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SELAS CORP OF AMERICA
Form 8-K
August 05, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported) August 4, 2003

SELAS CORPORATION OF AMERICA

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction or Incorporation)

1-5005 23-1069060
(Commission File Number) (IRS Employer Identification No.)

1260 Red Fox Road Arden Hills, Minnesota 55112
(Address of principal executive offices) (Zip Code)

651-636-9770

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

ITEM 5. OTHER EVENTS AND REGULATION FD DISCLOSURE

On August 4, 2003 the Company's wholly owned subsidiary, Selas SAS, filed insolvency in France. At June 30, 2003, Selas SAS had total assets of \$18.5 million and \$29.0 million of liabilities. A portion of the liabilities, including approximately \$7.5 million in bank debt and approximately \$3.0 million of other liabilities are either guaranteed by the parent or are a joint liability. The Company expects to take a minimum pre-tax charge of approximately \$1.6 million in the third quarter. In addition, the Company may be subject to additional litigation as a result of the subsidiary's insolvency filing. See the Company's press release attached as Exhibit 99.1.

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ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) EXHIBITS

Exhibit 99.1 Press Release dated August 5, 2003

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On August 5, 2003 the Company reported its results for the three and six months ended June 30, 2003. The earnings release is attached as Exhibit 99.1.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Selas Corporation of America

By: /s/ Robert F. Gallagher

Robert F. Gallagher
Vice President and Chief Financial Officer

Date: August 5, 2003

Exhibit 99.1

FROM: SELAS CORPORATION OF AMERICA

SCA-444

CONTACT: Robert F. Gallagher 651-604-9638

FOR IMMEDIATE RELEASE

SELAS CORPORATION OF AMERICA REPORTS

SECOND-QUARTER RESULTS; FRENCH SUBSIDIARY FILES INSOLVENCY

Precision Miniature Medical and Electronic Products Business
Grows from Year-Ago Period

ST. PAUL, Minn. - August 5, 2003 - Selas Corporation of America (AMEX: SLS) today reported results for the second quarter and six months ended June 30, 2003.

For the second quarter, the Company had a net loss from continuing operations of \$649,000, or \$.13 per share, on sales of \$17.2 million. This compares with continuing operations net income of \$74,000, or \$.01 per share, on sales of \$18.0 million for the second quarter of 2002. For the six-month period, the Company reported a net loss from continuing operations of \$1,078,000, or \$.21 per share, on sales of \$31.9 million, versus net income of \$93,000, or \$.02 per share, on sales of \$34.7 million for the year-ago six months.

Selas recognized a net loss of \$682,000, or \$.13 per share, from discontinued operations for the second quarter, compared with net income from discontinued operations in the comparable year-earlier period of \$157,000, or \$.03 per share. Second-quarter 2002 discontinued operations include: Selas' large furnace operation, which was sold in December 2002, and Deuer

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Manufacturing, which was sold in July 2003.

For the second quarter of 2003, Selas reported a total net loss of \$1,331,000, or \$.26 per share, compared with net income of \$231,000, or \$.04 per share, in 2002. For the six months ended June 30, 2003, the total net loss was \$1,567,000, or \$.31 per share, compared with a net loss of \$10,459,000, or \$2.04 per share, for the year-ago period. 2002 six-month results included a \$10.6 million, or \$2.06 per share loss, due to a goodwill change in accounting.

Mark S. Gorder, president and chief executive officer of Selas, reiterated that the Company's long-term strategy is to create accelerated growth for its Precision Miniature Medical and Electronic Products business. Selas' core competencies position it well to expand its line of medical products to capture significantly more business. 'With our expertise in the robotic manufacture of miniature and micro-miniature electronic products, we believe we are well-suited to compete in a medical device market,' Gorder said.

For the six months ended June 30, 2003, Precision Miniature Medical and Electronic Products sales increased 6 percent to \$18.7 million, from \$17.5 million in the comparable 2002 period. Net income rose to \$626,000 from \$432,000 in the prior year. Results for this business were buoyed by Selas' small, but growing medical component business that saw year-over-year revenue growth of 98 percent. The medical component increase was primarily due to components within third-party medical products to detect air bubbles in IV lines and for safety needles included as part of implanted drug delivery systems. However, income from this segment was more than offset by losses in the company's Heat Technology segment and by corporate expenses.

Selas SAS

After four consecutive quarters of substantial losses together with a \$1.3 million adverse judgment in the French Courts related to a subcontractor lawsuit, Selas' wholly owned French subsidiary, Selas SAS, filed for insolvency yesterday. Under French law, Selas SAS will be put in the hands of a government court administrator.

Gorder stated: "Our Heat Technology business in Europe has suffered from the weak global capital-goods markets and the strengthening of the Euro. Deterioration of the business over the past four quarters and an uncertain future required Selas SAS to take this action."

As a result of the filing, Selas Corporation of America will take a minimum pre-tax charge of \$1.6 million in the third quarter. In addition, the Company may incur additional liabilities related to corporate guarantees and joint obligations or possible legal action against Selas in French courts; however, the Company cannot predict the impact of any such liabilities or actions on Selas.

"We regret Selas SAS filing for insolvency; however, we believe without substantial additional investment, Selas SAS would be difficult to turn around. We believe this action is in the best long-term interest of Selas Corporation of America and its shareholders," Gorder said.

As a result of the losses incurred to date and the insolvency of Selas SAS, the Company is out of compliance with certain covenants with its bank lenders. Management is currently in discussions with its banks to obtain the appropriate waivers.

Gorder concluded, "Strong second-quarter performance for our Precision Miniature Medical and Electronic Products shows that we're on track for the future. We're building the company around these core product lines and divesting ourselves of our non-core assets."

About Selas

Headquartered in St. Paul, Minn., Selas Corporation of America designs, develops, engineers and manufactures microminiaturized medical and electronic products. The company's core business segment, Precision Miniature Medical and Electronic Products, supplies microminiaturized components, systems and molded plastic parts, primarily to the hearing instrument manufacturing

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industry, as well as the computer, electronics, telecommunications and medical equipment industries. Through its core competencies and robotic manufacturing expertise, Selas is well-positioned to compete in the hearing health market and a medical device market that increasingly demands products with increased miniaturization, better cost containment, more reliability and high customer satisfaction. The company has facilities throughout the United States, Asia and Europe. Selas' common stock is traded on the American Stock Exchange under the symbol "SLS."

Forward-Looking Statements

Statements as to the company's long-term strategy and other statements herein that include forward-looking terminology such as "may", "will", "believe", "expect", "optimistic" or "continue" or the negative thereof or other variations thereon are "forward-looking statements" within the meaning of the Securities Exchange Act of 1934 as amended. These forward-looking statements are affected by known and unknown risks, uncertainties and other factors that may cause Selas' actual results, performance or achievements to differ materially from the results, performance and achievements expressed or implied in the company's forward-looking statements. These risks, uncertainties and factors include the risk that the company may not be able to achieve its long-term strategy, risks arising in connection with the insolvency of Selas SAS, competition by competitors with more resources than the company, foreign currency risks arising from the company's foreign operations, the cyclical nature of the market for large custom engineered contracts, weakening demand for products of the company's other business segments due to general economic conditions, and possible non-performance of developing technological products.

Selas Corporation of America Consolidated Statements of Operations

| | Three Months Ended | |
|--|--------------------|------------------|
| | June 30, 2003 | June 30, 2002 |
| | (Unaudited) | (Unaudited) |
| Sales, net | \$17,244,911 | \$17,983,975 |
| Operating costs and expenses | | |
| cost of sales | 13,841,161 | 14,118,475 |
| Gross margin | 3,403,750 | 3,865,500 |
| Selling, general and administrative expenses | 4,129,269 | 3,891,738 |
| Operating loss | (725,519) | (26,238) |
| Interest expense | (215,273) | (117,256) |
| Interest income | 6,714 | 7,902 |
| Other income, net | 165,329 | 159,093 |
| Income (loss) from continuing operations before income taxes | (768,749) | 23,501 |

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| | | |
|---|----------------|-----------|
| Income tax (benefit) | (119,838) | (50,861) |
| Income (loss) from continuing operations | (648,911) | 74,362 |
| Income (loss) from discontinued operations, net of income taxes (benefit) | (682,268) | 156,853 |
| Net income (loss) | \$ (1,331,179) | \$231,215 |
| Income (loss) per share | | |
| Basic | | |
| Continuing operations | \$ (.13) | \$.01 |
| Discontinued operations | (.13) | .03 |
| | \$ (.26) | \$.04 |
| Diluted | | |
| Continuing operations | \$ (.13) | \$.01 |
| Discontinued operations | (.13) | .03 |
| | \$ (.26) | \$.04 |

Selas Corporation of America
Consolidated Statements of Operations

| | Six Months Ended | |
|---|------------------|------------------|
| | June 30, 2003 | June 30, 2002 |
| | (Unaudited) | (Unaudited) |
| Sales, net | \$31,880,927 | \$34,678,725 |
| Operating costs and expenses | | |
| Cost of sales | 24,577,292 | 27,200,264 |
| Gross margin | 7,303,635 | 7,478,461 |
| Selling, general and administrative expenses | 8,349,720 | 7,575,704 |
| Operating loss | (1,046,085) | (97,243) |
| Interest expense | (406,184) | (199,894) |
| Interest income | 9,136 | 23,183 |
| Other income, net | 248,915 | 253,029 |
| Loss from continuing operations before income taxes | (1,194,218) | (20,925) |
| Income tax (benefit) | (116,463) | (114,266) |
| Income (loss) from continuing operations | (1,077,755) | 93,341 |
| Income (loss) from discontinued operations, net of income taxes (benefit) | (489,686) | (524) |

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| | | |
|---|----------------|-----------------|
| Net income (loss) before change in accounting principle | (1,567,441) | 92,817 |
| Cumulative effect of change in accounting principle | | (10,551,926) |
| Net loss | \$ (1,567,441) | \$ (10,459,109) |
| Income (loss) per share | | |
| Basic | | |
| Continuing operations | \$ (.21) | \$.02 |
| Discontinued operations | (.10) | (.00) |
| Accounting principle change | -- | (2.06) |
| | \$ (.31) | \$ (2.04) |
| Diluted | | |
| Continuing operations | \$ (.21) | \$.02 |
| Discontinued operations | (.10) | (.00) |
| Accounting principle change | -- | (2.06) |
| | \$ (.31) | \$ (2.04) |

Selas Corporation of America
Consolidated Balance Sheets

| | June 30, 2003 (Unaudited) | December 31, 2002 (Audited) |
|---|---------------------------------|-----------------------------------|
| Current assets | | |
| Cash, including cash equivalents of \$415,000 in 2003 and \$418,000 in 2002 and restricted cash of \$415,000 in 2003 and \$418,000 in 2002. | \$ 1,293,127 | \$ 2,039,044 |
| Accounts receivable (including unbilled receivables of \$2,404,000 in 2003 and \$1,447,000 in 2002) | 16,740,672 | 15,627,864 |
| Inventories | 9,332,828 | 9,393,802 |
| Refundable income tax | -- | 336,758 |
| Deferred income taxes | 2,160,830 | 1,818,384 |
| Other current assets | 1,767,746 | 1,064,829 |
| Assets of discontinued operations | 12,146,281 | 13,610,601 |
| Total current assets | 43,441,484 | 43,891,282 |
| Property, plant and equipment | | |
| Land | 231,943 | 231,943 |
| Buildings | 5,149,415 | 5,149,415 |
| Machinery and equipment | 32,128,149 | 29,903,795 |
| | 37,509,507 | 35,285,153 |

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| | | |
|-----------------------------------|--------------|--------------|
| Less: Accumulated depreciation | 25,324,378 | 22,921,608 |
| Net property, plant and equipment | 12,185,129 | 12,363,545 |
| Goodwill | 5,376,317 | 5,376,317 |
| Deferred income taxes | 373,601 | 348,712 |
| Other assets, less amortization | 1,706,172 | 1,575,539 |
| | \$63,082,703 | \$63,555,395 |

Liabilities and Shareholders' Equity

| | June 30, 2003 (Unaudited) | December 31, 2002 (Audited) |
|--|---------------------------------|--------------------------------------|
| Current liabilities | | |
| Notes payable | \$12,404,543 | \$10,920,984 |
| Current maturities of long-term debt | 3,246,692 | 1,573,716 |
| Accounts payable | 11,686,286 | 11,046,373 |
| Customers' advance payments on contracts | 2,686,761 | 2,457,499 |
| Guarantee obligations and estimated costs of service | 1,281,242 | 1,188,361 |
| Other accrued liabilities | 8,051,112 | 6,194,679 |
| Liabilities of discontinued operations | 4,982,840 | 6,955,654 |
| Total current liabilities | 44,339,476 | 40,337,266 |
| Long-term debt | 382,406 | 2,736,236 |
| Other postretirement benefit obligations | 4,068,787 | 3,866,154 |
| Contingencies and commitments | | |
| Shareholders' equity | | |
| Common shares, \$1 par; 10,000,000 shares authorized; 5,634,968 shares issued | 5,634,968 | 5,634,968 |
| Additional paid-in capital | 12,008,915 | 12,012,541 |
| Retained earnings | 179,442 | 1,743,256 |
| Accumulated other comprehensive loss | (2,266,213) | (1,509,948) |
| Less: 515,754 common shares held in treasury, at cost | (1,265,078) | (1,265,078) |
| Total shareholders' equity | 14,292,034 | 16,615,739 |

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\$63,082,703 \$63,555,395