

GP STRATEGIES CORP
Form 10-Q
November 09, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the quarterly period ended September 30, 2006

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 1-7234

GP STRATEGIES CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State of Incorporation)

13-1926739

(I.R.S. Employer Identification No.)

6095 Marshalee Drive, Suite 300, Elkridge, MD

(Address of principal executive offices)

21075

(Zip Code)

(410) 379-3600

Registrant's telephone number, including area code:

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of issuer's classes of common stock as of October 31, 2006:

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Class

Common Stock, par value \$.01 per share

Outstanding

15,818,449 shares

GP STRATEGIES CORPORATION AND SUBSIDIARIES

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Part I. Financial Information**Item 1. Financial Statements****GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,216	\$ 18,118
Accounts and other receivables, less allowance for doubtful accounts of \$666 in 2006 and \$1,166 in 2005	24,524	27,079
Costs and estimated earnings in excess of billings on uncompleted contracts	12,686	11,487
Prepaid expenses and other current assets	4,930	5,936
Total current assets	47,356	62,620
Property, plant and equipment	6,537	6,619
Accumulated depreciation	(4,867)	(4,762)
Property, plant and equipment, net	1,670	1,857
Goodwill	58,530	57,483
Other intangible assets, net	695	647
Deferred tax assets	7,498	10,391
Other assets	1,463	1,643
	\$ 117,212	\$ 134,641
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 35	\$ 71
Accounts payable and accrued expenses	19,698	20,315
Billings in excess of costs and estimated earnings on uncompleted contracts	5,473	7,430
Total current liabilities	25,206	27,816
Long-term debt less current maturities	11,260	11,309
Other noncurrent liabilities	1,219	1,174
Total liabilities	37,685	40,299
Stockholders equity:		
Common stock, par value \$0.01 per share	178	171
Class B capital stock, par value \$0.01 per share		12
Additional paid-in capital	161,613	168,737
Accumulated deficit	(66,849)	(71,710)
Treasury stock at cost	(14,460)	(29)
Unearned compensation		(1,133)
Accumulated other comprehensive loss	(831)	(1,087)
Note receivable from stockholder	(124)	(619)
Total stockholders equity	79,527	94,342
	\$ 117,212	\$ 134,641

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	2005	September 30, 2006	2005
Revenue	\$ 44,051	\$ 44,059	\$ 133,358	\$ 131,278
Cost of revenue	37,141	37,371	113,729	112,678
Gross profit	6,910	6,688	19,629	18,600
Selling, general and administrative expenses	3,827	4,060	10,831	10,996
Operating income	3,083	2,628	8,798	7,604
Interest expense	376	387	1,233	1,129
Other income	180	87	764	141
Income from continuing operations before income tax expense	2,887	2,328	8,329	6,616
Income tax expense	1,140	869	3,468	2,874
Income from continuing operations	1,747	1,459	4,861	3,742
Loss from discontinued operations, net of income taxes		(417)		(1,012)
Net income	\$ 1,747	\$ 1,042	\$ 4,861	\$ 2,730
Basic weighted average shares outstanding	15,657	18,260	16,535	18,105
Diluted weighted average shares outstanding	16,555	18,991	17,438	18,916
Per common share data:				
Basic				
Income from continuing operations	\$ 0.11	\$ 0.08	\$ 0.29	\$ 0.21
Loss from discontinued operations		(0.02)		(0.06)
Net income	\$ 0.11	\$ 0.06	\$ 0.29	\$ 0.15
Diluted				
Income from continuing operations	\$ 0.11	\$ 0.07	\$ 0.28	\$ 0.20
Loss from discontinued operations		(0.02)		(0.06)
Net income	\$ 0.11	\$ 0.05	\$ 0.28	\$ 0.14

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity

(Unaudited)

Nine months ended September 30, 2006

(In thousands, except for par value per share)

	Common stock (\$0.01 par)	Class B capital stock (\$0.01 par)	Additional paid-in capital	Accumulated deficit	Treasury stock at cost	Unearned compensation loss	Accumulated other comprehensive income	Note receivable from stockholder	Total stockholders equity
Balance at December 31, 2005	\$ 171	\$ 12	\$ 168,737	\$ (71,710)	\$ (29)	\$ (1,133)	\$ (1,087)	\$ (619)	\$ 94,342
Net income				4,861					4,861
Repurchase and exchange of common stock and Class B stock in capital stock restructuring	6	(12)	(6,096)		(14,758)				(20,860)
Repayment of note receivable from stockholder								495	495
Repurchases of common stock in the open market					(1,939)				(1,939)
Elimination of unearned compensation upon adoption of SFAS No. 123R			(1,133)			1,133			
Stock-based compensation expense			373		27				400
Other comprehensive income							256		256
Net issuances of stock for exercises of stock options and warrants and retirement savings plan	1		(268)		2,239				1,972
Balance at September 30, 2006	\$ 178	\$	\$ 161,613	\$ (66,849)	\$ (14,460)	\$	\$ (831)	\$ (124)	\$ 79,527

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, 2006 and 2005

(Unaudited)

(In thousands)

	2006	2005
Cash flows from operating activities:		
Net income	\$ 4,861	\$ 2,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,961	2,506
Collection of deposit in escrow, including interest		13,798
Deferred income taxes	2,653	2,300
Issuance of stock for retirement savings plan and non-cash compensation expense	1,232	900
Minority interest		(953)
Changes in other operating items, net of effect of acquisition:		
Accounts and other receivables	3,317	4,362
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,199)	(737)
Prepaid and other current assets	859	(2,729)
Accounts payable and accrued expenses	(1,356)	(7,998)
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,611)	(1,988)
Other	45	(420)
Net cash provided by operating activities	9,762	11,771
Cash flows from investing activities:		
Additions to property, plant and equipment	(509)	(818)
Acquisition, net of cash acquired	(619)	
Other investing activities	1	21
Net cash used in investing activities	(1,127)	(797)
Cash flows from financing activities:		
Repurchase and exchange of common stock and Class B stock in capital stock restructuring	(20,860)	
Repayment of short-term borrowings		(4,886)
Repurchases of common stock in the open market	(1,939)	
Repayment of note receivable from stockholder	495	
Proceeds from stock option and warrant exercises	826	1,238
Proceeds from issuance of subordinated convertible note by GSE		2,000
Distribution of cash of GSE in spin-off		(804)
Deferred financing costs		(287)
Payments on obligations under capital leases	(76)	(70)
Net cash used in financing activities	(21,554)	(2,809)
Effect of exchange rate changes on cash and cash equivalents	17	(75)
Net increase (decrease) in cash and cash equivalents	(12,902)	8,090
Cash and cash equivalents at beginning of period	18,118	2,417
Cash and cash equivalents at end of period	\$ 5,216	\$ 10,507
Non-cash investing activities:		
Reduction in carrying value of Gabelli Notes upon exercise of detachable stock purchase warrants	\$ 418	\$
Distribution of non-cash net assets of GSE in spin-off	\$	\$ 5,978

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2006
(Unaudited)

(1) Basis of Presentation

GP Strategies Corporation (the Company) was incorporated in Delaware in 1959. The Company's business consists of its training, engineering, and consulting business operated by General Physics Corporation (General Physics or GP). General Physics is a workforce development company that seeks to improve the effectiveness of organizations by providing training and e-Learning solutions, management consulting, and engineering services that are customized to meet the specific needs of clients.

On September 30, 2005, the Company completed a taxable spin-off of its 57% interest in GSE Systems, Inc. (GSE) through a dividend to the Company's stockholders. GSE is a stand alone public company which provides simulation solutions and services to energy, process and manufacturing industries worldwide. On September 30, 2005, stockholders received in the spin-off 0.283075 shares of GSE common stock for each share of the Company's Common Stock or Class B Capital Stock (Class B Stock) held on the record date of September 19, 2005. Following the spin-off, the Company ceased to have any ownership interest in GSE and the operations of GSE are presented as discontinued in the Company's condensed consolidated statements of operations for the prior periods presented. The Company continues to provide corporate support services to GSE pursuant to a management services agreement which extends through December 31, 2006 (see Note 10).

The accompanying condensed consolidated balance sheet as of September 30, 2006, the condensed consolidated statements of operations for the three and nine months ended September 30, 2006 and 2005, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2006 and 2005 have not been audited, but have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005, as presented in our Annual Report on Form 10-K dated March 16, 2006. In the opinion of management, this interim information includes all material adjustments, which are of a normal and recurring nature, necessary for a fair presentation. The results for the 2006 interim period are not necessarily indicative of results to be expected for the entire year. During the nine months ended September 30, 2006, the Company reflected \$0.4 million of equity in earnings of a joint venture within other income. In 2005, this amount was reflected in revenue. During the nine months ended September 30, 2005, \$0.2 million was reflected in revenue related to this joint venture. Certain other amounts in 2005 have been reclassified to conform with the presentation for 2006.

The condensed consolidated financial statements include the operations of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

(2) Earnings Per Share

Basic earnings per common share (EPS) is computed by dividing earnings by the weighted average number of common shares outstanding during the periods. Diluted EPS reflects the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The Company's dilutive common stock equivalent shares consist of stock options, non-vested stock units, and warrants to purchase shares of common stock computed under the treasury stock method, using the average market price during the period. The following table presents instruments which were not dilutive and were excluded from the computation of diluted EPS in each period, as well as the dilutive common stock equivalent shares which were included in the computation of diluted EPS:

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	2006	2005	2006	2005
Non-dilutive instruments	577	574	578	574
Dilutive common stock equivalents	898	731	903	811

(3) Stock-Based Compensation

Accounting Standard Adopted

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123R, *Share-Based Payment* (SFAS No. 123R), which revises SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and requires companies to recognize compensation expense for all equity-based compensation awards issued to employees that are expected to vest. The Company adopted SFAS No. 123R on January 1, 2006, using the Modified Prospective Application method without restatement of prior periods. Under this method, the Company began to amortize compensation cost for the remaining portion of its outstanding awards for which the requisite service was not yet rendered as of January 1, 2006. Compensation cost is based on the fair value of those awards as previously disclosed on a pro forma basis under SFAS No. 123. The Company determines the fair value of and accounts for awards that are granted, modified, or settled after January 1, 2006 in accordance with SFAS No. 123R.

The following table presents the impact of SFAS No. 123R on income from continuing operations before income tax expense, net income, cash flows from operating and financing activities, and basic and diluted earnings per share:

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	As Reported Including SFAS No. 123R Adoption (In thousands, except per share data)	Pro-Forma Excluding SFAS No. 123R Adoption	As Reported Including SFAS No. 123R Adoption	Pro-Forma Excluding SFAS No. 123R Adoption
Income from continuing operations before income tax expense	\$ 2,887	\$ 2,900	\$ 8,329	\$ 8,481
Net income	1,747	1,755	4,861	4,952
Net cash provided by operating activities	3,093	3,093	9,762	9,762
Net cash provided by (used in) financing activities	69	69	(21,554)	(21,554)