

GSE SYSTEMS INC  
Form 10-Q  
August 14, 2014  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
for the Quarterly Period Ended June 30, 2014

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 001-14785

GSE Systems, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 52-1868008  
(State of incorporation) (I.R.S. Employer Identification Number)

1332 Londontown Blvd., Suite 200, Sykesville MD 21784  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (410) 970-7800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 [ X ]  
No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such period that the registrant was required to submit and post such files). Yes [ X ]  
No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in rule 12(b)-2 of the Exchange Act).  
Yes [ ] No [X]

There were 17,887,859 shares of common stock, with a par value of \$.01 per share outstanding as of August 13, 2014.

1

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GSE SYSTEMS, INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 INDEX

	PAGE
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements:	
<u>Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and June 30, 2013</u>	4
<u>Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2014 and June 30, 2013</u>	5
<u>Consolidated Statement of Changes in Stockholders' Equity for the Six Months Ended June 30, 2014</u>	6
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and June 30, 2013</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	31
PART II. OTHER INFORMATION	32
Item 1. <u>Legal Proceedings</u>	32
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3. <u>Defaults Upon Senior Securities</u>	32
Item 4. <u>Mine Safety Disclosures</u>	32
Item 5. <u>Other Information</u>	33
Item 6. <u>Exhibits</u>	33
<u>SIGNATURES</u>	34

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

GSE SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share data)

	Unaudited June 30, 2014	December 31, 2013	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 18,103	\$ 15,643	
Restricted cash	11	45	
Contract receivables, net	14,419	24,557	
Prepaid expenses and other current assets	3,646	3,699	
Total current assets	36,179	43,944	
Equipment, software and leasehold improvements	7,154	7,090	
Accumulated depreciation	(5,366)	(5,175)	)
Equipment, software and leasehold improvements, net	1,788	1,915	
Software development costs, net	1,274	1,020	
Intangible assets, net	647	709	
Long-term restricted cash	1,021	1,021	
Other assets	177	218	
Total assets	\$ 41,086	\$ 48,827	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 1,309	\$ 3,554	
Accrued expenses	2,061	1,903	
Accrued compensation and payroll taxes	2,571	2,497	
Billings in excess of revenue earned	5,905	6,545	
Accrued warranty	1,640	1,851	
Other current liabilities	907	1,603	
Total current liabilities	14,393	17,953	
Other liabilities	78	487	
Total liabilities	14,471	18,440	
Stockholders' equity:			
Preferred stock \$.01 par value, 2,000,000 shares authorized, shares issued and outstanding none in 2014 and 2013	-	-	
Common stock \$.01 par value, 30,000,000 shares authorized, shares issued 19,486,770 in 2014 and 2013	195	195	
Additional paid-in capital	72,544	72,205	
Accumulated deficit	(42,410)	(38,400)	)
Accumulated other comprehensive loss	(715)	(614)	)
Treasury stock at cost, 1,598,911 shares in 2014 and 2013	(2,999)	(2,999)	)

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Total stockholders' equity	26,615	30,387
Total liabilities and stockholders' equity	\$ 41,086	\$ 48,827

The accompanying notes are an integral part of these consolidated financial statements.

3

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GSE SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)  
(Unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Contract revenue	\$ 8,276	\$ 11,034	\$ 17,000	\$ 23,417
Cost of revenue	5,629	8,219	12,129	17,521
Write-down of capitalized software development costs	-	2,174	-	2,174
Gross profit	2,647	641	4,871	3,722
Operating expenses:				
Selling, general and administrative	4,452	3,946	8,596	8,111
Goodwill impairment loss	-	4,462	-	4,462
Depreciation	134	146	273	299
Amortization of definite-lived intangible assets	36	52	72	104
Total operating expenses	4,622	8,606	8,941	12,976
Operating loss	(1,975 )	(7,965 )	(4,070 )	(9,254 )
Interest income, net	28	24	59	63
Gain (loss) on derivative instruments, net	5	(410 )	109	(143 )
Other income (expense), net	3	94	(7 )	(11 )
Loss before income taxes	(1,939 )	(8,257 )	(3,909 )	(9,345 )
Provision (benefit) for income taxes	47	(58 )	101	9
Net loss	\$(1,986 )	\$(8,199 )	\$(4,010 )	\$(9,354 )
Basic loss per common share	\$(0.11 )	\$(0.45 )	\$(0.22 )	\$(0.51 )
Diluted loss per common share	\$(0.11 )	\$(0.45 )	\$(0.22 )	\$(0.51 )

The accompanying notes are an integral part of these consolidated financial statements.

GSE SYSTEMS, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)  
 (Unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Net loss	\$ (1,986 )	\$ (8,199 )	\$ (4,010 )	\$ (9,354 )
Foreign currency translation adjustment, net of tax	(106 )	(158 )	(101 )	(160 )
Comprehensive loss	\$ (2,092 )	\$ (8,357 )	\$ (4,111 )	\$ (9,514 )

The accompanying notes are an integral part of these consolidated financial statements.

5

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GSE SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(in thousands)  
(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Amount	Total
Balance, December 31, 2013	19,487	\$ 195	\$ 72,205	\$ (38,400 )	\$ (614 )	(1,599)	\$(2,999)	\$ 30,387
Stock-based compensation expense	-	-	339	-	-	-	-	339
Foreign currency translation adjustment, net of tax	-	-	-	-	(101 )	-	-	(101 )
Net loss	-	-	-	(4,010 )	-	-	-	(4,010 )
Balance, June 30, 2014	19,487	\$ 195	\$ 72,544	\$ (42,410 )	\$ (715 )	(1,599)	\$(2,999)	\$ 26,615

The accompanying notes are an integral part of these consolidated financial statements.



GSE SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$(4,010)	\$(9,354)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Goodwill impairment loss	-	4,462
Write-down of capitalized software development costs	-	2,174
Depreciation	273	299
Amortization of definite-lived intangible assets	72	104
Capitalized software amortization	95	478
Amortization of deferred financing costs	-	6
Change in fair value of contingent consideration	47	173
Stock-based compensation expense	339	438
Equity loss on investments	38	96
(Gain) loss on derivative instruments	(109 )	143
Changes in assets and liabilities:		
Contract receivables	9,985	2,786
Prepaid expenses and other assets	268	215
Accounts payable, accrued compensation and accrued expenses	(2,006 )	(562 )
Billings in excess of revenue earned	(650 )	716
Accrued warranty reserves	(211 )	(329 )
Other liabilities	(627 )	(86 )
Net cash provided by operating activities	3,504	1,759
Cash flows from investing activities:		
Capital expenditures	(141 )	