong competition from Taiwanese-based manufacturers principally on price. Many of these competitors have a smaller presence in the external conversion market than the Company, although several are engaged in more than one business and have significantly greater financial resources.

No single company dominates the overall external power conversion product market, and the Company s competitors vary depending upon the particular power conversion product category. The companies with which Ault competes most directly in each of its major product categories are: Leader Electronics, Inc. and Golden Pacific Electronics, Inc. for transformers; Dee Van Enterprise Co., Ltd., Friwo, and EMC, Inc. for linear power supplies; GlobTek, Inc., Condor and Phihong Enterprise Co., Ltd. for switching power supplies; and Friwo, Phihong and Anam for battery chargers.

The Company competes on the basis of the quality and performance of its products, the breadth of its product line, customer service, and dependability in meeting delivery schedules, design engineering services, and price. The Company believes it is currently one of a small number of companies that design, manufacture and obtain certifying agency approvals for the full range of internal and external power conversion devices, which OEMs consider in designing their electronic product.

The Company provides a total solution approach to the OEM s entire power conversion product needs (under 1 kilowatt) through its commitment to reliable partnerships and its delivery of high quality products supported by solution-oriented design engineering. The manufacturing facilities in Korea and China, and arrangements with subcontract manufacturers in China and Thailand enable the Company to compete effectively when price is the primary consideration.

Internal power conversion products continue to be used for most electronic equipment, and as a result the Company experiences competition from numerous OEMs and independent suppliers offering internal products. With the trend toward lower power requirements in portable electronic equipment and with the increasing availability of smaller, competitively priced internal switching power supplies, certain customers of the Company may choose to return to internal power supplies in place of the external power conversion products they currently purchase. In response to this issue, the Company is now well positioned to service the power requirements of its customers, whether internal or external, as a result of the Power General acquisition. This acquisition not only provided the engineering expertise to design internal power supplies, but also has expanded the Company s product offering significantly to include a line of AC/DC and DC/DC switching power supplies and DC/DC converters. The Company competes with a number of manufacturers of internal AC/DC power supplies, including Astec, Power-One, GlobTek, Condor and Delta Electronics.

The Company competes with a broad range of manufacturers in the DC/DC converter market. The industry is fragmented, with manufacturers concentrating their sales and marketing on specific customer requirements in specific markets. The Company s primary competitors are Synqor, Power-One, Ericsson, Artesyn, and Galaxy. In the past 12 months, almost all of the key players in the DC/DC market have introduced models in the isolated, high-efficiency eighth-brick, quarter-brick, and half-brick models. The largest single market segment for the sale of these high-efficiency models is telecommunications and since this segment has suffered severely in the down economy, there has been limited demand for these products. To date, no single competitor dominates the DC/DC market in terms of market share.

The estimated size of the mobile products market in North America is $55-$65 million. The major competitors, Targus, Lind and Mobility, specialize in this market segment. These three companies dominate the market with combined revenues of approximately $47 million. The rest of the market includes smaller companies with limited sales to a handful of key customers.

## (7) Manufacturing and Sources of Supply

The Company s manufacturing operations consist of assembly and integration of electronic components to meet product specifications and design requirements for a variety of power conversion applications. Manufacturing is currently conducted at the Company s facilities in Seoul, South Korea, and Xianghe, China, and by subcontract manufacturers at four locations in China and Thailand.

As discussed above, the Company discontinued its Minneapolis manufacturing operations beginning in the first quarter of fiscal 2004, moving this production to its other manufacturing plants, primarily China. The consolidation included the closing of its Minneapolis production operations, with the headquarters location continuing to provide engineering, safety certification, reliability testing, sales, marketing and administrative services for its global customers. Ault s headquarters will continue to provide prototypes and engineering builds as part of its engineering support services.

Electronic components and raw materials used in the Company s products are generally available from a large number of suppliers, although from time to time shortages of particular items are experienced.

Quality and reliability are emphasized in both the design and manufacture of the Company s products. This emphasis is reflected in the ISO 9001 certification of the Company s Minneapolis facility in 1991, its South Korea facility in 1996 and its China facility in 1998. The Company tests 100% of its finished products against its own and the customers specifications, and then ships the products in custom-engineered protective packaging to minimize any damage during shipment.

The Company has subcontract manufacturing arrangements with two business partners in Thailand and two in China. The Company does not have long-term commitments with its subcontractors and the subcontractors build product for the Company pursuant to individual purchase orders. The Company selects its subcontract manufacturers based upon their ability to manufacture high-quality products, the sufficiency of their engineering capabilities to support products being manufactured; and their ability to meet required delivery times.

## (8) Significant Customers: Backlog

The Company sells its products to over 400 customers, and it is the Company s objective to maintain a diversified customer base to avoid, where practicable, dependence upon a single customer. In fiscal 2004, 2003, and 2002, no customers accounted for more than 10% of sales.

The Company s order backlog at May 30, 2004 totaled $10,027,000 compared to $13,850,000 at June 1, 2003. The order backlog represents sales for approximately 10 weeks.

The Company enters into buying commitments and other scheduling agreements with certain customers. For its larger customers, these agreements allow for order increases and decreases within scheduled limits and include cancellation charges for completed and in-process products and procured materials. Most products are shipped within 4 to 10 weeks of an order.

(9) **Warranties**

The Company provides up to a three-year parts and labor warranty against defects in materials or workmanship on all of its products. Servicing and repairs are conducted at the Company s facilities in Minneapolis and South Korea. The Company s warranty expenses have not been significant.

(10) **Patents**

The Company holds no significant patents.

(11) **Seasonality**

In the past three years, sales of the Company have not reflected seasonality.

(12) **Employees**

As of June 29, 2004, the Company employed approximately 685 full-time employees at its facilities as follows:

| | South Korea | China | US | Total |
|---|---|---|---|---|
| Manufacturing | 85 | 389 | 4 | 478 |
| Engineering | 14 | 48 | 25 | 87 |
| Marketing | 9 | 8 | 13 | 30 |
| General and Administrative | 9 | 57 | 24 | 90 |
| | | | | |
| Total | 117 | 502 | 66 | 685 |

None of the Company s employees are represented by a labor organization, and the Company has never experienced a work stoppage or interruption due to a labor dispute. Management believes that its relations with its employees are good.

(13) **Executive Officers of the Registrant**

Certain information with respect to the executive officers of the Company is set forth:

| Name | Age | Position | Officer Since |
|---|---|---|---|
| Frederick M. Green | 61 | President and Chief Executive Officer and Director | 1980 |
| Donald L. Henry | 48 | Vice President, Treasurer, Chief Financial Officer and Secretary | 1999 |
| Xiaodong Wang | 46 | Vice President Asia Pacific (Previously 2 years with XD Company as CEO and President and 7 years with Simplot Company most recently: General Manager of China Operations, International Project Manager) | 2000 |
| Gregory L. Harris | 51 | Vice President Business Development | 1988 |

(14) **Risk Factors**

The following risk factors are relevant to an understanding of the Company s business:

***The Company has experienced material weaknesses in its internal controls***. The Company has recently experienced material weaknesses in its internal controls related to its Ault China subsidiaries, and related to its warehouse arrangements with third parties. These weaknesses in controls resulted in certain adjustments to the

Company s financial statements. The Company has undertaken a remediation program to address these weaknesses, but there can be no assurance that the Company may not suffer additional material weaknesses and adjustments or restatements to its financial statements.

***The electronic equipment market is characterized by rapidly changing technology and shorter product life cycles.*** The Company s future success will continue to depend upon its ability to enhance its current products and to develop new products that keep pace with technological developments and respond to changes in customer requirements. Any failure by the Company to respond adequately to technological changes and customer requirements or any significant delay in new product introductions could have a material adverse effect on the Company s business and results of operations. In addition, there can be no assurance that new products to be developed by the Company will achieve market acceptance. See Business-Design Engineering and Product Development.

***The Company s financial results are influenced by a number of factors.*** The Company s financial results are subject to fluctuation due to various factors, including general business cycles in the Company s markets, the mix of products sold, the stage of each product in its life cycle and the rate and cost of development of new products. In addition, component and material costs, the timing of orders from and shipments of products to customers and deferral or cancellation of orders from major customers could adversely affect financial results.

***The Company s reliance on outside contractors reduces its control over quality and delivery schedules.*** The Company currently depends on third parties located in foreign countries for a significant portion of the manufacture and assembly of certain of its products. While the Company takes an active role in overseeing quality control with its third-party manufacturers, the failure by one or more of these subcontractors to deliver quality products or to deliver products in a timely manner could have a material adverse effect on the Company s operations. In addition, the Company s third-party manufacturing arrangements are short term in nature and could be terminated with little or no notice. If this happened, the Company would be compelled to seek alternative sources to manufacture certain of its products. There can be no assurance that any such attempts by the Company would result in suitable arrangements with new third-party manufacturers. See Manufacturing and Sources of Supply.

***The Company s success depends in part upon the continued services of many of its highly skilled personnel involved in management, engineering and sales, and upon its ability to attract and retain additional highly qualified employees.*** The loss of service of any of these key personnel could have a material adverse effect on the Company. The Company does not have key-person life insurance on any of its employees. In addition, the Company s future success will depend on the ability of its officers and key employees to successfully manage the Company for growth and profitability and to attract, retain, motivate and effectively utilize the team approach to manage its employees.

***While the Company actively trains and technically assists the individual sales representatives representing its products, a reduction in the sales efforts by the current manufacturer representatives and distributors or termination of their relationships with Ault could adversely affect the sales and operations.*** The Company markets and sells products primarily through independent manufacturer representatives and distributors that are not under its direct control. The Company employs a limited number of internal sales personnel.

***To satisfy customer demand and to obtain greater purchasing discounts, the Company carries increased inventory levels of certain items.*** The Company s financial results may be adversely affected when inventory exceeds anticipated demand. Gross margin can be adversely affected by increases in costs of raw materials. There can be no assurance that raw material cost increases or the cost of carrying increased finished goods inventory will not have a material adverse effect on the financial results.

***A prolonged reduction in demand for the Company s products will continue to impact the financial success.*** In fiscal year 2002, sales declined in large part due to a substantial downturn in sales to the telecommunications and data communications markets. Sales to these markets stabilized in fiscal 2003 and fiscal 2004. A decline of the telecommunications and data communications markets would adversely affect the Company s results.

***The financing agreements contain covenants with which the Company may not be able to comply.*** The Company has entered into a financing agreement that contains financial covenants. These covenants require, that the Company, among other things, maintain a minimum working capital base, and also impose certain limitations on additional capital expenditures and the payment of dividends. The Company believes the covenants are achievable based on the expected operating results. Its ability to comply with financial covenants depends upon future operating performance. And, future operating performance depends, in part, on general industry conditions and other factors beyond the Company s control.

***Civil unrest, labor disruptions, or acts of aggression could impede the Company s ability to operate in foreign locations and would have a material adverse effect on future business and consequently, the operating results.*** Manufacturing is conducted at the Company s facilities in South Korea and China and through manufacturing relationships in the People s Republic of China (China) and Thailand. While this Pacific Rim manufacturing strategy enables the Company to compete worldwide against other suppliers of external power conversion products, it also involves risks. While, its manufacturing operations in South Korea, China and Thailand have not been affected by labor disruptions, civil unrest or political instability, the risk of civil unrest and political instability is present in each of these countries.

**(d) Financial Information About Foreign and Domestic Operations and Export Sales**

Export sales in fiscal year 2004 represented 12.6% of the Company s gross sales, most of which were to OEMs in Europe and Canada. For other financial information about foreign and domestic operations and export sales including the amount of export sales for the last 3 years, refer to Note 13 - Segment Information and Foreign Operations under notes to consolidated financial statements.

***ITEM 2.*** **PROPERTIES**

The Company owns and occupies its headquarters facility in Brooklyn Park, a suburb of Minneapolis, Minnesota, which is approximately 65,000 square feet in size.

The Company leases a 10,500-square-foot office in Norwood, Massachusetts.

Ault Korea Corporation owns and occupies a 54,000-square-foot facility in Suwon City in the province of Kyungki-Do, Korea.

Ault China Corporation owns and occupies a 40,000 square foot facility in the Province of Xianghe in China.  The land use rights expire in 2050.

Ault Shanghai Corporation leases a 9,000-square-foot facility in Shanghai, China.

Management considers all of the Company s properties to be well maintained, and together with subcontract arrangements in China and Thailand, adequate for all Company functions, including manufacturing requirements.

**ITEM 3.** **LEGAL PROCEEDINGS**

No material litigation or other claims are presently pending against the Company.

**ITEM 4.** **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**PART II.**

## ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Ault common shares are traded on the NASDAQ market under the symbol AULT. The following table presents the range of closing bid prices for the Company s common stock on the NASDAQ Market for fiscal 2004 and 2003.

| | Fiscal 2004 | | Fiscal 2003 | |
|---|---|---|---|---|
| **Quarter** | **$ High** | **$ Low** | **$ High** | **$ Low** |
| 1st | 2.310 | 1.860 | 4.840 | 3.000 |
| 2nd | 2.990 | 2.000 | 3.010 | 1.610 |
| 3rd | 3.760 | 2.300 | 2.550 | 1.700 |
| 4th | 3.770 | 2.800 | 2.080 | 1.660 |

(b) Holders

As of August 2, 2004 there were 281 shareholders of record for the Company s common stock. This number of record stockholders does not include beneficial owners of common stock whose shares are held of record by Depository Trust under the name CEDE & Co.

(c) Dividends

Ault has not paid cash dividends on its common shares, and the present policy of its Board of Directors is to retain any earnings for use in the business. The Board of Directors does not anticipate paying cash dividends on its common shares in the foreseeable future. The Company is obligated to pay dividends on its outstanding 7% Convertible Preferred Stock. See Note 8 of the Notes to Financial Statements under Item 8 herein.

(d) Other Information Regarding Equity Compensation Plans

| | (a) | (b) | (c) |
|---|---|---|---|

| Plan Category | Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders: | | | |
| 1986 Stock Plan | 146,500 | $ 4.922 | |
| 1996 Stock Plan | 1,041,326 | 5.220 | 5,575 |
| Employee Stock Purchase Plan | 25,875 | 1.700 | 74,196 |

Equity compensation plans not approved by security holders:

None

(1) The Company does not have individual compensation arrangements involving the granting of options warrants and rights.

(e) During the past three fiscal years, the Company has not sold its securities except pursuant to registration statements under the Securities Act of 1933.

**ITEM 6.** **SELECTED FINANCIAL SUMMARY**

(Amounts in Thousands, Except Per Share Data)

| | YEARS ENDED | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **May 30, 2004 Restated (1)** | | **June 1, 2003 (2)** | | **June 2, 2002** | | **June 3, 2001 (3)** | | **May 28, 2000 (4)** |
| Net sales | $ | 45,109 | $ | 41,479 | $ | 41,032 | $ | 85,692 | $ | 67,913 |
| Gross profit | | 10,353 | | 8,419 | | 7,944 | | 18,657 | | 16,236 |
| Operating expenses | | 15,116 | | 15,930 | | 11,968 | | 15,228 | | 13,001 |
| Operating income (loss) | | (4,763) | | (7,511) | | (4,024) | | 3,429 | | 3,235 |
| Nonoperating income (expense) | | (591) | | (393) | | (234) | | 172 | | (311) |
| Income (loss) before income taxes | | (5,354) | | (7,904) | | (4,258) | | 3,601 | | 2,924 |
| Income tax expense (benefit) | | 47 | | (340) | | (694) | | 1,355 | | 1,061 |
| Cumulative effect of accounting change, net of tax | | | | | | | | (50) | | |
| Redeemable convertible preferred stock dividends | | (145) | | (128) | | | | | | |
| Net income (loss) applicable to common stockholders | $ | (5,546) | $ | (7,692) | $ | (3,564) | $ | 2,196 | $ | 1,863 |
| Net income (loss) per share: | | | | | | | | | | |
| Basic | $ | (1.19) | $ | (1.67) | $ | (0.78) | $ | 0.49 | $ | 0.42 |
| Diluted | | (1.19) | | (1.67) | | (0.78) | | 0.47 | | 0.40 |
| Total assets | $ | 29,835 | $ | 33,065 | $ | 36,697 | $ | 43,457 | $ | 46,256 |
| Property, plant and equipment, net | | 10,673 | | 13,283 | | 12,442 | | 12,576 | | 10,537 |
| Working capital | | 5,677 | | 8,431 | | 14,084 | | 17,840 | | 17,708 |
| Long-term debt, less current maturities | | 2,313 | | 2,483 | | 2,754 | | 3,035 | | 3,657 |
| Stockholders equity | | 11,937 | | 17,319 | | 24,753 | | 28,129 | | 25,805 |

---

(1) The 2004 results include exit costs of $2,064; See Note 1 to financial statements for restatement information.

(2) The 2003 results include a goodwill impairment charge of $1,153.

(3) The 2001 results include a noncash, pretax cumulative effect of accounting change related to the adoption of Staff Accounting Bulletin No. 101 of $77 expense ($50 after tax, or $0.01 per share). The 2001 results include 53 weeks of activity.

(4) The 2000 results include a gain on the disposition of the Korean facility of $1,525

**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

This amended Annual Report on Form 10-K/A for the fiscal year ended May 30, 2004, amends and restates financial statements and related financial information for the fiscal year ended May 30, 2004. The determination to restate these financial statements and other financial information was made 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. Further information on the restatement can be found in Note 1 to the accompanying consolidated financial statements.

**Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based on our 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 us to make estimates and judgments that affect the reported amounts 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 that involve significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of our financial condition and results of operations. We believe the accounting policies described below meet these characteristics. Our significant accounting policies are more fully described in the notes to the consolidated financial statements included in this annual report on Form 10-K/A.

*Revenue Recognition* The Company s policy is to recognize revenue for product sales when title transfers and risk of loss has passed to the customer, which is generally upon acceptance of the product by the overseas freight carrier. The Company s policies comply with the guidance provided by Staff Accounting Bulletin No. 104, Revenue Recognition, issued by the Securities and Exchange Commission. Judgments are required in evaluating the credit worthiness of our customers. Credit is not extended to customers and revenue is not recognized until the Company has determined that the risk of uncollectibility is minimal.

*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.

*Product Warranties* The Company s products are sold with warranty provisions that require it to remedy deficiencies in quality or performance over a specified period of time, 36 months, at no cost to the Company s customers. The Company s policy is to establish warranty reserves at levels that represent its estimate of the costs that will be incurred to fulfill those warranty requirements at the time that revenue is recognized. The Company believes that its recorded liabilities are adequate to cover its future cost of materials, and overhead for the servicing of its products sold through that date. If there is an actual product failure, or material or service delivery costs differ from the Company s estimates, its warranty liability would need to be revised accordingly.

*Deferred Taxes* Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. Deferred tax assets are 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 the net deferred tax asset will not be realized in the future. Thus a full 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 benefit, which will be recorded in the consolidated statement of operations.

**LIQUIDITY AND CAPITAL RESOURCES**

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 (restated) in 2004 and $7,692,073 in 2003 and at May 30, 2004 had an accumulated deficit of $8,321,044 (restated). The Company utilized $913,911 of cash for operating activities in 2004. Future operations 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. The Company took 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.

Based on available funds, current plans and business conditions, management believes 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.

The following table summarizes the Company s working capital position at May 30, 2004 and at June 1, 2003:

| | **May 30, 2004 Restated ($000)** | **June 1, 2003 ($000)** |
|---|---|---|
| Working capital | 5,677 | 8,431 |
| Cash and cash equivalents | 1,058 | 1,100 |
| Unutilized bank credit facilities | 5,720 | 2,297 |
| Cash used in operations | (914) | (3,179) |

**Current Working Capital Position**

At May 30, 2004, the Company had current assets of $18,985,000 and current liabilities of $13,308,000 representing working capital of $5,677,000 and a current ratio of 1.4. This represents a decrease in working capital from $8,431,000 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 to any material capital expenditures as of May 30, 2004.

**Cash and Investments:** At May 30, 2004, the Company had cash and securities totaling $1,058,000, down from $1,100,000 at June 1, 2003. This decrease in cash was principally due to the net loss from operations.

**Credit Facilities:** **The Company maintains credit facilities with Wells Fargo Bank N.A. and with Korea Exchange Bank. See Note 4, under notes to consolidated financial statements.**

The credit arrangement with Wells Fargo is an asset-based credit facility of $7 million, secured by company assets. At May 30, 2004 there were borrowings of $1,965,000 compared to no borrowings at June 1, 2003. The 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 has received a waiver and amendment for this covenant. Following the

July 21, 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 South Korean credit facility is approximately $3.37 million of which borrowings at May 30, 2004 totaled $2,685,003.

**CASH FLOWS FOR FISCAL 2004**

**Operations:** Operations used $914,000 of cash during fiscal 2004 due principally to the following activities:

(a) The loss net of non-cash charges of depreciation of $1,191,000, and asset impairment of $1,742,000 used cash of $1,874,000.

(b) Increases in trade receivables due to the increased net sales used $925,000.

(c) Decreases in inventories net of non-cash obsolescence write-downs provided $1,824,000. The decreases are due in part to the consolidation of the manufacturing facilities.

(d) Increases in accrued expenses and accounts payable provided $805,000.

**Investing Activities:** Investing activities used net cash of $322,000 mainly relating to the purchase of tooling and test equipment.

**Financing Activities:** Financing activities provided net cash of $1,189,000, is primarily comprised of:

(a) Net bank borrowing provided $1,458,000 to fund operations.

(b) Payments of long-term debt used $270,000.

**Effect of Foreign Currency Exchange Rate Fluctuations:** The effect of translating the Korean financial statements, which were prepared in South Korean Won (Won), to U.S. Dollars, increased cash by approximately $6,000 during the year. The effect of translating the Chinese financial statements, which were prepared in Chinese Yuan (Yuan) to U.S. Dollars, had minimal effect on cash for the year.

**RESULTS OF OPERATIONS**

**Fiscal Year Ended May 30, 2004**

| ($000) | Fiscal 2004 Restated | Fiscal 2003 | Increase / (Decrease) Amount | Percent |
|---|---|---|---|---|
| Net Sales | $ 45,109 | $ 41,479 | $ 3,630 | 9% |
| Operating Loss | (4,763) | (7,511) | 2,748 | 37% |

Net sales were $45,109,000 for fiscal 2004, up 9% from $41,479,000 for fiscal 2003. The increase is due to an increase in sales into the Asia Pacific area of $2,255,000, and an increase in sales to North America and Europe of $1,375,000. Both are a result of the continued economic expansion, with an increase in sales to existing customers and new customers.

The gross margin for fiscal 2004 was 23.0%, compared to 20.3% for fiscal 2003. Current year margin increased $797,000 from cost reductions related to the exiting of manufacturing in Minneapolis, $311,000 from increased volume in North America, and $292,000 from an increase in sales in Korea, offset by $545,000 for inventory write-down due to the exiting of manufacturing in Minneapolis and $487,000 inventory write-down for China operations, and prior year margin was adversely affected by $740,000 from the acquisition of Power General.

Operating expenses decreased to $15,116,000 (restated) for fiscal 2004 compared to $15,930,000 in fiscal 2003 primarily due to the following factors: First, expenses of $1,626,000 resulting from the April 2003 layoff did not repeat in 2004. Second, impairment of $1,153,000 in goodwill related to the LZR acquisition did not repeat in fiscal year 2004. Finally these non-recurring costs were offset by the closing of the Minneapolis manufacturing plant in 2004 resulted in increased costs of $2,064,000, related to severance for the employees and an asset impairment charge.

The Company  s order backlog at May 30, 2004 totaled $10,027,000 compared to $13,850,000 at June 1, 2003. The backlog has decreased in the US due to an increasing expectation by our customers to ordering on a just in time basis.

Net nonoperating expense is $591,000 for fiscal 2004 compared to $393,000 in fiscal 2003. The increase is primarily from higher interest expense of $607,000 in fiscal 2004 compared with $435,000 in fiscal 2003. The increase is due to the increased bank debt.

The effective tax rate was an expense of 1.0% for fiscal year 2004 compared to a benefit of 4.3% for fiscal year 2003. The expense in 2004 is the result of state tax expenses in the U.S. and tax expenses in Korea. The benefit in 2003 reflects the utilization of the remaining U.S. loss carrybacks. No benefit has been recognized for the U.S. loss carryforwards from 2003, or any foreign loss carryforwards generated in fiscal year 2003 or 2004, as a full valuation allowance has been established. This reflects the determination that the realization of the deferred tax asset is not more likely than not as of May 30, 2004.

**CASH FLOWS FOR FISCAL 2003**

**Operations:** Operations used $3,179,000 of cash during fiscal 2003 due principally to the following activities:

(a) The loss net of depreciation of $1,029,000, goodwill impairment of $1,153,000, and bad debt reserve of $230,000, in total used cash of $5,152,000.

(b) Decreases in trade receivables due to the decreased net sales provided $210,000.

(c) Increases in inventories net of obsolescence write-downs used $20,000. The increases are due to the increased sales by our Asian subsidiaries.

(d) Increases in accrued expenses and accounts payable provided $1,443,000.

**Investing Activities:** Investing activities used net cash of $639,000 mainly relating to the acquisition of Power General of $366,000 and the purchase of equipment of $273,000.

**Financing Activities:** Financing activities used net cash of $123,000 comprising:

(a) Bank borrowing by our China subsidiary provided $290,000.

(b) Proceeds from stock options exercised provided $60,000.

(c) Payments of long-term debt used $282,000.

**Effect of Foreign Currency Exchange Rate Fluctuations:** The effect of translating the Korean financial statements, which were prepared in Won, to U.S. Dollars, increased cash by approximately $20,000 during the year. The effect of translating the Chinese financial statements, which were prepared in Yuan to U.S. Dollars, had minimal effect on cash for the year.

**Fiscal Year Ended June 1, 2003**

| ($000) | Fiscal 2003 | Fiscal 2002 | Increase / (Decrease) Amount | Percent |
|---|---|---|---|---|
| Net Sales | $ 41,479 | $ 41,032 | $ 447 | 1% |
| Operating Income (Loss) | (7,511) | (4,024) | (3,487) | (87) |

Net sales were $41,479,000 for fiscal 2003, up 1% from $41,032,000 for fiscal 2002. The increase is due to $2,360,000 in sales resulting from the acquisition of certain assets and certain liabilities of Power General and an increase in sales into the Asia Pacific area of $4,249,000, offset by a decrease in sales to North America and Europe of $6,162,000.

The gross margin for fiscal 2003 was 20.3%, compared to 19.4% for fiscal 2002. Margins increased primarily due to a fiscal 2002 inventory write-down of $999,000 and offset by lower margin on the products sold from the acquisition of Power General of $500,000.

Operating expenses increased to $15,930,000 for fiscal 2003 compared to $11,968,000 in fiscal 2002 primarily due to the following factors: First, the July 2002 acquisition of certain assets and certain liabilities of Power General increased costs from fiscal 2002 by $2,654,000 principally due to hiring engineering and sales staff formerly employed at Power General. Second, transition costs of $404,000 for temporary operations in the current Power General location. The transition for the manufacturing of these products is complete and these costs will not continue. Third, recognition of impairment of $1,153,000 in goodwill related to the LZR acquisition. During the fourth quarter of fiscal 2003, the annual goodwill impairment test was performed and the fair value of the Company was assessed to determine whether goodwill carried was impaired and the extent of such impairment. After performing this evaluation it was evident that impairment of goodwill had occurred because of a decline in revenues for the fourth quarter compared to forecasted revenues, as well as a significant increase in the fourth quarter loss compared to forecast. The Company did not perform an impairment test prior to the fourth quarter as there was not an event that had occurred or circumstances had changed in such a manner to warrant an impairment test prior to the fourth quarter. Fourth, these items were offset by a decrease in bad debt expense for fiscal 2003 when compared to fiscal 2002. In fiscal 2002 the Company recognized $1,186,000 of additional bad debt expense for accounts that were uncollectible.

The Company s order backlog at June 1, 2003 totaled $13,850,000 compared to $9,310,000 at June 2, 2002. The backlog has increased in Asia by $1,400,000 due to increased order activity, and domestic backlog has increased by $3,000,000 due to a purchase order from a customer covering a one-year period.

Nonoperating expense is $393,000 for fiscal 2003 compared to $234,000 in fiscal 2002. The increase is primarily from (1) lower interest income in fiscal year 2003 compared to fiscal year 2002 of $68,000, and (2) currency exchange rate gains by the Korean subsidiary of $123,000 less in fiscal 2003 as compared to fiscal 2002. The Company incurred interest expense of $435,000 in fiscal 2003 and $495,000 in fiscal 2002. The decrease is due to the decrease in bank debt in Korea.

The effective tax rate was a benefit of 4.3% for fiscal year 2003 compared to a benefit of 16.3% for fiscal year 2002, and expense of 37.6% for fiscal year 2001. The benefit in 2003 reflects the utilization of the remaining U.S. loss carrybacks but no benefit for the $3,600,000 U.S. loss carryforwards from 2003, or any foreign loss carryforwards generated in fiscal year 2003, because a full valuation allowance has been set up for the loss carryforwards due to the determination that currently the realization of the deferred tax asset is not more likely than not.

**Information About Revenue by Geography**

Revenue from the U.S., from each foreign country that is the source of significant revenue, and from all other foreign countries as a group are as follows:

| | Fiscal Year Ended | |
|---|---|---|
| | **May 30, 2004 ($000)** | **June 1, 2003 ($000)** |
| U.S. | $ 26,702 | $ 26,352 |
| Korea | 9,748 | 5,483 |
| China | 3,567 | 5,302 |
| Canada | 1,182 | 819 |
| Ireland | 983 | 89 |
| Belgium | 22 | 5 |
| Other Foreign | 2,905 | 3,429 |
| Total | $ 45,109 | $ 41,479 |

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**

Products manufactured by the Company s Korean subsidiary comprised 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 value increase of $35,000 during the year, the majority relating to the Korean currency fluctuations.

**Forward Looking Statements**

From time to time, in reports filed with the Securities and Exchange Commission (SEC), 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, medical and other 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; unanticipated expenses related to integration of manufacturing and personnel from acquisitions, such as the acquisition of the Power General assets; dependence on foreign manufacturing and other operations; and other risks affecting the Company s target markets generally.

**CONTRACTUAL OBLIGATIONS**

The following table summarizes the Company s contractual obligations and commercial commitments as of May 30, 2004 (in thousands):

Payments due by Period

| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Contractual Obligations: | | | | | |
| Long-term debt | $ 2,773 | $ 460 | $ 344 | $ 403 | $ 1,566 |
| Operating leases | 678 | 196 | 378 | 104 | |
| Total contractual obligations | $ 3,451 | $ 656 | $ 722 | $ 507 | $ 1,566 |

**Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board (FASB) approved for issuance SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. In fiscal 2002 the amortization expense was $100,000. On June 3, 2002, the Company adopted SFAS No. 142, and the initial impairment test was performed and it was determined that there was no goodwill impairment on June 3, 2002. During the fourth quarter of fiscal 2003, the annual goodwill impairment test was performed and the fair value of the Company was assessed to determine whether goodwill carried was impaired and the extent of such impairment. After performing this evaluation it was evident that impairment of goodwill had occurred because of a decline in revenues for the fourth quarter compared to forecasted revenues, as well as a significant increase in the fourth quarter loss compared to forecast. The Company did not perform an impairment test prior to the fourth quarter as there wasn t an event that had occurred or circumstances had changed in such a manner to warrant an impairment test prior to the fourth quarter. Accordingly, an impairment charge of $1,153,153 was recorded in the fourth quarter of fiscal 2003.

**ITEM 7A. 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 realized an exchange loss of $30,000 for fiscal 2004, and an exchange loss $23,000 for fiscal 2003, and a $100,000 gain for fiscal 2002.

As of May 30, 2004, the Company had variable rate debt outstanding. Thus, an interest rate increase would negatively impact interest expense and cash flows. For every $1,000,000 of bank debt, a rate increase of 1% would result in $10,000 of additional expense.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

(a) Financial Statements

Index to Consolidated Financial Statements



(b) Supplemental Financial Information

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Stockholders and Board of Directors

Ault Incorporated and Subsidiaries

We have audited the consolidated balance sheet of Ault Incorporated and subsidiaries (a Minnesota corporation) as of May 30, 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended (as restated, see Note 1). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Ault Korea Corporation, a wholly-owned subsidiary, which statements reflect total assets and revenues constituting 37 percent and 22 percent, respectively, of the related consolidated totals as of and for the year ended May 30, 2004. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Ault Korea Corporation is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ault Incorporated and subsidiaries as of May 30, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II for the year ended May 30, 2004. In our opinion, based on our audit and the report of other auditors, this schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information therein.

Grant Thornton LLP

Minneapolis, Minnesota

July 16, 2004 (except for Note 4, as to which the
date is July 21, 2004, and Note 1, as to which the date is August 8, 2005)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholder of

Ault Korea Corporation

We have audited the balance sheet of Ault Korea Corporation (the Company ) as of April 30, 2004, and the related statements of income, stockholder s equity and cash flows for the year then ended (all expressed in Korean won, none of which are presented herein). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2004, and the results of its operations, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the financial statements, the Company sells a substantial portion of its finished goods to and purchases raw materials from related parties. For the year ended April 30, 2004, sales to related parties totaled W7,438 million and purchases from related parties totaled W993 million. As of April 30 2004, the related accounts receivable were W2,398 million and the related accounts payable, including long-term accounts payable, were W5,215 million. In addition, as of April 30, 2004, loans provided to related parties were W163 million.

**Deloitte Anjin LLC**

Seoul, Republic of Korea

June 1, 2004

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors

Ault Incorporated and Subsidiaries

Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheet of Ault Incorporated and subsidiaries (the Company ) as of June 1, 2003 and the related consolidated statements of operations, stockholders equity, and cash flows for the fiscal years ended June 1, 2003 and June 2, 2002. Our audits also included the information for the fiscal years ended June 1, 2003 and June 2, 2002 in the financial statement schedule listed in the index as Item 15.(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ault Incorporated and subsidiaries as of June 1, 2003 and the results of their operations and their cash flows for the fiscal years ended June 1, 2003 and June 2, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein for the fiscal years ended June 1, 2003 and June 2, 2002.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill in fiscal 2003.

Deloitte & Touche LLP

Minneapolis, Minnesota

August 18, 2003 (August 29, 2003 as to Note 4)

***AULT INCORPORATED AND SUBSIDIARIES***

**CONSOLIDATED BALANCE SHEETS**

**MAY 30, 2004 AND JUNE 1, 2003**

| | May 30, 2004 Restated | June 1, 2003 |
|---|---|---|
| **ASSETS** | | |
| | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 1,058,166 | $ 1,099,602 |
| Trade receivables, less allowance for doubtful accounts of $476,000 in 2004; $500,000 in 2003 | 8,399,375 | 7,417,098 |
| Inventories | 8,143,628 | 9,867,943 |
| Prepaid and other expenses | 1,383,815 | 1,064,065 |
| Total current assets | 18,984,984 | 19,448,708 |
| | | |
| OTHER ASSETS: | 177,765 | 332,902 |
| | | |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | 1,734,674 | 1,734,674 |
| Building and leasehold improvements | 6,710,619 | 7,845,238 |
| Machinery and equipment | 7,050,101 | 8,961,099 |
| Office furniture and equipment | 1,911,192 | 1,887,099 |
| Data processing equipment | 2,009,213 | 2,226,545 |
| | 19,415,799 | 22,654,655 |
| | | |
| Less accumulated depreciation | 8,743,257 | 9,371,348 |
| | | |
| | 10,672,542 | 13,283,307 |
| | $ 29,835,291 | $ 33,064,917 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

26

| | | May 30, 2004 Restated | | June 1, 2003 |
|---|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | |
| CURRENT LIABILITIES: | | | | |
| Notes payable to bank | $ | 4,650,467 | $ | 3,103,594 |
| Current maturities of long-term debt | | 459,969 | | 560,110 |
| Accounts payable | | 6,265,042 | | 5,695,507 |
| Accrued compensation | | 1,164,745 | | 1,162,348 |
| Accrued commissions | | 280,794 | | 300,203 |
| Other | | 486,981 | | 195,537 |
| Total current liabilities | | 13,307,998 | | 11,017,299 |
| LONG-TERM DEBT, less current maturities | | 2,312,892 | | 2,483,254 |
| DEFERRED TAX LIABILITY | | | | 23,242 |
| RETIREMENT AND SEVERANCE BENEFITS | | 203,465 | | 147,808 |
| COMMITMENTS AND CONTINGENCIES | | | | |
| REDEEMABLE CONVERTIBLE PREFERRED STOCK | | | | |
| No par value, 2,074 shares issued and outstanding | | 2,074,000 | | 2,074,000 |
| STOCKHOLDERS EQUITY: | | | | |
| Preferred stock, no par value; authorized 1,000,000 shares; none issued | | | | |
| Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 4,705,083 shares in 2004; 4,648,499 shares in 2003 | | 21,172,717 | | 21,026,162 |
| Notes receivable arising from the sale of common stock | | (45,000) | | (45,000) |
| Accumulated other comprehensive loss | | (869,737) | | (886,450) |
| Accumulated deficit | | (8,321,044) | | (2,775,398) |
| Total stockholders equity | | 11,936,936 | | 17,319,314 |
| | $ | 29,835,291 | $ | 33,064,917 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

27

**AULT INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**YEARS ENDED MAY 30, 2004, JUNE 1, 2003, AND JUNE 2, 2002**

| | May 30, 2004 Restated | June 1, 2003 | June 2, 2002 |
|---|---|---|---|
| NET SALES | $ 45,109,077 | $ 41,479,010 | $ 41,031,854 |
| | | | |
| COST OF GOODS SOLD | 34,755,584 | 33,060,018 | 33,087,745 |
| Gross profit | 10,353,493 | 8,418,992 | 7,944,109 |
| | | | |
| OPERATING EXPENSES: | | | |
| Marketing | 3,985,597 | 4,933,895 | 3,548,104 |
| Design engineering | 3,661,850 | 4,225,627 | 2,393,899 |
| General and administrative | 5,404,780 | 5,617,704 | 6,025,791 |
| Exit Costs | 2,063,998 | | |
| Goodwill impairment | | 1,153,153 | |
| | 15,116,225 | 15,930,379 | 11,967,794 |
| OPERATING LOSS | (4,762,732) | (7,511,387) | (4,023,685) |
| | | | |
| OTHER INCOME (EXPENSE): | | | |
| Interest expense | (606,516) | (434,714) | (495,356) |
| Interest income | | 24,894 | 93,482 |
| Other | 15,644 | 17,176 | 167,707 |
| | (590,872) | (392,644) | (234,167) |
| LOSS BEFORE INCOME TAXES | (5,353,604) | (7,904,031) | (4,257,852) |
| | | | |
| INCOME TAX EXPENSE (BENEFIT)) | 46,862 | (340,200) | (694,126) |
| NET LOSS | (5,400,466) | (7,563,831) | (3,563,726) |
| | | | |
| REDEEMABLE CONVERTIBLE PREFERRED STOCK DIVIDENDS | (145,180) | (128,242) | |
| | | | |
| NET LOSS APPLICABLE TO COMMON STOCKHOLDERS | $ (5,545,646) | $ (7,692,073) | $ (3,563,726) |
| | | | |
| NET LOSS PER SHARE: | | | |
| Basic | $ (1.19) | $ (1.67) | $ (0.78) |
| Diluted | $ (1.19) | $ (1.67) | $ (0.78) |
| | | | |
| Weighted average common shares outstanding: | | | |
| Basic | 4,679,570 | 4,596,882 | 4,541,322 |
| Diluted | 4,679,570 | 4,596,882 | 4,541,322 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

***AULT INCORPORATED AND SUBSIDIARIES***

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**YEARS ENDED MAY 30, 2004, JUNE 1, 2003, AND JUNE 2, 2002**

| | Common Stock Shares | Common Stock Amount | Notes Receivable from Sale of Common Stock | Retained Earnings/ Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders Equity |
|---|---|---|---|---|---|---|
| BALANCE AT JUNE 3, 2001 | 4,528,522 | $ 20,683,920 | $ (100,000) | $ 8,480,401 | $ (935,260) | $ 28,129,061 |
| Comprehensive loss: | | | | | | |
| Net loss | | | | (3,563,726) | | (3,563,726) |
| Net change in foreign currency translation adjustment | | | | | 13,688 | 13,688 |
| Total comprehensive loss | | | | | | (3,550,038) |
| Issuance of 35,088 shares of common stock in accordance with stock purchase plan and stock option plan | 35,088 | 121,981 | | | | 121,981 |
| Income tax benefit from stock options exercised | | 51,728 | | | | 51,728 |
| BALANCE AT JUNE 2, 2002 | 4,563,610 | 20,857,629 | (100,000) | 4,916,675 | (921,572) | 24,752,732 |
| Comprehensive loss: | | | | | | |
| Net loss | | | | (7,692,073) | | (7,692,073) |
| Net change in foreign currency translation adjustment | | | | | 35,122 | 35,122 |
| Total comprehensive loss | | | | | | (7,656,951) |
| Issuance of 33,712 shares of common stock in accordance with stock purchase plan and stock option plan | 33,712 | 59,648 | | | | 59,648 |
| Write-off of stock receivable | | | 55,000 | | | 55,000 |
| Issuance of 51,177 shares of common stock in accordance with redeemable preferred stock | 51,177 | 108,885 | | | | 108,885 |
| BALANCE AT JUNE 1, 2003 | 4,648,499 | 21,026,162 | (45,000) | (2,775,398) | (886,450) | 17,319,314 |
| Comprehensive loss: | | | | | | |
| Net loss (restated) | | | | (5,400,466) | | (5,400,466) |
| Net change in foreign currency translation adjustment | | | | | 16,713 | 16,713 |
| Total comprehensive loss (restated) | | | | | | (5,383,753) |
| Issuance of 1,000 shares of common stock in accordance with stock purchase plan and stock option plan | 1,000 | 1,375 | | | | 1,375 |
| Issuance of 55,584 shares of common stock in accordance with redeemable preferred stock | 55,584 | 145,180 | | (145,180) | | |
| BALANCE AT May 30, 2004 (restated) | 4,705,083 | $ 21,172,717 | $ (45,000) | $ (8,321,044) | $ (869,737) | $ 11,936,936 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

**AULT INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEARS ENDED MAY 30, 2004, JUNE 1, 2003, AND JUNE 2, 2002**

| | May 30, 2004 Restated | June 1, 2003 | June 2, 2002 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | $ (5,400,466) | $ (7,563,831) | $ (3,563,726) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation | 1,190,657 | 1,029,287 | 972,230 |
| Asset impairment | 1,742,470 | | |
| Amortization of goodwill | | | 100,274 |
| Allowance for doubtful accounts | 17,000 | 230,000 | 1,416,000 |
| Goodwill impairment | | 1,153,153 | |
| Deferred taxes | | (1,242) | 172,283 |
| Change in assets and liabilities, net of effect of acquisition: | | | |
| (Increase) decrease in: | | | |
| Trade receivables | (925,023) | 209,723 | 3,321,769 |
| Inventories | 1,823,592 | (20,264) | 4,226,425 |
| Prepaid and other expenses | (167,400) | (241,717) | (1,061,044) |
| Increase (decrease) in: | | | |
| Accounts payable | 514,924 | 825,932 | (795,834) |
| Accrued expenses | 313,999 | 617,099 | (864,905) |
| Income taxes | (23,664) | 582,450 | (364,895) |
| Net cash provided by (used in) operating activities | (913,911) | (3,179,410) | 3,558,577 |