SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2013 Commission File Number 000-06253

SIMMONS FIRST NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Arkansas (State or other jurisdiction of incorporation or organization)	71-0407808 (I.R.S. Employer Identification No.)
501 Main Street, Pine Bluff, Arkansas (Address of principal executive offices)	71601 (Zip Code)

870-541-1000
(Registrant's telephone number, including area code)

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

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. [x] Yes [ ] 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[x] Yes [ ] No

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

Large accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ] Smaller reporting company [ ]

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

The number of shares outstanding of the Registrant's Common Stock as of October 25, 2013, was 16,202,435.

Simmons First National Corporation
Quarterly Report on Form 10-Q
September 30, 2013

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Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
September 30, 2013 and December 31, 2012

(In thousands, except share data)	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and non-interest bearing balances due from banks	$ 37,752	$ 47,470
Interest bearing balances due from banks	320,368	467,984
Federal funds sold	18,365	22,343
Cash and cash equivalents	376,485	537,797
Investment securities	761,705	687,483
Mortgage loans held for sale	10,605	25,367
Assets held in trading accounts	8,744	6,224
Loans:		
Loans	1,741,161	1,628,513
Allowance for loan losses	(27,533)	(27,882)
Loans acquired, not covered by FDIC loss share (net of discount)	68,133	82,764
Loans acquired, covered by FDIC loss share (net of discount)	148,884	210,842
Net loans	1,930,645	1,894,237
FDIC indemnification asset	61,500	75,286
Premises and equipment	87,065	87,557
Foreclosed assets	26,203	33,352
Foreclosed assets covered by FDIC loss share	23,260	27,620
Interest receivable	15,635	14,530
Bank owned life insurance	60,040	52,066
Goodwill	60,605	60,605
Other intangible assets	5,420	3,760
Other assets	13,797	21,605
Total assets	$ 3,441,709	$ 3,527,489
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$ 580,063	$ 576,655
Interest bearing transaction accounts and savings deposits	1,453,139	1,421,137
Time deposits	805,596	876,371
Total deposits	2,838,798	2,874,163
Federal funds purchased and securities sold under agreements to repurchase	62,311	104,078
Other borrowings	75,987	89,441
Subordinated debentures	20,620	20,620
Accrued interest and other liabilities	40,959	33,125
Total liabilities	3,038,675	3,121,427
Stockholders' equity:		
Preferred stock, $0.01 par value; 40,040,000 shares authorized and unissued at September 30, 2013 and December 31, 2012	-	-

Common stock, Class A, $0.01 par value; 60,000,000 shares authorized; 16,198,964 and 16,542,778 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively		162		165
Surplus		87,279		96,587
Undivided profits		318,194		309,053
Accumulated other comprehensive (loss) income		(2,601)		257
Total stockholders' equity		403,034		406,062
Total liabilities and stockholders' equity	$	3,441,709	$	3,527,489

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Income
Three and Nine Months Ended September 30, 2013 and 2012

(In thousands, except per share data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans not covered by FDIC loss share	$ 23,483	$ 23,192	$ 69,781	$ 67,822
Loans covered by FDIC loss share	7,132	5,041	19,776	16,009
Federal funds sold	6	2	14	4
Investment securities	3,428	3,027	9,349	9,615
Mortgage loans held for sale	122	171	395	487
Assets held in trading accounts	6	12	23	37
Interest bearing balances due from banks	234	267	875	919
TOTAL INTEREST INCOME	34,411	31,712	100,213	94,893
INTEREST EXPENSE				
Deposits	1,993	2,521	6,274	8,165
Federal funds purchased and securities sold under agreements to repurchase	46	69	165	248
Other borrowings	646	792	2,072	2,406
Subordinated debentures	162	389	483	1,166
TOTAL INTEREST EXPENSE	2,847	3771	8,994	11,985
NET INTEREST INCOME	31,564	27,941	91,219	82,908
Provision for loan losses	1,081	1,299	3,034	2,846
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	30,483	26,642	88,185	80,062
NON-INTEREST INCOME				
Trust income	1,448	1,440	4,234	3,988
Service charges on deposit accounts	4,603	4,368	13,318	12,163
Other service charges and fees	728	684	2,294	2,211
Mortgage lending income	1,122	1,705	3,677	4,441
Investment banking income	240	560	1,390	1,700
Credit card fees	4,400	4,104	12,779	12,390
Bank owned life insurance income	328	355	974	1,078
Gain on FDIC-assisted transactions	-	1,120	-	1,120
Loss on sale of securities	-	-	(193)	-
Net (loss) gain on assets covered by FDIC loss share agreements	(3,443)	(2,689)	(8,200)	(7,507)
Other income	887	165	2,626	2,037
TOTAL NON-INTEREST INCOME	10,313	11,812	32,899	33,621
NON-INTEREST EXPENSE				
Salaries and employee benefits	17,701	15,911	54,146	49,323
Occupancy expense, net	2,485	2,182	7,490	6,291
Furniture and equipment expense	1,613	1,835	5,367	5,047

Other real estate and foreclosure expense		385		280		775		681
Deposit insurance		595		444		1,862		1,472
Merger related costs		190		815		(37)		815
Other operating expenses		7,934		7,219		23,529		21,928
TOTAL NON-INTEREST EXPENSE		30,903		28,686		93,132		85,557
INCOME BEFORE INCOME TAXES		9,893		9,768		27,952		28,126
Provision for income taxes		2,961		3,008		8,507		8,475
NET INCOME	$	6,932	$	6,760	$	19,445	$	19,651
BASIC EARNINGS PER SHARE	$	0.43	$	0.41	$	1.19	$	1.16
DILUTED EARNINGS PER SHARE	$	0.43	$	0.41	$	1.19	$	1.16

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2013 and 2012

(In thousands, except per share data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Unaudited)		(Unaudited)	
NET INCOME	$ 6,932	$ 6,760	$ 19,445	$ 19,651
OTHER COMPREHENSIVE INCOME				
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(314)	133	(4,896)	235
Less: Reclassification adjustment for realized losses included in net income	-	-	(193)	-
Other comprehensive (loss) gain, before tax effect	(314)	133	(4,703)	235
Less: Tax effect of other comprehensive (loss) gain	(123)	52	(1,845)	92
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(191)	81	(2,858)	143
COMPREHENSIVE INCOME	$ 6,741	$ 6,841	$ 16,587	$ 19,794

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2013 and 2012

(In thousands)	September 30, 2013	September 30, 2012
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 19,445	$ 19,651
Items not requiring (providing) cash:		
Depreciation and amortization	4,416	4,116
Provision for loan losses	3,034	2,846
Net accretion of investment securities and assets not covered by FDIC loss share	(389)	(112)
Stock-based compensation expense	1,039	1,065
Net accretion on assets covered by FDIC loss share	(4,553)	(1,912)
Gain on FDIC-assisted transactions	-	(1,120)
Deferred income taxes	(2,274)	86
Loss on sale of investments	193	-
Bank owned life insurance income	(974)	(1,078)
Changes in:		
Interest receivable	(1,078)	(127)
Mortgage loans held for sale	14,762	(1,004)
Assets held in trading accounts	(2,520)	539
Other assets	1,594	(2,143)
Accrued expenses and other liabilities	(1,680)	5,750
Income taxes payable	(462)	(2,575)
Net cash provided by operating activities	30,553	23,982
INVESTING ACTIVITIES		
Net originations of loans	(97,444)	(52,392)
Net collections of loans covered by FDIC loss share	68,674	51,922
Purchases of premises and equipment, net	(3,516)	(1,988)
Proceeds from sale of foreclosed assets held for sale	12,943	5,296
Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share	11,684	10,000
Proceeds from sale of available-for-sale securities	16,029	813
Proceeds from maturities of available-for-sale securities	53,144	236,921
Purchases of available-for-sale securities	(60,848)	(246,929)
Proceeds from maturities of held-to-maturity securities	113,289	512,920
Purchases of held-to-maturity securities	(199,201)	(497,955)
Purchase of bank owned life insurance	(7,000)	(25)
Net cash proceeds received in FDIC-assisted transactions	-	44,015
Cash received on FDIC loss share	11,621	12,553
Net cash (used in) provided by investing activities	(80,625)	75,151
FINANCING ACTIVITIES		
Net change in deposits	(35,365)	(83,655)
Dividends paid	(10,304)	(10,172)
Net change in other borrowed funds	(13,454)	(1,318)
	(41,767)	(71,393)

Net change in federal funds purchased and securities sold under agreements to repurchase		
Net shares issued under stock compensation plans	498	324
Repurchase of common stock	(10,848)	(14,674)
Net cash used in financing activities	(111,240)	(180,888)
DECREASE IN CASH AND CASH EQUIVALENTS	(161,312)	(81,755)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	537,797	570,206
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 376,485	$ 488,451

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2013 and 2012

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance, December 31, 2011	$ 172	$ 112,436	$ 439	$ 294,864	$ 407,911
Comprehensive income:					
Net income	-	-	-	19,651	19,651
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $92	-	-	143	-	143
Comprehensive income					19,794
Stock issued as bonus shares – 51,245 shares	1	191	-	-	192
Vesting bonus shares	-	998	-	-	998
Stock issued for employee stock purchase plan – 5,103 shares	-	132	-	-	132
Stock granted under stock-based compensation plans	-	67	-	-	67
Repurchase of common stock – (608,387 shares)	(6)	(14,668)	-	-	(14,674)
Cash dividends – $0.60 per share	-	-	-	(10,172)	(10,172)
Balance, September 30, 2012 (Unaudited)	167	99,156	582	304,343	404,248
Comprehensive income:					
Net income	-	-	-	8,033	8,033
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($209)	-	-	(325)	-	(325)
Comprehensive income					7,708
Vesting bonus shares	-	307	-	-	307
Stock granted under stock-based compensation plans	-	16	-	-	16
Repurchase of common stock – (117,500 shares)	(2)	(2,892)	-	-	(2,894)
Cash dividends – $0.20 per share	-	-	-	(3,323)	(3,323)
Balance, December 31, 2012	165	96,587	257	309,053	406,062
Comprehensive income:					
Net income	-	-	-	19,445	19,445
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($1,845)	-	-	(2,858)	-	(2,858)
Comprehensive income					16,587
Stock issued as bonus shares – 64,506 shares	1	228	-	-	229
Vesting bonus shares	-	1,012	-	-	1,012
Stock issued for employee stock purchase plan – 5,244 shares	-	126	-	-	126
Exercise of stock options – 6,000 shares	-	143	-	-	143

Stock granted under stock-based compensation plans		-		27		-		-	27
Repurchase of common stock – (419,564 shares)		(4)		(10,844)		-		-	(10,848)
Cash dividends – $0.63 per share		-		-		-		(10,304)	(10,304)
Balance, September 30, 2013 (Unaudited)	$	162	$	87,279	$	(2,601)	$	318,194	$ 403,034

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Simmons First National Corporation (the "Company") and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2012, has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K Annual Report for 2012 filed with the U.S. Securities and Exchange Commission (the "SEC").

Recently Issued Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 amends the guidance related to testing indefinite-lived intangible assets, other than goodwill, for impairment. The provisions of ASU 2012-02 allow for a qualitative assessment in testing an indefinite-lived intangible asset for impairment before calculating the fair value of the asset. If the qualitative assessment determines that it is more likely than not that the asset is impaired, then a quantitative assessment of the fair value of the asset is required; otherwise, the quantitative calculation is not necessary. The provisions of ASU 2012-02 became effective for the Company on January 1, 2013, and did not have a significant impact on the Company's ongoing financial position or results of operations.

In October, 2012, the FASB issued ASU 2012-06, Business Combinations (Topic 805) – Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 amends guidance on the subsequent accounting for an indemnification asset recognized at the acquisition date as a result of a government assisted acquisition of a financial institution. ASU 2012-06 requires that a subsequent adjustment to the indemnification asset be measured on the same basis as the underlying indemnified assets. Any amortization of changes in value of the indemnification asset should be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets. ASU 2012-06 became effective for the Company on January 1, 2013. Because the Company has historically accounted for its indemnification assets in accordance with ASU 2012-06, its adoption did not have a significant impact on the Company's financial position or results of operations.

In February, 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income in their entirety, by component, on the face of the statement of comprehensive income or in the notes to the financial statements. Amounts that are not required to be

classified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. ASU 2013-02 became effective prospectively for the Company on January 1, 2013, and did not have a significant impact on the Company's financial position or results of operations.

There have been no other significant changes to the Company's accounting policies from the 2012 Form 10-K. Presently, the Company is not aware of any other changes to the Accounting Standards Codification that will have a material impact on the Company's present or future financial position or results of operations.

Acquisition Accounting, Covered Loans and Related Indemnification Asset

The Company accounts for its acquisitions under ASC Topic 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared loss agreements with the FDIC, if any. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding, claim receivable is recorded until cash is received from the FDIC. For further discussion of the Company's acquisition and loan accounting, see Note 5, Loans Acquired.

Earnings Per Share ("EPS)

Basic EPS is computed by dividing reported net income by weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing reported net income by the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of per share earnings for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2013	2012	2013	2012

Net income	$ 6,932	$ 6,760	$ 19,445	$ 19,651
Average common shares outstanding	16,220	16,757	16,383	17,005
Average potential dilutive common shares	5	3	5	3
Average diluted common shares	16,225	16,760	16,388	17,008
Basic earnings per share	$ 0.43	$ 0.41	$ 1.19	$ 1.16
Diluted earnings per share	$ 0.43	$ 0.41	$ 1.19	$ 1.16

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Stock options to purchase 138,528 and 177,870 shares for the three and nine months ended September 30, 2013 and 2012, respectively, were not included in the diluted EPS calculation because the exercise price of those options exceeded the average market price.

NOTE 2: PENDING ACQUISITION

On September 12, 2013, the Company issued a press release announcing the U.S. Bankruptcy Court approved a Stock Purchase Agreement (the "Agreement") between the Company and Rogers Bancshares, Inc. ("RBI") for the stock of Metropolitan National Bank ("Metropolitan"). The Company will purchase all of the issued and outstanding shares of common stock free and clear of all liens, claims and encumbrances, and assumes no liabilities of RBI. Under the terms of the Agreement, RBI will receive $53.6 million in cash. The Company will fund the transaction with $46 million in unsecured debt from correspondent banks with a 3.25% floating rate to be repaid in three years or less.

The transaction is expected to close during the fourth quarter of 2013 and is subject to customary regulatory approval. Upon completion of the transaction, the combined company will have approximately $4.4 billion in total assets, $3.7 billion in deposits and $2.3 billion in net loans.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

(In thousands)	September 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value		December 31, Amortized Cost
Held-to-Maturity						
U.S. Government agencies	$ 313,052	$ 23	$ (8,580)	$ 304,495	$	
Mortgage-backed securities	41	1	-	42		
State and political subdivisions	268,055	2,548	(5,057)	265,546		
Other securities	620	-	-	620		
Total HTM	$ 581,768	$ 2,572	$ (13,637)	$ 570,703	$	

13. Preferred Stock Rights

On March 21, 2011, the Board of Directors of the Company dec
to holders of record as of the close of business on April 1, 201
purchase right (a Right) for each outstanding share of common
share, of the Company (the Common Stock). In addition, the
Right with each new share of Common Stock issued. In connec
21, 2011, the Company entered into a Stockholder Protectio
amended from time to time, the Rights Agreement) with Cont
Trust Company, as Rights Agent, which has a term of three yea

Board of Directors in accordance with the terms of the Ri
approval of both an independent committee of the Board of D
Directors, the Rights Plan can be extended for up to three years
trade with and be inseparable from the Common Stock and v
separate certificates unless they become exercisable. Each R
purchase from the Company one-hundredth of a share of part
having economic and voting terms similar to the Common Sto
$8.00 per Right, subject to adjustment in accordance with
Agreement, once the Rights become exercisable. Under the
Rights become exercisable if any person or group acquires 20%
Stock or, in the case of any person or group that owned 20%
Stock as of March 21, 2011, upon the acquisition of any additio
or group. The Company, its subsidiaries, employee benefit plar
of its subsidiaries and any entity holding Common Stock for o
any such plan are excepted. Upon exercise of the Right in acc
Agreement, the holder would be able to purchase a number of
from the Company having an aggregate market price (as
Agreement) equal to twice the then-current exercise price for a
the then-current exercise price. In addition, the Company may
and pursuant to the terms of the Rights Agreement, exchange th
Common Stock or an equivalent security for each Right or, a
Rights for $0.001 per Right. The Rights will not prevent a ta
but may cause substantial dilution to a person that acqui
Company's Common Stock.

14. Share Repurchase Plan

On March 21, 2011, the board of directors authorized the purch
of the Company's common stock in accordance with the safe
10b-18 of the Securities Exchange Act of 1934. During the th
June 30, 2011 the Company repurchased 150,881 shares
$336,000.

15. Subsequent Event

During the period July 1, 2011 through August 5, 2011, the C
additional 129,148 shares of its common stock at an aggregate
purchases were made in accordance with the provisions of the
authorized by the board of directors on March 21, 2011. A
Company has repurchased a total of 280,029 shares at an aggreg

Item 2. Management's Discussion and Analysis of Financial
Operations

GSE Systems, Inc. ("GSE Systems", "GSE" or the "Company
high fidelity simulation. The Company provides simulation a
and services to the nuclear and fossil electric utility industr
petrochemical industries. In addition, the Company provid
signal analysis monitoring and optimization software primarily

GSE is the parent company of:

- GSE Power Systems, Inc., a Delaware corp
- GSE Power Systems, AB, a Swedish corpo
- GSE Engineering Systems (Beijing) Co. Ltd., a Chinese lim
- GSE Systems, Ltd, a Scottish limited liability
- TAS Engineering Consultants Ltd, an English limited
- GSE EnVision, Inc., a New Jersey corporati
- EnVision Systems (India) Pvt. Ltd., an Indian limited

The Company has a 49% minority interest in GSE-UNI
Co., Ltd. a Chinese limited liability company and has a
Emirates Simulation Academy, LLC, a United Arab Emirates
The Company has onl

Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements within the me
the Securities Act of 1933, as amended, and Section 21E of the
of 1934, as amended. The Private Securities Litigation Refor
"safe harbor" for forward looking statements. Forward-lo
statements of historical facts, but rather reflect our current
future events and results. We use words such as "expects", "int
"anticipates" to indicate forward-looking statements. Becau
statements involve risks and uncertainties, there are importan
actual results to differ materially from those expresse
forward-looking statements, including, but not limited to, tho
Item 1A - Risk Factors of the Company's 2010 Annual Repor
other risks and uncertainties detailed in the Company's period
statements filed with the Securities and Exchange Commissio
risk factors may not be exhaustive. We operate in a contin
environment, and new risk factors emerge from time to time.
new risk factors, nor can we assess the effect, if any, of the
business or the extent to which any factor or combination of
results to differ from those expressed or implied by these forwa

If any one or more of these expectations and assumptions prove
will likely differ materially from those contemplated by the for
Even if all of the foregoing assumptions and expectations pro
may still differ materially from those expressed in the forward
result of factors we may not anticipate or that may be beyon
cannot assess the future impact that any of these differences co
financial condition, results of operations and cash flows or the
our common stock, the differences could be significant. We do
any forward-looking statements made by us, whether as a re
future events or otherwise. You are cautioned not to
forward-looking statements when evaluating the information pr

General Business Environment

GSE Systems, Inc. is a world leader in simulation technology a
industry. We have a dominant 60% world-wide market share
industry, and we have leveraged our nuclear-grade simula
non-nuclear energy fields of fossil power generation, c
chemical/petrochemical processing.

The continued dramatic increase in global energy demand is v
believe, will continue to grow for decades to come. Governm
and trade journals report that up to 252 new nuclear plants coul
the next 20 years. Currently, there are over 66 plants u
countries. In the U.S. some 16 companies and consortia are
nuclear power plants. The U.S. Nuclear Regulatory Commis
reviewing 13 combined construction and operating licens
companies and consortia for 22 nuclear power reactors. Each n
to have a full scope simulator ready for operator training an
years prior to fuel loading. According to the International At
many as 65 countries with no current nuclear power capa
considerations to add nuclear energy to their power gener
Asia-Pacific, 21 in Africa, 12 in Europe, and 11 in Latin Am
market share, excellent reputation, and world-class techn
capitalize on the world-wide nuclear energy growth by providi
solutions.

On March 11, 2011 a 9.0 magnitude earthquake and subseque
the northeast coast of Japan. The Fukushima Daiichi I Nucle
maintained by the Tokyo Electric Power Company (TEPCO),
estimated at 46 feet, nearly 2.5 times the height of the 19 fo
plant. The reactors shut down automatically after the earth
generators providing power to the facility's electronics and c
the flooding was too severe and caused a power failure inside
the cooling systems from working, thus leading to overhe
meltdown.

Most countries with nuclear programs have reacted to the
announcing the delay of new nuclear plants while they c
programs. On March 23, 2011, the NRC issued a Temporary In
special NRC inspection to all holders of operating licenses f
objective of the TI was to independently assess the adequacy of
Nuclear licensees in response to the Fukushima Daiichi nuclear
to evaluate the industry's readiness for a similar event and to a
additional regulatory actions by the NRC are warranted.

In Japan, Deputy Chief Cabinet Secretary Yoshito Sengoku st
Japanese government had no plans to shut down any more fun
other than three at the Hamaoka power plant in central Japan.
by the Japanese government to halt the units until a seawall is
are improved at Hamaoka. However, in May 2011, Japan's p
stated that the country will review its current basic energy

increasing the percentage of electricity provided by nuclear po
building 14 new reactors by 2030. Kan has indicated his belief
move in the direction of promoting natural energy and renewa
2011, GSE's Swedish subsidiary had two significant projects i
backlog of $6.6 million. Neither of these projects have been c
Fukushima disaster. For the three and six months ended
recognized on projects with Japanese customers totaled 13.6%
of the Company's consolidated revenue.

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The German government announced in May 2011 that they w
country's nuclear power plants by 2022. The country's seven
taken offline for a safety review immediately after the Jap
permanently shutdown. In the three and six months ende
Kraftwerks-simulator Gmbh provided 11.4% and 9.1% of the
revenue. We have been informed by KSG, who provides t
German electric utilities and has 13 specific full scope simulato
power plants, due to the phasing out of the country's nuclea
should not anticipate any additional significant orders for simu
beginning in 2012. At June 30, 2011, the Company has backl
million related to KSG projects. We have been informed by
will be completed as scheduled.

Previous nuclear accidents have resulted in new regulations req
training, higher fidelity models and new testing scenarios. Ac
additional governmental regulations enacted in the aftermath
accident will result in the requirement for plant modifications
that will result in the need for higher simulator fidelity, su
supplied by GSE. GSE has developed MAAP-HD™, an e
simulation solution that allows operations personnel to train for
severe accident scenarios based on the operations of their speci
real-time code can be integrated with a nuclear plant's exi
simulator and is applicable to all current nuclear plant designs.
to validate the utility's severe accident management guidelines
current plant designs to regulators and stakeholders, and iden
existing plant design that may require modification. MAAP-
models of the plant's reactor core, containment structures
models simulate severe accident conditions which mirror th
Fukushima facility, such as the release of radioactive materials
core, exposure of the fuel rods in the spent fuel pool, and h
containment building.

In order to meet the world's needs, all forms of energy will pl
power. As of 2008, only 14% of the world's power was nucl
(solids, liquids, gases, biomass and waste) accounted for
approximately 18%, and renewable energy was less than 2
decades, GSE has leveraged the simulation capability that w
power for non-nuclear projects. Globally we have delivere
simulators and 96 process industry simulators.

According to the U.S. Energy Information Administration, w
will increase by 49% from 495 quadrillion BTU in 2007 to
2035. New consumption means new production, which means
and an enormous amount of training to provide a skilled wor
this growing need for energy industry training several years a
various training solutions leveraging the use of our simulation
a 163 module, five-simulator training course that was sold to
Academy LLC, in the UAE, a training academy that was creat
partners in 2007. The Company worked with the University o
Scotland to incorporate GSE's simulation into the Universit

education programs. GSE developed a 20-week “Nuclear Ope
Program” for Southern Nuclear Company in Augusta, GA utiliz
interactive visual training simulator. The advantage of the
scalability and ease of configuration for both team and individu
or cross training. The VPanel™ allows customers to utilize th
while bringing many full scope simulator capabilities directly
fraction of the cost. The “Operator Jump Start” program helps
new operator candidates. This training program is design
knowledge and skills to potential nuclear plant operators and t
have the ability to successfully complete the customer’s
programs. The program includes instruction on fundamental sc
Fundamental Examinations ("GFES")), plant systems and oper
students completing GSE’s Operator Jump Start program hav
exam.

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In order to expand its simulation-based training programs, c
acquired EnVision Systems, Inc., subsequently renamed GS
provides interactive multi-media tutorials and simulation m
petrochemical and oil & gas refining industries. EnVisi
foundation in process fundamentals, as well as plant operatio
acquisition gives GSE a tiered offering when it comes to simu
library of training content in multiple languages. GSE-EnVis
business model with typically higher margins than our core busi

A compounding problem is facing the energy industry. While e
requiring new plants and new workers, the incumbent industr
facing dramatic turnover. According to the NRC, the average n
years old, and 42% of the current workforce is expected to be re
years due to attrition and retirement. While the data is readily
industry because it is so heavily regulated, similar demographic
gas, chemical and petrochemical industries. While this issue ha
time, the impact has been somewhat delayed due to the r
downturn. Some employees that were planning on retiring in
savings significantly reduced and were forced
retirements. Accordingly, the Company anticipates that in
number of employees are likely to retire within a shorter time
qualified employees to replace them will become an acute issue

Except for some insightful early adopters, many companies te
training until they absolutely have to or they are in trouble. O
rather than an investment, and aside from travel, it is one of
during economic downturns. However, the statistics associat
and the aging workforce are undeniable, and training will b
skilled employees that will be needed to staff the new
retirees. Therefore, when the energy industry recognizes the ne
training that is faster and better than what is traditionally avai
will have to consider the nature of the next generation workforc
a computer and vast amounts of interactive multimedia. Star
will not provide the efficacy that will be needed nor satisfy the
workforce.

In fact, according to the NTL Institute's statistics on learn
information is retained from lecture, and only 10% from r
retention is accomplished when learners practice by doing.
GSE's success with the Nuclear Operator Jump Start Train
Nuclear Company, as our design combines traditional instruct
with structured simulator exercises supporting the concepts
transportable globally to anywhere a new energy workforce is n

Case studies demonstrate that the inclusion of "serious gan
immersive 3D environments can reduce training time
significantly. In fact, the Royal Canadian Army was able to re
and increase the pass rate of students by incorporating gaming
to the advancement of computer processing power and
immersive commercially viable off-the-shelf 3D gam

available. Additionally, this style of learning also lends itse
workforce, and as such GSE is investing significantly in
investment comes in the form of strategic hires, investment in
product development. Through development efforts already un
have discovered how to link our industry-leading, high fidelity
off-the-shelf game engines. This enables us to make the invis
seeing the inside of an operating reactor, steam generator, or tur
the learning strategy by incorporating 3D visualization interfac
simulation models will allow GSE to provide the energy indust
costly training ideally suited for the next generation workforce.
visualization order in July 2011 and expect modest revenue fro
in 2011. However, we anticipate 3D visualization revenue to s
coming years.

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Results of Operations

The following table sets forth the results of operations fo
expressed in thousands of dollars and as a percentage of revenu

(in thousands)	Three Months ended June, 30				
	2011	%	2010	%	201
Contract revenue	$11,257	100.0%	$11,773	100.0%	$23,
Cost of revenue	7,500	66.6 %	8,125	69.0 %	16,
Gross profit	3,757	33.4 %	3,648	31.0 %	7,2
Operating expenses:					
Selling, general and administrative	3,198	28.5 %	2,731	23.2 %	6,6
Depreciation	103	0.9 %	141	1.2 %	228
Amortization of definited-lived intangible assets	208	1.8 %	25	0.2 %	425
Total operating expenses	3,509	31.2 %	2,897	24.6 %	7,2
Operating income (loss)	248	2.2 %	751	6.4 %	(39
Interest income, net	29	0.2 %	21	0.2 %	62
Gain (loss) on derivative instruments, net	(410)	(3.6)%	(374)	(3.3)%	178
Other income (expense), net	(26)	(0.2)%	19	0.2 %	39
Income (loss) before income taxes	(159)	(1.4)%	417	3.5 %	240
Provision (benefit) for income taxes	85	0.8 %	47	0.4 %	(52
	$(244)	(2.2)%	$370	3.1 %	$769

Net income
(loss)

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Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with
accounting principles requires management to make estimat
affect the reported amounts of assets and liabilities at the date o
and the reported amounts of revenues and expenses during t
estimates, judgments and assumptions are continually evalu
information and experience. Because of the use of estimates
reporting process, actual results could differ from those estimate

A summary of the Company's significant accounting policies a
included in Note 2 to the Company's Annual Report on Forn
ended December 31, 2010. Certain of our accounting policies
judgment than others in their application. These include
long-term contracts, capitalization of computer software develo
income tax valuation allowances. These critical accounting p
discussed in the Management's Discussion and Analysis of
Results of Operations section in the 2010 Annual Report on
year ended December 31, 2010.

Results of Operations - Three and Six Months ended June 30, 2
Months ended June 30, 2010

Contract Revenue. Total contract revenue for the quarter end
$11.3 million, which was 4.4% lower than the $11.8 million tot
ended June 30, 2010. For the six months ended June 30, 2011
$23.6 million, a $600,000 increase from the $23.0 million for th
30, 2010. The Company recorded total orders of $19.9 million
June 30, 2011 versus $18.5 million in the six months ended J
related to the $23.8 million full scope simulator and digital co
Slovak utility was $1.1 million (10.1% of revenue) and $2.4 m
for the three months ended June 30, 2011 and 2010, respectiv
ended June 30, 2011 and 2010, revenue from the Slovak utility
of revenue) and $4.5 million (19.7% of revenue), respectively.
generated from the Slovak utility order was partly offset by
generated due to the acquisition of EnVision. EnVision g
$575,000 and $1.1 million of revenue for the three and six
2011. At June 30, 2011, the Company's backlog was $55.
million related to the Slovakia contract. The backlog decreas
31, 2010 when the Company's backlog totaled $55.9 million.

Gross Profit. Gross profit totaled $3.8 million for the quarter en
$3.6 million for the same quarter in 2010. As a percentage
increased from 31.0% for the three months ended June 30, 20
months ended June 30, 2011. For the six months ended Jun
increased $400,000 from the same period in 2010 to $7.2 milli
revenue, gross profit increased from 29.6% to 30.7%. The de
Slovakia contract, which has an overall gross profit lower tha

gross profits, along with the additional revenue generated
products typically sell at a gross profit higher than the Compa
has contributed to the increase in gross profit for the three and s
2011.

Selling, General and Administrative Expenses. Selling, ger
("SG&A") expenses totaled $3.2 million in the quarter ende
increase from the $2.7 million for the same period in 2010. F
June 30, 2011 and 2010, SG&A expenses totaled $6.6 mi
respectively. The increase reflects the following spending varia

- ♦ Business development and marketing costs increased from S
quarter 2010 to $1.4 million in the second quarter of 2011
million for the six months ended June 30, 2010 to $2.8 m
2011. During the first quarter of 2011, the Company
reorganization whereby a number of operational person
business development activities on a full time basis. Bid
which are the costs of operations personnel in assisting
contract proposals, decreased by $4,000 in the second qua
compared to the second quarter 2010, and increased by $
ended June 30, 2011 to $770,000 as compared to the six
2010. The acquisitions of TAS and EnVision have con
$207,000 and $400,000 of the business development and
three and six months ended June 30, 2011, respectively. B
marketing costs attributable to TAS for both the three and s
2010 totaled $35,000. The Company also hired a business
the United Kingdom in May 2010.

♦ The Company's general and administrative expenses ("G
both the three months ended June 30, 2010 and June 30,
$3.0 million for the six months ended June 30, 2010 to
months ended June 30, 2011. The increase is primarily attrib

o TAS and EnVision incurred $242,000 and $477,000 of G&
and six months ended June 30, 2011, respectively. For both
ended June 30, 2010 G&A expenses attributable to TAS total

o The change in the fair value of contingent consideration (acc
the TAS and EnVision acquisitions was $121,000 and $284
months ended June 30, 2011, respectively. The change in th
consideration related to the TAS acquisition for the three ar
30, 2010 was $32,000.

o The Company incurred approximately $1,000 and $206,000
acquisition efforts for the three and six months ended June
compared to $118,000 and $222,000 for the same periods in
were primarily comprised of legal and due diligence expense

♦ Gross spending on software product development ("devel
three and six months ended June 30, 2011 totaled $4
respectively as compared to $390,000 and $787,000 for
ended June 30, 2010, respectively. The Company capitalize
for the three and six months ended June 30, 2011, respec
$475,000 for the three and six months ended 2010, respec
spending increased from $121,000 for the three months
$196,000 for the three months ended June 30, 2011 and inc
the six months ended June 30, 2010 to $359,000 for the si
2011.

o The Company created a 3D visualization team in Janua
technology to add to our training programs. The Compar
$127,000 of costs related to this effort in the three and six
2011.

o Spending on other software product development totaled $1
the three and six months ended June 30, 2011, respectivel
months ended June 30, 2010, development expense totaled
respectively. The Company's development expense
to advancements on a new configuration management syste
warehouse that supports various forms of data on a sim
enhancements to our JADE platform including human fact
and a new graphical user interface. The acquisition of EnV
and $43,000 of development expense for the three and six
2011.

Depreciation. Depreciation expense totaled $103,000 and $14
ended June 30, 2011 and 2010, respectively. For the six mon
and 2010, depreciation expense totaled $228,000 and $272,000

Amortization of definite-lived intangible assets. Amortiz
definite-lived intangible assets totaled $208,000 and $25,000 fo
30, 2011 and 2010, respectively. For the six months ended
amortization expense related to definite-lived intangible ass
$25,000 respectively. As part of the Company's acquisit
Company recorded intangible assets totaling approximately
lives of one to ten years. The Company also recorded intangi
with estimated lives of three to eight years as part of the EnVisi

Operating Income (loss). The Company had operating incom
revenue) in the second quarter 2011, as compared with opera
(6.4% of revenue) for the same period in 2010. For the six mo
and 2010, the Company had operating loss of $39,000 (-0
operating income of $1.2 million (5.2% of revenue) in 2010. T
the factors outlined above.

Interest Income, Net. Net interest income totaled $29,000 in th
2011 versus net interest income of $21,000 in the quarter ende
six months ended June 30, 2011 and 2010, net interest inco
$19,000, respectively.

Gain (Loss) on Derivative Instruments, Net. The Company
forward foreign exchange contracts to manage market ri
fluctuations in foreign currency exchange rates on fore
receivables. As of June 30, 2011, the Company had foreign e
sale of approximately 1.6 million Pounds Sterling, 12.8 millio
Japanese Yen at fixed rates. The contracts expire on variou
2014. The Company has not designated the contracts as he
losses on the change in the estimated fair value of the co
$155,000 for the three and six months ended June 30, 2011, resp

At June 30, 2010, the Company had foreign exchange contracts
306,000 Pounds Sterling, 15.8 million Euro and 648 millio
rates. The contracts expire on various dates through February
not designated the contracts as hedges and had recognized a g
estimated fair value of the contracts of $6,000 for the three mo
and a loss of $58,000 for the six months ended June 30, 2010.

The foreign currency denominated contract receivables, and su
are related to the outstanding foreign exchange contracts w
functional currency using the current exchange rate at the en
three and six months ended June 30, 2011, the Company recog
and $333,000, respectively, from the remeasurement of such
billings in excess of revenue earned. For the same periods
recognized a $380,000 and $620,000 loss, respectively.

Other Income (expense), net. For the three and six months en
income (expense), net was ($26,000) and $39,000, respectivel
months ended June 30, 2010, other expense, net was
respectively. The major components of other income (exp

following items:

- For the three and six months ended June 30, 2011, the Co investment losses of $60,000 and $25,000, respectively, fro Technology Co., Ltd.
- The Company had other miscellaneous income for the thr June 30, 2011 of $34,000 and $64,000. For the three and si 2010, other miscellaneous income amounted to $19,000 and

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Provision for Income Taxes.

The Company files in the United States federal jurisdiction
foreign jurisdictions. Because of the net operating loss carryf
subject to U.S. federal and state income tax examinations from
and is subject to foreign tax examinations by tax authori
forward. Open tax years related to state and foreign jurisdi
examination but are not considered material to our finan
operations or cash flows.

An uncertain tax position taken or expected to be taken in a ta
the financial statements when it is more likely than not (i.e., a
fifty percent) that the position would be sustained upon exami
that have full knowledge of all relevant information. A recogn
measured at the largest amount of benefit that is greater than fif
realized upon ultimate settlement. Interest and penalties rel
accounted for as income tax expense.

The Company, through its acquisition of EnVision on Janu
deferred tax liabilities of $1.0 million. As a result of this acqui
ASC-805 Business Combinations, the Company reduced the v
U.S. net deferred tax assets and recognized the change in the v
million) through the income tax provision.

The Company, through its acquisition of EnVision on Jan
$320,000 of unrecognized tax benefits as well as a receiv
shareholders for the same amount as indemnity for this tax posi
not expect any material changes to its uncertain tax positions in

The Company expects to pay income taxes in Sweden, India
addition, the Company will pay foreign income tax withhol
contracts. The Company has a full valuation allowance on
deferred tax assets at June 30, 2011.

Liquidity and Capital Resources

As of June 30, 2011, the Company's cash and cash equivale
compared to $26.6 million at December 31, 2010.

Cash provided by (used in) operating activities. For the six
2011, net cash used in operations totaled $1.6 million. Sig
Company's assets and liabilities in the three months ended June

- A $685,000 increase in the Company's contract receivabl
receivables, net of the allowance for doubtful accounts, de
at December 31, 2010 to $5.5 million at June 30, 2011.
receivables outstanding for more than 90 days, net of the
approximately $377,000 versus $318,000 at December 3
unbilled receivables increased by approximately $2.5 millio
30, 2011. The increase in the unbilled receivables is due to

billing milestones of the Company’s current projects. In
invoiced over $3.2 million of the unbilled amounts; the b
invoiced and collected within one year.

- A $2.1 million decrease in accounts payable, accrued co
expenses. The decrease is due to the timing of payments
vendors and subcontractors.

Net cash provided by operations for the six months ended Ju
million. Significant changes in the Company's assets and lia
ended June 30, 2010 included:

- A $6.1 million increase in the Company's contract receivab receivables, net of allowance for doubtful accounts, increa December 31, 2009 to $14.2 million at June 30, 2010 whil receivables decreased by $1.9 million to $7.6 million at Ju 2010, trade receivables outstanding for more than 90 days $1.4 million at December 31, 2009. The increase in th primarily related to a $9.8 million invoice issued to Slovens 2010. The decrease in the Company's unbilled receivabl timing of contracted billing milestones of the Company's 2010, the Company received $9.5 million of the Slovenské and invoiced $1.0 million of the unbilled amounts.
- A $2.8 million increase in accounts payable, accrued co expenses. The Company's accounts payable and accrued l material purchases and the utilization of subcontractors on projects.
- A $2.6 million increase in billings in excess of revenues ea mainly related to the issuance of the $9.8 million invo elektrárne a.s. in May 2010.

Cash used in investing activities. Net cash used in investin
million for the six months ended June 30, 2011. The increase
BOA's amendments to the Company's revolving credit agree
2011, which required the Company to cash collateralize all exi
credit. At June 30, 2011 the Company had cash collateralize
letters of credit. This balance represents a $4.4 million incr
2010.

The Company acquired EnVision Systems Inc. on January 4, 2
totaled $4.0 million with $1.2 million paid in cash at closing
until the first, second, and third anniversaries of the closing da
of 2011, the Company made payments of $74,000 to EnVisio
billed receivables included on the Closing Date balance sheet.
$109,000 to the EnVision shareholders was made during the
related to the working capital true-up provisions of the pu
acquired approximately $550,000 in cash through the acquisitio

During the six months ended June 30, 2011, the Company m
contribution totaling $456,000 to GSE-UNIS Simulatio
("GSE-UNIS"). GSE-UNIS is 51% owned by Beijing UNIS
49% owned by GSE. Per the joint venture agreement, the
additional contribution to GSE-UNIS of approximately $450,00

Capital expenditures totaled $329,000 and capitalized so
totaled $386,000. $79,000 of cash which GSE had on deposit
("UNB") as a partial guarantee against the Emirates Simulatio
of credit, was withdrawn by UNB during the six months en
June 30, 2011 and December 31, 2010, GSE had a full res

For the six months ended June 30, 2010, cash used in i
$194,000 for the six months ended June 30, 2010. Capital expe
and capitalized software development costs totaled $475,000. C
standby letters of cred

Effective April 26, 2010, GSE Systems Inc., through its
GSE Systems, Ltd. (GSE UK), completed the acquisition o
total purchase price totaled approximately $2.3 million with
paid in cash at closing, $689,000 paid post-closing in GS
balance deferred until the first and second anniversary of t
approximately $68,000 cash on their balance sheet

On the closing date, TAS entered into a sale and leas
former TAS shareholders. Under the terms of the agreeme
purchased the building occupied by TAS for approximately $
entered into a five-year lease for approximately $31,000
monthly installments. TAS may terminate the lease after April 2

Cash used in financing activities. Net cash used in fina
$217,000. The Company repurchased 150,881 shares of the Co
an aggregate cost of $336,000 for the three months ended June
the issuance of common stock for the six months ended
$119,000. For the six months ended June 30, 2010, procee
common stock totaled $68,000. This was offset by $82,000 for
related to the BOA line of credit agreements in the six months e

At June 30, 2011, the Company had cash and cash equivalents
on the Company's forecasted expenditures and cash flow, the
will generate sufficient cash through its normal operations
working capital needs for the next twelve months.

Credit Facilities

At December 31, 2010, the Company had two separate revolv
revolving lines of credit with BOA which were to expire
Company and its subsidiary, GSE Power Systems, Inc., were jo
as co-borrowers. The credit facilities enabled the Company to
working capital needs and standby letters of credit. The first li
the principal amount of up to $3.5 million was amended on M
the principal amount to $5.0 million but was terminated (see be
credit was in the principal amount of up to $2.5 million. This
Company to borrow funds up to 80% of domestic accounts rec
unbilled receivables and 100% of the principal balance of a
deposit issued by BOA and was amended on March 14, 2011 (
rate on this line of credit was based on the daily LIBOR rate pl
interest only payments due monthly. The credit agreements co
covenants regarding future acquisitions, incurrence of de
dividends. In addition, both credit agreements contained f
respect to the Company's minimum tangible net worth, debt s
funded debt to EBITDA ratio. At December 31, 2010, the Co
the funded debt to EBITDA ratio.

Due to the Company's financial covenant default as of D
made the following amendments to the Company's revolving c
March 14, 2011:

- A written waiver was granted for the funded debt to EBI
- The $5.0 million principal line of credit was te
- The financial covenants for the $2.5 million principal line
  Going forward, there are no financial covenants.
- The Company was required to cash collateralize all outsta
  credit.
- All future letters of credit issued by BOA must be cas
- Borrowings under the line of credit must be cash collat
  Company has in place a $600,000 certificate of deposit as
  credit.

As of June 30, 2011, the Company was contingently liable fo
credit and three surety bonds totaling $6.4 million which repre
bonds on ten contracts. The Company has deposited the fu
standby letters of credit in certificates of deposit ($4.6 mi
restricted in that the Company does not have access to these fu
of credit have expired. The cash has been recorded on the Co
June 30, 2011 as restricted cash.

In light of the latest amendments to our line of credit, th
seeking new financing opportunities to provide greater flexi
flow options.

Item 3. Quantitative and Qualitative Disclosure about Market R

The Company's market risk is principally confined to cha
exchange rates. The Company's exposure to foreign exchange
part from inter-company accounts in which costs incurred in
other entities in different foreign jurisdictions. The Company i
exchange rate fluctuations as the financial results of all foreign
into U.S. dollars in consolidation. As exchange rates vary, thos
may vary from expectations and adversely impact overall expec

The Company utilizes forward foreign currency exchange co
risks associated with the fluctuations in foreign currency exch
currencies for which such forward exchange contracts are en
Sterling, the Euro and the Japanese Yen. It is the Compa
derivative financial instruments to protect against market ri
course of business in order to reduce the impact of these ex
minimizes credit exposure by limiting counterparties to nation
institutions.

As of June 30, 2011, the Company had foreign exchang
approximately 1.6 million Pounds Sterling, 12.8 million E
Japanese Yen at fixed rates. The contracts expire on various
2014. The Company had not designated the contracts as hed
losses on the change in the estimated fair value of the con
$155,000 for the three and six months ended June 30, 201
fluctuation in the foreign currency exchange rates up or down a
have increased/decreased the change in the estimated fair v
$5,000.

As of June 30, 2010, the Company had foreign exchang
approximately 306,000 Pounds Sterling, 15.8 million Euro a
Yen at fixed rates. The contracts expire on various dates thro
Company had not designated the contracts as hedges and r
change in the estimated fair value of the contracts of $6,000 fo
June 30, 2010 and a loss of $58,000 for the six months ended Ju

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Com
internal disclosure controls and procedures (as such term is de
and 15d-15(e) under the Securities Exchange Act of 1934
amended) as of the end of the period covered by this quarter
pursuant to Rule 13a-15(b) under the Exchange Act that are
information required to be disclosed by it in its reports filed or
Exchange Act is recorded, processed, summarized and reporte
specified in the Commission's rules and forms and that in
disclosed by the Company in its Exchange Act report
communicated to management, including the Company's Chief
who is its principal executive officer, and Chief Financial C
principal financial officer, to allow timely decisions regarding r

The Company's CEO and CFO are responsible for establishing
internal control over the Company's financial reporting.
evaluated the effectiveness of the Company's disclosure control
to Exchange Act Rule 13a-14 as of June 30, 2011 in order to
material information required to be included in the Company'
Commission comply with the Commission's requirements for
10-Q. Based on that evaluation, the Company's CEO and CFO
June 30, 2011 the Company's disclosure controls and procedure

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(b) Changes in internal control. There were no changes i
control over financial reporting that occurred during the most
have materially affected or are reasonably likely to materia
internal control over financial reporting.

Limitation of Effectiveness of Controls

It should be noted that any system of controls, however well de
provide only reasonable, and not absolute, assurance that the
will be met. The design of any control system is based, in part
control system relative to its costs. Because of the inherent
systems, no evaluation of controls can provide absolute assura
and instances of fraud, if any, within the Company have been
limitations include the realities that judgments in decision maki
controls can be circumvented by the individual acts of some per
or more people or by management override of control. In add
may become inadequate because of changes in conditions, or
with the policies or procedures may deteriorate. In addition,
system is based in part upon certain assumptions about t
events. Because of inherent limitation in a cost-effective contr
due to error or fraud may occur and not be detected. The
procedures are designed to provide a reasonable level of assu
objectives.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The Company has one material addition to the disclosure o
Annual Report on Form 10-K for the fiscal year ended Decemb

The Company's stockholder protection rights agreement and cl
could deter acquisition proposals and make it difficult for a thir
of the Company, which could have a negative effect on the
Common Stock.

The Company has a stockholder protection rights agreement
directors, which could discourage potential acquisition prop
prevent a change in control of the Company. This deterrent c
price of the Company's Common Stock and make it difficult

composition of the Board of Directors or a change in manageme

Item 2. Unregistered Sales of Equity Securities ar

Issuer Purchases of Equity Securities

The following table provides information about the Company's
for the six months ended June 30, 2011:

Month	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicl announced program
January	-	-	-
February	-	-	-
March	-	-	-
April	-	-	-
May	9,000	$ 2.30	9,000
June	141,881	$ 2.22	150,881

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification of the Chief Executive Officer pursuar
Sarbanes- Oxley Act of 2002, filed herewith.

31.2 Certification of the Chief Financial Officer pursuan
Sarbanes-Oxley Act of 2002, filed herewith.

32.1 Certification of the Chief Executive Officer and Chief Fin
Section 906 of the Sarbanes-Oxley Act of 2002, filed here

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* Pursuant to Rule 406T of Regulation S-T, these interactive da
filed or part of a registration statement or prospectus for purpos
the Securities Act of 1933 or Section 18 of the Securities Excha
otherwise are not subject to liability.

GSE SYSTEMS, INC. AND SUBSIDIAR
NOTES TO CONSOLIDATED FINANCIAL STA
For the Three and Six Months ended June 30, 201
(Unaudited)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act o
duly caused this report to be signed on its behalf by the und
authorized.

Date: August 9, 2011

/S/ JAMES A. EBERLE
James A. Eberle
Chief Executive Officer
(Principal Executive Officer)

/S/ JEFFERY G. HOUGH
Jeffery G. Hough
Senior Vice President and Chief Financial C
(Principal Financial and Accounting Offic