

Edgar Filing: GSE SYSTEMS INC - Form 10-K/A

GSE SYSTEMS INC
Form 10-K/A
August 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 2)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to_____

Commission File Number 0-26494

GSE Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

52-1868008

(State of incorporation)

(I.R.S. Employer Identification Number)

9189 Red Branch Road, Columbia, Maryland

21045

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (410) 772-3500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$.01 par value	American Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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 No

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 amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of Common Stock held by non-affiliates as of June 30, 2004 was \$22,195,271 based on the closing price of such stock on that date of \$2.48.

Edgar Filing: GSE SYSTEMS INC - Form 10-K/A

Number of shares of Common Stock outstanding as of March 1, 2005: 8,999,706

PART II

ITEM 9A. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by it in its reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that information required to be disclosed by the Company in its Exchange Act reports is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of December 31, 2004.

Based upon that evaluation, the Company identified a material weakness which had existed since the second quarter 2004, and which existed as of December 31, 2004, with respect to the identification and accounting for derivative transactions in accordance with the requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". (A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.) Specifically, the Company did not have a process in place to ensure that it obtained information with respect to its Swedish subsidiary's forward foreign currency contracts. Accordingly, the Company's controls did not ensure that the fair market value of the forward foreign currency contracts would be recorded in the financial statements. This control weakness was due to the combination of the following factors: a resignation of a member of the Company's corporate accounting staff who had previously monitored the accounting for the forward foreign currency contracts, the lack of training of the Swedish controller in the U.S. GAAP requirements for such forward foreign currency contracts, and the transfer of the Swedish subsidiary's currency transactions to a small branch of a new bank that was not familiar with the U.S. reporting requirements. While management concluded that the error was immaterial to the Company's 2004 interim financial results, we nevertheless concluded that the lack of control could have resulted in a material error in future consolidated financial statements.

Based upon the Company's evaluation and the material weakness described above, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2004.

During the fourth quarter 2004, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. However, in the first quarter 2005, the Company revised its internal controls with respect to derivative transactions to ensure that these transactions will be captured and accounted for in a timely manner. The specific steps that the Company completed to remediate the material weakness consisted of:

- * the training of the Swedish controller on the U.S. accounting for such

Edgar Filing: GSE SYSTEMS INC - Form 10-K/A

forward foreign currency contracts which differs from the Swedish accounting requirements,
* the requirement that all forward foreign currency contracts or other derivative transactions have corporate approval before they are entered into, and
* the addition to the Company's quarterly subsidiary reporting requirements that a fair market valuation report be obtained from the issuing bank and forwarded to the chief financial officer for review.
The Company believes that these steps have eliminated the material weakness and that no additional steps are necessary. There have been no material costs incurred by the Company in instituting these control changes.

Limitation of Effectiveness of Controls

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of inherent limitation in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company's controls and procedures are designed to provide a reasonable level of assurance of achieving their objectives.

PART IV

Item 15. Exhibits and Financial Statements Schedules

(a) (3) List of Exhibits

The Exhibits which are filed with this report or which are incorporated by reference are set forth in the Exhibit Index hereto.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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.

GSE SYSTEMS, INC.

By: /s/ JOHN V. MORAN

John V. Moran
Chief Executive Officer

Exhibit	Description of Exhibit
3.	Articles of Incorporation and Bylaws

Edgar Filing: GSE SYSTEMS INC - Form 10-K/A

- a. Third Amended and Restated Certificate of Incorporation of the Company. Previously filed in connection with the GSE Systems, Inc. Form 8-K as filed with the Securities and Exchange Commission on October 24, 2001 and incorporated herein by reference.*
 - b. Form of Amended and Restated Bylaws of the Company. Previously filed in connection with Amendment No. 1 to the GSE Systems, Inc. Form S-1 Registration Statement as filed with the Securities and Exchange Commission on June 14, 1995 and incorporated herein by reference.*
4. Instruments Defining Rights of Security Holders, including Indenture.
- a. Specimen Common Stock Certificate of the Company. Previously filed in connection with Amendment No. 3 to the GSE Systems, Inc. Form S-1 Registration Statement as filed with the Securities and Exchange Commission on July 24, 1995 and incorporated herein by reference.*
10. Material Contracts
- a. Agreement among ManTech International Corporation, National Patent Development Corporation, GPS Technologies, Inc., General Physics Corporation, Vattenfall Engineering AB and GSE Systems, Inc. (dated as of April 13, 1994). Previously filed in connection with the GSE Systems, Inc. Form S-1 Registration Statement as filed with the Securities and Exchange Commission on April 24, 1995 and incorporated herein by reference.*
 - b. GSE Systems, Inc. 1995 Long-Term Incentive Plan, amended as of April 5, 1999. Previously filed in connection with the GSE Systems, Inc. Form 10-K as filed with the Securities and Exchange Commission on March 30, 1999 and incorporated herein by reference.*
 - c. Form of Option Agreement Under the GSE Systems, Inc. 1995 Long-Term Incentive Plan. Previously filed in connection with the GSE Systems, Inc. Form 10-K as filed with the Securities and Exchange Commission on March 22, 1996 and incorporated herein by reference.*
 - d. Office Lease Agreement between Sterling Rutherford Plaza, L.L.C. and GSE Systems, Inc. (dated as of February 10, 1998). Previously filed in connection with the GSE Systems, Inc. Form 10-K as filed with the Securities and Exchange Commission on March 21, 1998 and incorporated herein by reference.*
 - e. Office Lease Agreement between Red Branch Road, L.L.C. and GSE Systems, Inc. (dated February 10, 1998). Previously filed in connection with the GSE Systems, Inc. Form 10-K as filed with the Securities and Exchange Commission on March 21, 1998 and incorporated herein by reference.*
 - f. Warrant Agreements with GP Strategies and ManTech International Corporation (dated September 13, 1999). Previously filed in connection with the GSE Systems, Inc. Form 8-K as filed with the Securities and Exchange Commission on August 15, 2001 and incorporated herein by reference.
 - g. Change of Control Agreements between GSE Systems, Inc. and Jerry Jen and Jeffery G. Hough (dated March 10, 2000). Previously filed in connection with the GSE Systems, Inc. Form 8-K as filed with the Securities and Exchange Commission on August 1, 2001 and incorporated herein by reference.*
 - h. \$1,000,000 promissory note dated June 25, 2001 to ManTech International Corporation. Previously filed in connection with the GSE Systems, Inc. Form 8-K as filed with the Securities and Exchange Commission on August 1, 2001 and incorporated herein by reference.*
 - i. Preferred Stock Issuance Agreement by and between GSE Systems, Inc. and ManTech

Edgar Filing: GSE SYSTEMS INC - Form 10-K/A

International Corporation (dated December 5, 2001). Previously filed in connection with the GSE Systems, Inc. Form 8-K as filed with the Securities and Exchange Commission on December 12, 2001 and incorporated herein by reference.*

- j. Asset Sale and Purchase Agreement between GSE Systems, Inc. and Novatech LLC dated September 25, 2003. Previously filed in connection with the GSE Systems, Inc. Form 8-K as filed with the Securities and Exchange Commission on October 10, 2003 and incorporated herein by reference.*
 - k. Management Services Agreement between GSE Systems, Inc. and GP Strategies Corporation dated January 1, 2004. Previously filed in connection with the GSE Systems, Inc. Form 10-K filed with the Securities and Exchange Commission on April 14, 2004 and incorporated herein by reference.*
 - l. First Amendment dated March 30, 2004 to the Financing and Security Agreement among General Physics Corporation, Skillright, Inc., GSE Systems, Inc., GSE Power Systems, Inc., and MSHI, Inc. and Wachovia Bank, National Association. Previously filed in connection with the GSE Systems, Inc. Form 10-K filed with the Securities and Exchange Commission on April 14, 2004 and incorporated herein by reference.*
 - m. Third Amendment dated July 30, 2004 to the Financing and Security Agreement among General Physics Corporation, Skillright, Inc., GSE Systems, Inc., GSE Systems, Inc., GSE Power Systems, Inc. and MSHI, Inc. and Wachovia Bank National Association. Previously filed in connection with the GSE Systems, Form 10-Q filed with the Securities and Exchange Commission on November 12, 2004 and incorporated herein by reference.*
21. Subsidiaries.
- a. List of Subsidiaries of Registrant at December 31, 2004.*
23. Consents of Experts and Counsel
- a. Consent of KPMG LLP *
24. Power of Attorney
- a. Power of Attorney for Directors' and Officers' Signatures on SEC Form 10-K. *
- 31.1 Certification of Chief Executive Officer of the Company pursuant to Securities and Exchange Act Rule 13d-14(a)/15(d-14(a), as adopted pursuant to Section 302 and 404 of the Sarbanes-Oxley Act of 2002.**
- 31.2. Certification of Chief Financial Officer of the Company pursuant to Securities and Exchange Act Rule 13d-14(a)/15(d-14(a), as adopted pursuant to Section 302 and 404 of the Sarbanes-Oxley Act of 2002.**
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
99. Additional Exhibits
- a. Form of Right of First Refusal Agreement. Previously filed in connection with Amendment No. 3 to the GSE Systems, Inc. Form S-1 Registration Statement as filed with the Securities and Exchange Commission on July 24, 1995 and

Edgar Filing: GSE SYSTEMS INC - Form 10-K/A

incorporated herein by reference.*

* Filed previously

** Filed herewith