

GP STRATEGIES CORP
Form 10-Q
May 06, 2010
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

o **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)

6095 Marshalee Drive, Suite 300, Elkridge, MD
(Address of principal executive offices)

13-1926739
(I.R.S. Employer Identification No.)

21075
(Zip Code)

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

(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 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). Yes 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

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

The number of shares outstanding of the registrant's common stock as of April 30, 2010 was as follows:

| Class | Outstanding |
|---|-------------------|
| Common Stock, par value \$.01 per share | 18,612,982 shares |

Table of Contents

Part I. Financial Information

| | | |
|----------------|---|----|
| <u>Item 1.</u> | <u>Financial Statements (Unaudited)</u> | |
| | <u>Condensed Consolidated Balance Sheets – March 31, 2010 and December 31, 2009</u> | 1 |
| | <u>Condensed Consolidated Statements of Operations – Three Months Ended March 31, 2010 and 2009</u> | 2 |
| | <u>Condensed Consolidated Statements of Cash Flows – Three Months Ended March 31, 2010 and 2009</u> | 3 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> | 4 |
| <u>Item 2.</u> | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 16 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosure About Market Risk</u> | 24 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 24 |

Part II. Other Information

| | | |
|-------------------|--|----|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 25 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 25 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 25 |
| <u>Item 6.</u> | <u>Exhibits</u> | 26 |
| <u>Signatures</u> | | 27 |

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

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

| | March 31, 2010 (Unaudited) | December 31, 2009 |
|---|----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,493 | \$ 10,803 |
| Accounts and other receivables, less allowance for doubtful accounts of \$475 in 2010 and \$566 in 2009 | 41,215 | 45,471 |
| Inventories, net | 528 | 557 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 14,166 | 10,590 |
| Prepaid expenses and other current assets | 6,280 | 6,692 |
| Total current assets | 75,682 | 74,113 |
| Property, plant and equipment | 11,423 | 11,402 |
| Accumulated depreciation | (8,623) | (8,281) |
| Property, plant and equipment, net | 2,800 | 3,121 |
| Goodwill | 66,962 | 67,283 |
| Intangible assets, net | 9,637 | 10,248 |
| Other assets | 1,955 | 1,936 |
| | \$ 157,036 | \$ 156,701 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 22,962 | \$ 23,464 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 13,573 | 13,272 |
| Total current liabilities | 36,535 | 36,736 |
| Other noncurrent liabilities | 7,553 | 9,075 |
| Total liabilities | 44,088 | 45,811 |
| Stockholders equity: | | |
| Common stock, par value \$0.01 per share | 186 | 186 |
| Additional paid-in capital | 162,310 | 161,975 |
| Accumulated deficit | (47,154) | (49,325) |
| Treasury stock at cost | (30) | |
| Accumulated other comprehensive loss | (2,364) | (1,946) |
| Total stockholders equity | 112,948 | 110,890 |
| | \$ 157,036 | \$ 156,701 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

| | Three months ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2010 | 2009 |
| Revenue | \$ 56,890 | \$ 53,591 |
| Cost of revenue | 48,706 | 46,102 |
| Gross profit | 8,184 | 7,489 |
| Selling, general and administrative expenses | 5,443 | 5,031 |
| Gain on change in fair value of contingent consideration | 905 | |
| Operating income | 3,646 | 2,458 |
| Interest expense | 50 | 55 |
| Other income | 142 | 151 |
| Income before income tax expense | 3,738 | 2,554 |
| Income tax expense | 1,567 | 1,095 |
| Net income | \$ 2,171 | \$ 1,459 |
| Basic weighted average shares outstanding | 18,598 | 16,056 |
| Diluted weighted average shares outstanding | 18,714 | 16,074 |
| Per common share data: | | |
| Basic earnings per share | \$ 0.12 | \$ 0.09 |
| Diluted earnings per share | \$ 0.12 | \$ 0.09 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Statements of Cash Flows

Three months ended March 31, 2010 and 2009

(Unaudited, in thousands)

| | 2010 | 2009 |
|---|-----------|----------|
| Cash flows from operating activities: | | |
| Net income | \$ 2,171 | \$ 1,459 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on change in fair value of contingent consideration | (905) | |
| Depreciation and amortization | 1,117 | 807 |
| Deferred income taxes | 358 | 175 |
| Non-cash compensation expense | 434 | 540 |
| Changes in other operating items: | | |
| Accounts and other receivables | 4,256 | 3,134 |
| Inventories | 29 | 55 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (3,576) | (266) |
| Prepaid expenses and other current assets | 373 | (981) |
| Accounts payable and accrued expenses | (890) | (512) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 301 | 2,207 |
| Other | 79 | 37 |
| Net cash provided by operating activities | 3,747 | 6,655 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (209) | (231) |
| Deferred acquisition costs | (500) | (500) |
| Net cash used in investing activities | (709) | (731) |
| Cash flows from financing activities: | | |
| Net repayment of short-term borrowings | | (3,234) |
| Repurchases of common stock in the open market | (29) | (876) |
| Change in negative cash book balances | | (595) |
| Other | (117) | (95) |
| Net cash used in financing activities | (146) | (4,800) |
| Effect of exchange rate changes on cash and cash equivalents | (202) | (133) |
| Net increase in cash and cash equivalents | 2,690 | 991 |
| Cash and cash equivalents at beginning of period | 10,803 | 3,961 |
| Cash and cash equivalents at end of period | \$ 13,493 | \$ 4,952 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2010

(Unaudited)

(1) Basis of Presentation

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

GP Strategies Corporation (the Company) was incorporated in Delaware in 1959. The Company's business consists of its training, engineering, technical services 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, management consulting, e-Learning solutions, engineering and technical services that are customized to meet the specific needs of clients.

The accompanying condensed consolidated balance sheet as of March 31, 2010 and the condensed consolidated statements of operations and cash flows for the three months ended March 31, 2010 and 2009 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, 2009, as presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. 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 2010 interim period are not necessarily indicative of results to be expected for the entire year. Certain prior year amounts have been reclassified to conform to current year presentation.

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

(2) Significant Customers & Concentration of Credit Risk

The Company has a concentration of revenue from General Motors Corporation and its affiliates (General Motors) as well as a market concentration in the automotive sector. For the three months ended March 31, 2010 and 2009, revenue from General Motors accounted for approximately 12% and 20%, respectively, of the Company's consolidated revenue, and revenue from the automotive industry accounted for approximately 18% and 25%, respectively, of the Company's consolidated revenue. As of March 31, 2010, accounts receivable from General Motors totaled \$4,301,000. No other customer accounted for more than 10% of the Company's revenue in the first quarter of 2010 or accounts receivable as of March 31, 2010.

The Company also has a concentration of revenue from the United States government. For the three months ended March 31, 2010 and 2009, sales to the United States government and its agencies represented approximately 23% and 21%, respectively, of the Company's consolidated revenue. Revenue was derived from many separate contracts with a variety of government agencies that are regarded by the Company as separate customers.

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

March 31, 2010
(Unaudited)

(3) **Earnings Per Share**

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding during the period. 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, restricted 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 March 31, | |
|-----------------------------------|---------------------------------|-------|
| | 2010 | 2009 |
| | (In thousands) | |
| Non-dilutive instruments | 1,237 | 1,299 |
| Dilutive common stock equivalents | 116 | 18 |

(4) Acquisition-Related Contingent Consideration

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

Effective January 1, 2009, the Company adopted ASC Topic 805, *Business Combinations* (Topic 805), which requires that contingent consideration be recognized at fair value on the acquisition date, and re-measured each reporting period with subsequent adjustments recognized in the consolidated statement of operations. The Company estimates the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. The Company believes its estimates and assumptions are reasonable, however, there is significant judgment involved. At each reporting date, the contingent consideration obligation will be revalued to estimated fair value and changes in fair value subsequent to the acquisitions will be reflected in income or expense in the consolidated statements of operations, and could cause a material impact to, and volatility in, the Company's operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

March 31, 2010
(Unaudited)

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

Below is a summary of the potential additional contingent consideration the Company may be required to pay in connection with acquisitions it has previously completed (dollars in thousands):

| Acquisition: | Potential maximum contingent consideration due in | | | Total |
|--------------------------------|---|-----------------|-----------------|------------------|
| | 2010 | 2011 | 2012 | |
| Milsom * | \$ 1,130 | \$ 1,130 | \$ 1,130 | \$ 3,390 |
| Option Six * | | 1,000 | 1,000 | 2,000 |
| PerformTech * | | 2,500 | 2,000 | 4,500 |
| Other (2008 GPUK acquisitions) | 226 | 490 | 580 | 1,296 |
| Total | \$ 1,356 | \$ 5,120 | \$ 4,710 | \$ 11,186 |

* As of March 31, 2010, the Company had accrued contingent consideration of \$2,097,000 for Milsom, \$827,000 for Option Six, and \$1,053,000 for PerformTech for the estimated fair value of contingent consideration payable.

Below is a summary of the three acquisitions completed during 2009 and the changes in fair value of contingent consideration during the three months ended March 31, 2010.

PerformTech, Inc.

Effective December 30, 2009, General Physics acquired PerformTech, Inc. (PerformTech) a provider of custom courseware development and other training services primarily for the U.S. Government. General Physics acquired 100% ownership of PerformTech for a purchase price of approximately \$18,074,000 in cash, subject to a post-closing adjustment based on final actual working capital as defined in the purchase agreement. In addition, the purchase agreement requires up to an additional \$4,500,000 to be paid to the sellers, contingent upon the achievement of certain revenue targets, as defined in the purchase agreement, during the two twelve-month periods following the completion of the acquisition. PerformTech is included in the Manufacturing & BPO segment and the results of its operations have been included in the consolidated financial statements for the period beginning January 1, 2010. The balance sheet accounts of PerformTech are reflected in the consolidated balance sheet as of December 31, 2009.

As of December 31, 2009, the Company accrued \$1,794,000 of contingent consideration based on its estimate of the fair value of contingent consideration on the acquisition date, which was determined using a probability-weighted income approach and discounted to present value using a weighted-average cost of capital. As of March 31, 2010, the Company determined that the fair value of the contingent consideration was \$1,053,000 based on actual results and other factors which occurred during the first quarter of 2010 which resulted in a reduction in the estimated probabilities of PerformTech achieving certain revenue targets. The reduction in fair value of the contingent consideration resulted in a pre-tax gain of \$741,000 which is reflected in the consolidated statement of operations for the three months ended March 31, 2010. The Company will re-evaluate the recorded amount of contingent consideration on a quarterly basis and any subsequent adjustments based on actual payments or revised estimates will be recognized in the consolidated statements of operations during the period of adjustment.

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

March 31, 2010
(Unaudited)

Option Six

Effective December 1, 2009, General Physics acquired Option Six, Inc. (Option Six), a provider of custom courseware development services with expertise in the software and pharmaceutical industries. General Physics acquired 100% ownership of Option Six for a purchase price of approximately \$4,093,000 in cash, which was subsequently increased by a post-closing adjustment of \$11,000 based on the final actual net assets as defined in the purchase agreement. In addition, the purchase agreement requires up to an additional \$2,000,000 to be paid to the sellers, contingent upon the achievement of certain earnings targets, as defined in the purchase agreement, during the two twelve-month periods following the completion of the acquisition. Option Six is included in the Manufacturing & BPO segment and the results of its operations have been included in the consolidated financial statements since December 1, 2009.

As of December 31, 2009, the Company accrued \$827,000 of contingent consideration based on its estimate of the fair value of contingent consideration on the acquisition date, which was determined using a probability-weighted income approach and discounted to present value using a weighted-average cost of capital. The Company determined that no events occurred that would indicate that any of the assumptions used in the fair value estimate of the contingent consideration should be changed as of March 31, 2010 and therefore, no adjustment to the accrued contingent consideration was made during the first quarter of 2010. The Company will re-evaluate the recorded amount of contingent consideration on a quarterly basis and any subsequent adjustments based on actual payments or revised estimates will be recognized in the consolidated statements of operations during the period of adjustment.

Milsom

Effective September 1, 2009, General Physics, through its wholly owned subsidiary, General Physics (UK) Ltd. (GPUK), completed the acquisition of Milsom Industrial Designs Limited (Milsom), a provider of technical documentation, technical publications, technical recruiting and engineering design services in the United Kingdom. GPUK acquired 100% ownership of Milsom for a purchase price of approximately \$2,763,000 in cash, subsequently reduced by a \$219,000 post-closing adjustment based on the final net asset amount set forth in the purchase agreement. In addition, the purchase agreement requires GPUK to pay up to an additional \$3,400,000, of which approximately \$1,130,000 would be payable subsequent to each of the three twelve-month periods following completion of the acquisition, contingent upon Milsom achieving certain earnings targets during those periods, as defined in the purchase agreement. Milsom is included in the Company's Manufacturing & BPO segment and its results of operations have been included in the consolidated financial statements since September 1, 2009.

The Company accrued \$2,437,000 of contingent consideration based on its estimate of the fair value of contingent consideration on the acquisition date, which was determined using a probability-weighted income approach and discounted to present value using a weighted-average cost of capital. As of March 31, 2010, the Company determined that the fair value of the contingent consideration was \$2,097,000 based on Milsom's actual results for the first seven months subsequent to the acquisition and other factors which became known in the first quarter of 2010 which resulted in a reduction in the estimated probabilities of Milsom achieving certain earnings targets. The reduction in the fair value of the contingent consideration resulted in a pre-tax gain of \$164,000 which is reflected in the consolidated statement of

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

March 31, 2010
(Unaudited)

operations for the three months ended March 31, 2010. The Company will re-evaluate the recorded amount of contingent consideration on a quarterly basis and any subsequent adjustments based on actual payments or revised estimates will be recognized in the consolidated statements of operations during the period of adjustment.

(5) **Intangible Assets**

Goodwill

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

Changes in the carrying amount of goodwill by reportable business segment for the three months ended March 31, 2010 were as follows (in thousands):

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

| | Manufacturing & BPO | Process & Government | Energy | Sandy | Total |
|--|------------------------|-------------------------|-----------------|-----------|------------------|
| Net book value at Jan. 1, 2010 | | | | | |
| Goodwill | \$ 54,495 | \$ 14,527 | \$ 8,170 | \$ 5,508 | \$ 82,700 |
| Accumulated impairment losses | (9,909) | | | (5,508) | (15,417) |
| Total | 44,586 | 14,527 | 8,170 | | 67,283 |
| Foreign currency translation | (321) | | | | (321) |
| Net book value at Mar. 31, 2010 | | | | | |
| Goodwill | 54,174 | 14,527 | 8,170 | 5,508 | 82,379 |
| Accumulated impairment losses | (9,909) | | | (5,508) | (15,417) |
| Total | \$ 44,265 | \$ 14,527 | \$ 8,170 | \$ | \$ 66,962 |

Intangible Assets Subject to Amortization

Intangible assets with finite lives are subject to amortization over their estimated useful lives. The primary assets included in this category and their respective balances were as follows (in thousands):

| | March 31, 2010 | | December 31, 2009 | |
|------------------------|-----------------|-----------------------------|-------------------|-----------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Customer relationships | \$ 11,103 | \$ (2,613) | \$ 11,176 | \$ (2,225) |
| Contract backlog | 1,670 | (1,527) | 1,690 | (1,479) |
| Non-compete agreements | 250 | (250) | 250 | (250) |
| Software and other | 1,601 | (597) | 1,609 | (523) |
| | \$ 14,624 | \$ (4,987) | \$ 14,725 | \$ (4,477) |

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

March 31, 2010
(Unaudited)

(6) Stock-Based Compensation

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

The Company recognizes compensation expense for its stock-based compensation awards issued to employees that are expected to vest. Compensation cost is based on the fair value of awards as of the grant date.

The following table summarizes the pre-tax stock-based compensation expense included in reported net income (in thousands):

| | Three months ended March 31, | |
|--|------------------------------|--------|
| | 2010 | 2009 |
| Non-qualified stock options | \$ 168 | \$ 117 |
| Restricted stock units | 198 | 190 |
| Board of Director stock grants | 68 | 34 |
| Total stock-based compensation expense | \$ 434 | \$ 341 |

Pursuant to the Company's 1973 Non-Qualified Stock Option Plan, as amended, and 2003 Incentive Stock Plan, the Company may grant awards of non-qualified stock options, incentive stock options, restricted stock, stock units, performance shares, performance units and other incentives payable in cash or in shares of the Company's common stock to officers, employees or members of the Board of Directors. As of March 31, 2010, the Company had non-qualified stock options and restricted stock units outstanding under these plans as discussed below.

Table of Contents**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

March 31, 2010

(Unaudited)

Non-Qualified Stock Options

Summarized information for the Company's non-qualified stock options is as follows:

| Stock Options | Number of options | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|----------------------------------|------------------------------|--|--|--|
| Outstanding at December 31, 2009 | 933,011 | \$ 10.40 | | |
| Granted | 460,000 | 7.42 | | |
| Exercised/settled | (29,941) | 4.29 | | |
| Forfeited | (734) | 9.66 | | |
| Expired | (8,400) | 4.26 | | |
| Outstanding at March 31, 2010 | 1,353,936 | \$ 9.56 | 4.05 | \$ 663,000 |
| Stock options expected to vest | 1,197,880 | \$ 9.57 | 4.01 | \$ 598,000 |
| Exercisable at March 31, 2010 | 264,215 | \$ 9.68 | 2.98 | \$ 230,000 |

In January 2010, the Company granted 460,000 non-qualified stock options to certain key management personnel. The options have a weighted average exercise price of \$7.42, vest 20% annually over five years, and have a contractual term of six years. The weighted average per share fair value of the Company's stock options granted during the first quarter of 2010 was \$3.11 on the date of grant using the Black-Scholes Merton option pricing model with the following assumptions:

| | |
|---------------------------------|------------|
| Expected term | 4.62 years |
| Expected stock price volatility | 47.4% |
| Risk-free interest rate | 2.23% |
| Expected dividend yield | % |

Restricted Stock Units

In addition to stock options, the Company issues restricted stock units to key employees and members of the Board of Directors based on meeting certain service goals. The stock units vest to the recipients at various dates, up to five years, based on fulfilling service requirements. The Company recognizes the value of the market price of the underlying stock on the date of grant as compensation expense over the requisite service period. Upon vesting, the stock units are settled in shares of the Company's common stock. Summarized share information for the Company's restricted stock units is as follows:

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2010

(Unaudited)

| | Three months ended March 31, 2010 (In shares) | Weighted average grant date fair value (In dollars) |
|---|--|--|
| Outstanding and unvested, beginning of period | 314,406 | \$ 6.52 |
| Granted | | |
| Vested | (19,125) | 9.00 |
| Forfeited | (1,824) | 7.93 |
| Outstanding and unvested, end of period | 293,457 | \$ 6.35 |
| Restricted stock units expected to vest | 249,952 | \$ 6.49 |

(7) **Short-Term Borrowings**

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

General Physics has a \$35 million Financing and Security Agreement (the Credit Agreement) with a bank that expires on October 31, 2010 with annual renewal options. The Credit Agreement is secured by certain assets of General Physics and provides for an unsecured guaranty from the Company. The maximum interest rate on the Credit Agreement is the daily LIBOR market index rate plus 2.25%. Based upon the financial performance of General Physics, the interest rate can be reduced. For the three months ended March 31, 2010, the rate was LIBOR plus 1.25%. The Credit Agreement contains covenants with respect to General Physics' minimum tangible net worth, total liabilities ratio, leverage ratio, interest coverage ratio and its ability to make capital expenditures. General Physics was in compliance with all loan covenants under the Credit Agreement as of March 31, 2010. The Credit Agreement also contains certain restrictive covenants regarding future acquisitions, incurrence of debt and the payment of dividends. The Credit Agreement permits General Physics to provide the Company up to \$10,000,000 of cash to repurchase shares of its outstanding common stock in the open market. There was \$6,832,000 remaining available for future share repurchases under the \$10,000,000 authorized amount as March 31, 2010. General Physics is otherwise currently restricted from paying dividends or management fees to the Company in excess of \$1,000,000 in any year.

As of March 31, 2010, there were no borrowings outstanding and \$27,110,000 of available borrowings under the Credit Agreement, based upon 80% of eligible accounts receivable and 80% of eligible unbilled receivables.

(8) Income Taxes

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

An uncertain tax position taken or expected to be taken in a tax return is recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities that have full knowledge of all relevant information. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Interest and penalties related to income taxes are accounted for as income tax expense.

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2010

(Unaudited)

As of March 31, 2010, the Company had \$2,218,000 of unrecognized tax benefits, all of which would impact the effective tax rate if recognized. The Company does not expect any material changes to its uncertain tax positions in the next twelve months. For the three months ended March 31, 2010 and 2009, the Company recognized \$23,000 and \$5,000, respectively, of interest expense related to these tax positions which is reflected as income tax expense in the consolidated statements of operations. As of March 31, 2010, the Company had \$96,000 of accrued interest related to these tax positions. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examination by tax authorities for years prior to 2004.

(9) Stockholders Equity

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

Changes in stockholders' equity during the three months ended March 31, 2010 were as follows (in thousands):

| | Common stock | Additional paid-in capital | Accumulated deficit | Treasury stock at cost | Accumulated other comprehensive loss | Total stockholders equity |
|---------------------------------|-----------------|----------------------------------|------------------------|------------------------------|---|---------------------------------|
| Balance at December 31, 2009 | \$ 186 | \$ 161,975 | \$ (49,325) | \$ | \$ (1,946) | \$ 110,890 |
| Net income | | | 2,171 | | | 2,171 |
| Other comprehensive loss | | | | | (418) | (418) |
| Repurchases of common stock | | | | (29) | | (29) |
| Stock-based compensation | | 434 | | | | 434 |
| Other | | (99) | | (1) | | (100) |
| Balance at March 31, 2010 | \$ 186 | \$ 162,310 | \$ (47,154) | \$ (30) | \$ (2,364) | \$ 112,948 |

(10) **Comprehensive Income**

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

The following are the components of comprehensive income (in thousands):

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

| | Three months ended | | | |
|---|--------------------|-------|------|-------|
| | March 31, | | | |
| | 2010 | | 2009 | |
| Net income | \$ | 2,171 | \$ | 1,459 |
| Other comprehensive loss - foreign currency translation | | (418) | | (316) |
| Comprehensive income | \$ | 1,753 | \$ | 1,143 |

As of March 31, 2010 and December 31, 2009, accumulated other comprehensive loss was \$2,364,000 and \$1,946,000, respectively, and consisted of foreign currency translation adjustments.

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2010

(Unaudited)

(11) **Business Segments**

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

As of March 31, 2010, the Company operated through four reportable business segments: (i) Manufacturing & Business Process Outsourcing (BPO), (ii) Process & Government, (iii) Energy and (iv) Sandy Training & Marketing. The Company is organized by operating group primarily based upon the markets served by each group and the services performed. Two of the Company's reportable business segments, Manufacturing & BPO and Process & Government, represent an aggregation of certain operating groups in accordance with the aggregation criteria as defined in current GAAP, while the Energy and Sandy groups each represent one operating segment. During the first quarter of 2010, the Company transferred the management responsibility for one of its business units from the Process & Government segment to the Manufacturing & BPO segment. The Company has reclassified the segment information below for the prior year interim period to reflect this change and conform to the current period's presentation.

Further information regarding our business segments is discussed below.

Manufacturing & BPO. The Manufacturing & BPO segment delivers training, curriculum design and development, staff augmentation, e-Learning services, system hosting, integration and help desk support, training business process outsourcing, and consulting and technical services primarily to large companies in the electronics and semiconductors, steel, healthcare, pharmaceutical, software, financial and other industries as well as to government agencies. This segment's ability to deliver a wide range of training services allows it to take over the entire learning function for the client, including their training personnel.

Process & Government. The Process & Government segment has over four decades of experience providing consulting, engineering, technical and training services, including emergency preparedness, safety and regulatory compliance, chemical demilitarization and environmental services primarily to federal and state government agencies, large government contractors, and petroleum and chemical refining companies. This segment also provides design and construction of alternative fuel stations, including liquefied natural gas (LNG) and hydrogen fueling stations.

Energy. The Energy segment provides engineering services, products and training primarily to electric power utilities. The Company's proprietary EtaPro™ Performance Monitoring and Optimization System provides a suite of performance solutions for power generation plants and is installed at approximately 700 power generating units in over 25 countries. In addition, this segment provides web-based training through our GPiLearn™ portal to over 28,000 power plant personnel in the U.S. and in over 35 countries.

Sandy Training and Marketing. The Sandy segment provides custom product sales training and has been a leader in serving manufacturing customers in the U.S. automotive industry for over 30 years. Sandy provides custom product sales training designed to better educate customer sales forces with respect to new product features and designs, in effect rapidly increasing the sales force knowledge base and enabling them to address detailed customer queries. Furthermore, Sandy helps our clients assess their customer relationship marketing strategy, measure performance against competitors and connect with their customers on a one-to-one basis. This segment also provides technical training services to automotive customers.

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2010

(Unaudited)

The Company does not allocate the following corporate items to the segments: other income and interest expense; GP Strategies' selling, general and administrative expense; gain on change in fair value of contingent consideration; and income tax expense. Inter-segment revenue is eliminated in consolidation and is not significant.

The following tables set forth the revenue and operating income of each of the Company's operating segments and includes a reconciliation of segment revenue to consolidated revenue and operating income to consolidated income before income tax expense (in thousands):

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

| | Three months ended | |
|--|--------------------|----------------|
| | 2010 | March 31, 2009 |
| Revenue: | | |
| Manufacturing & BPO | \$ 30,893 | \$ 22,331 |
| Process & Government | 10,594 | 12,673 |
| Energy | 5,432 | 5,749 |
| Sandy Training & Marketing | 9,971 | 12,838 |
| | \$ 56,890 | \$ 53,591 |
| Operating income: | | |
| Manufacturing & BPO | \$ 1,579 | \$ 591 |
| Process & Government | 713 | 895 |
| Energy | 730 | 815 |
| Sandy Training & Marketing | 78 | 614 |
| Corporate and other | (359) | (457) |
| Gain on change in fair value of contingent consideration | 905 | |
| Operating income | 3,646 | 2,458 |
| Interest expense | (50) | (55) |
| Other income | 142 | 151 |
| Income before income tax expense | \$ 3,738 | \$ 2,554 |

Table of Contents

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2010

(Unaudited)

(12) Guarantees

Subsequent to the spin-off of National Patent Development Corporation (NPDC) in 2004, the Company continued to guarantee certain operating leases for the Connecticut and New Jersey warehouses of Five Star Products, Inc. (Five Star). In connection with the spin-off of NPDC by the Company, NPDC agreed to assume the Company's obligation under such guarantees, to use commercially reasonable efforts to cause the Company to be released from each such guaranty, and to hold the Company harmless from all claims, expenses and liabilities connected with the leases or NPDC's breach of any agreements effecting the spin-off. In 2009, the Company received confirmation from the landlord that it was released from the guarantee on the Connecticut warehouse lease. The Company has not received confirmation that it has been released from the guarantee of the New Jersey warehouse. The annual rent obligation for the New Jersey warehouse is currently believed to be approximately \$1,500,000. The Company does not expect to incur any material payments associated with this guarantee, and as such, no liability is reflected in the consolidated balance sheets.

(13) Subsequent Event

On April 1, 2010, General Physics, through its wholly owned subsidiary, General Physics (UK) Ltd. (GPUK) completed the acquisition of Marton House PLC (Marton House), a provider of custom e-Learning content development with expertise in leadership and product sales training. GPUK acquired 100% ownership of Marton House for a purchase price of approximately \$2,400,000 in cash at closing. In addition, the purchase agreement requires GPUK to pay up to an additional \$3,600,000, of which \$1,200,000 would be payable subsequent to each of the three twelve-month periods following completion of the acquisition, contingent upon Marton House achieving certain earnings targets during those periods, as defined in the purchase agreement. Marton House will be included in the Manufacturing & BPO segment and the results of its operations will be included in the consolidated financial statements beginning April 1, 2010.

Table of Contents

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

Results of Operations

General Overview

Our business consists of our principal operating subsidiary, General Physics, a global training, engineering, technical services and consulting company that seeks to improve the effectiveness of organizations by providing training, management consulting, e-Learning solutions, engineering and technical services and products that are customized to meet the specific needs of clients. Clients include Fortune 500 companies and manufacturing, process and energy companies and other commercial and governmental customers. We believe we are a global leader in performance improvement, with over four decades of experience in providing solutions to optimize workforce performance.

As of March 31, 2010, we operated through four reportable business segments: (i) Manufacturing & BPO, (ii) Process & Government, (iii) Energy, and (iv) Sandy Training & Marketing. We are organized by operating group, primarily based upon the markets served by each group and the services performed. Each operating group consists of strategic business units (SBUs) and business units (BUs) which are focused on providing specific products and services to certain classes of customers or within targeted markets. Across operating groups, SBUs and BUs, we integrate similar service lines, technology, information, work products, client management and other resources. Communications and market research, accounting, finance, legal, human resources, information systems and other administrative services are organized at the corporate level. Business development and sales resources are aligned with operating groups to support existing customer accounts and new customer development. Two of our reportable business segments, Manufacturing & BPO and Process & Government, represent an aggregation of certain operating groups in accordance with the aggregation criteria as defined in current GAAP, while our Energy and Sandy groups each represent one operating segment. During the first quarter of 2010, we transferred the management responsibility for one of our business units from the Process & Government segment to the Manufacturing & BPO segment. We reclassified the segment information below for the prior year interim period to reflect this change and conform to the current period's presentation. We review our reportable business segments on a continual basis and could change our reportable business segments from time to time in the event of organizational changes.

Further information regarding each business segment is discussed below.

Manufacturing & BPO. Our Manufacturing & BPO segment delivers training, curriculum design and development, staff augmentation, e-Learning services, system hosting, integration and help desk support, training business process outsourcing, and consulting and technical services primarily to large companies in the electronics and semiconductors, steel, healthcare, pharmaceutical, software, financial and other industries as well as to government agencies. Our ability to deliver a wide range of training services allows us to take over the entire learning function for the client, including their training personnel.

Process & Government. Our Process & Government segment has over four decades of experience providing consulting, engineering, technical and training services, including emergency preparedness, safety and regulatory compliance, chemical demilitarization and environmental services primarily to federal and state government agencies, large government contractors and petroleum and chemical refining companies. This segment also provides design and construction of alternative fuel stations, including LNG and hydrogen fueling stations.

Energy. Our Energy segment provides engineering services, products and training primarily to electric power utilities. Our proprietary EtaPro™ Performance Monitoring and Optimization System provides a suite of

Table of Contents

performance solutions for power generation plants and is installed at approximately 700 power generating units in over 25 countries. In addition, this segment provides web-based training through our GPiLearn™ portal to over 28,000 power plant personnel in the U.S. and in over 35 countries.

Sandy Training & Marketing. Our Sandy segment provides custom product sales training and has been a leader in serving manufacturing customers in the U.S. automotive industry for over 30 years. Sandy provides custom product sales training designed to better educate customer sales forces with respect to new product features and designs, in effect rapidly increasing the sales force knowledge base and enabling them to address detailed customer queries. Furthermore, Sandy helps our clients assess their customer relationship marketing strategy, measure performance against competitors and connect with their customers on a one-to-one basis. This segment also provides technical training services to automotive customers.

Share Repurchase Program

Since January 2006, our Board of Directors has authorized a total of \$23 million of repurchases of our common stock from time to time in the open market, subject to prevailing business and market conditions and other factors. During the years ended December 31, 2009, 2008, 2007 and 2006, we repurchased approximately 526,000, 1,091,000, 678,500 and 420,000 shares, respectively, of our common stock in the open market for a total cost of approximately \$2.2 million, \$8.8 million, \$6.5 million and \$3.1 million, respectively. During the three months ended March 31, 2010, we repurchased approximately 3,500 shares of our common stock in the open market. As of March 31, 2010, there was approximately \$2.4 million available for future repurchases under the buyback program. There is no expiration date for the repurchase program.

Operating Highlights

Three Months ended March 31, 2010 compared to the Three Months ended March 31, 2009

For the three months ended March 31, 2010, we had income before income tax expense of \$3.7 million compared to \$2.6 million for the three months ended March 31, 2009. The increase was primarily due to a \$0.9 million gain on the change in estimated fair value of contingent consideration during the first quarter of 2010 related to acquisitions completed in 2009, which is discussed further below and in Note 4 to the Condensed Consolidated Financial Statements. In addition, excluding the gain on change in fair value of contingent consideration, operating income increased \$0.3 million, the components of which are discussed below. Net income was \$2.2 million, or \$0.12 per diluted share, for the three months ended March 31, 2010, compared to net income of \$1.5 million, or \$0.09 per diluted share, for the three months ended March 31, 2009. During the three months ended March 31, 2010, diluted weighted average shares outstanding increased by 2,640,000 to 18,714,000 shares outstanding compared to 16,074,000 shares for the same period in 2009, primarily due to the equity investment by Sagard Capital Partners, L.P. in December 2009. The increase in shares outstanding resulted in a decrease in diluted earnings per share of \$0.02 per share for the first quarter of 2010 compared to the first quarter of 2009.

Table of Contents*Revenue*

| (Dollars in thousands) | Three months ended | |
|----------------------------|--------------------|-------------------|
| | 2010 | March 31, 2009 |
| Manufacturing & BPO | \$ 30,893 | \$ 22,331 |
| Process & Government | 10,594 | 12,673 |
| Energy | 5,432 | 5,749 |
| Sandy Training & Marketing | 9,971 | 12,838 |
| | \$ 56,890 | \$ 53,591 |

Manufacturing & BPO revenue increased \$8.6 million or 38.3% during the first quarter of 2010 compared to the first quarter of 2009. The increase in revenue is due to the following:

- \$6.8 million increase in revenue attributable to acquisitions completed during 2009, which includes \$3.0 million for Milsom, \$1.2 million for Option Six and \$2.6 million for PerformTech;
- \$1.5 million net increase in e-Learning and BPO revenue primarily due to a new content development contract awarded by a global software client during 2009; and
- \$0.6 million net increase in revenue from our UK operations, excluding the increase attributable to the Milsom acquisition, which was due in part to an increase in exchange rates during the first quarter of 2010 compared to the first quarter of 2009, and was offset by a net decrease of \$0.3 million in U.S. technical training services.

Process & Government revenue decreased \$2.1 million or 16.4% during the first quarter of 2010 compared to the first quarter of 2009. The decrease in revenue is due to the following:

- \$1.2 million net decrease relating to construction projects for liquefied natural gas (LNG) fueling station facilities due to the completion of a large project in 2009; and
- \$0.9 million net decrease in revenue from various government contracts primarily related to homeland security / first responder training services, environmental engineering and other technical services, largely due to contract completions during 2009.

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

Energy group revenue decreased \$0.3 million or 5.5% during the first quarter of 2010 compared to the first quarter of 2009 primarily due to the completion of two performance monitoring projects during 2009.

Sandy Training & Marketing revenue decreased \$2.9 million or 22.3% during the first quarter of 2010 compared to the first quarter of 2009. The \$2.9 million revenue decrease consisted of the following:

- \$2.3 million decrease in publication revenue due to the delay in shipment of a publication until the second quarter of 2010, whereas the comparable 2009 publication was shipped during the first quarter of 2009. In addition, 2010 publication revenue is expected to be at a reduced volume due to the elimination of a vehicle brand and a reduction in dealerships compared to the 2009 publication volume. We experience quarterly fluctuations in revenue and income related to Sandy's publications business, since revenue and cost on publication contracts are recognized in the period in which the publications ship,

Table of Contents

based on the output method of performance. Shipments occur at various times throughout the year and the volume of publications shipped could fluctuate from quarter to quarter. Publications revenue in the Sandy Training & Marketing segment totaled \$0.7 million during the first quarter of 2010 compared to \$3.0 million during the first quarter of 2009; and

- \$2.0 million net decrease in revenue from product sales trainer programs primarily due to a reduction in the number of trainers required and a reduction in related in-dealership training programs.

The above revenue decreases in the Sandy segment were offset by net revenue increases of \$1.4 million, primarily due to an increase in training services for new vehicle launch programs for various automotive customers and an increase in glovebox portfolio revenue.

Gross Profit

| (Dollars in thousands) | 2010 | | Three months ended March 31, | | 2009 | |
|----------------------------|----------|-----------|---------------------------------|-----------|------|-----------|
| | | % Revenue | | % Revenue | | % Revenue |
| Manufacturing & BPO | \$ 4,355 | 14.1% | \$ 2,475 | 11.1% | | |
| Process & Government | 1,587 | 15.0% | 1,932 | 15.2% | | |
| Energy | 1,199 | 22.1% | 1,309 | 22.8% | | |
| Sandy Training & Marketing | 1,043 | 10.5% | 1,773 | 13.8% | | |
| | \$ 8,184 | 14.4% | \$ 7,489 | 14.0% | | |

Manufacturing & BPO gross profit of \$4.4 million or 14.1% of revenue for the first quarter of 2010 increased by \$1.9 million or 76.0% when compared to gross profit of \$2.5 million or 11.1% of revenue for the first quarter of 2009. Approximately \$0.9 million of the increase in gross profit dollars is attributable to the acquisitions we completed in 2009. In addition, our U.S. BPO operations and international operations experienced increases in gross profit and improved margins as a percentage of revenue primarily due to revenue increases in 2010 and staff and other cost reductions in 2009.

Process & Government gross profit of \$1.6 million or 15.0% of revenue for the first quarter of 2010 decreased by \$0.3 million or 17.9% when compared to gross profit of \$1.9 million or 15.2% of revenue for the first quarter of 2009 primarily due to the revenue decreases discussed above.

Energy group gross profit of \$1.2 million or 22.1% of revenue for the first quarter of 2010 decreased by \$0.1 million or 8.4% when compared to gross profit of \$1.3 million or 22.8% of revenue for the first quarter of 2009 primarily due to the revenue decreases discussed above.

Sandy Training and Marketing gross profit of \$1.0 million or 10.5% of revenue for the first quarter of 2010 decreased by \$0.7 million or 41.2% when compared to gross profit of \$1.8 million or 13.8% of revenue for the first quarter of 2009. The decrease in gross profit dollars is primarily due to the revenue decreases discussed above. In addition, gross profit as a percentage of revenue decreased in this segment during the first

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

quarter of 2010 compared to the first quarter of 2009, primarily due to a significant decrease in higher margin publication revenue as a result of the delay in shipment of a publication until the second quarter of 2010, as well as a decrease in profitability in product sales training services due to a lower volume of trainers required while certain costs remained fixed.

Table of Contents

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$0.4 million or 8.2% from \$5.0 million for the first quarter of 2009 to \$5.4 million for the first quarter of 2010. The increase is primarily due to increased amortization expense related to intangible assets acquired and increased labor and benefits expense related to the acquisitions we completed in 2009, as well as transaction costs in connection with the Marton House acquisition we recently completed.

Interest Expense

Interest expense was consistent at \$0.1 million for both the first quarters of 2010 and 2009.

Other Income

Other income was \$0.1 million for the first quarter of 2010 compared to \$0.2 million for the first quarter of 2009 and consisted primarily of income from a joint venture in both years.

Change in Fair Value of Contingent Consideration

We recognized a \$0.9 million gain on the change in fair value of contingent consideration related to acquisitions we completed in 2009. Effective January 1, 2009, we adopted ASC Topic 805, *Business Combinations* (Topic 805), which requires that contingent consideration be recognized at fair value on the acquisition date, and re-measured each reporting period with subsequent adjustments recognized in the consolidated statement of operations. We estimate the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. We believe our estimates and assumptions are reasonable, however, there is significant judgment involved. At each reporting date, the contingent consideration obligation will be revalued to estimated fair value and changes in fair value subsequent to the acquisitions will be reflected in income or expense in the consolidated statements of operations, and could cause a material impact to, and volatility in, our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. See Note 4 to the Condensed Consolidated Financial Statements for a detailed discussion of the three acquisitions completed during 2009 and the changes in fair value of contingent consideration for each acquisition during the three months ended March 31, 2010.

Income Tax Expense

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

Income tax expense was \$1.6 million for the first quarter of 2010 compared to \$1.1 million for the first quarter of 2009. The increase is due to an increase in income before income tax expense for the first quarter of 2010 compared to the first quarter of 2009. The effective income tax rate was 41.9% and 42.9% for the three months ended March 31, 2010 and 2009, respectively. The decrease in the effective income tax rate is primarily due to an increase in projected income before income taxes for 2010 compared to 2009 and a larger portion of our 2010 income expected to be derived from foreign jurisdictions which are taxed at lower rates. Income tax expense for the quarterly periods is based on an estimated annual effective tax rate which includes the federal and state statutory rates, permanent differences, and other items that may have an impact on income tax expense.

Table of Contents*Liquidity and Capital Resources**Working Capital*

For the quarter ended March 31, 2010, our working capital increased \$1.8 million from \$37.4 million at December 31, 2009 to \$39.1 million at March 31, 2010. We believe that cash generated from operations and borrowings available under the General Physics Credit Agreement (\$27.1 million of available borrowings as of March 31, 2010), will be sufficient to fund our working capital and other requirements for at least the next twelve months.

On April 1, 2010, General Physics, through its wholly owned subsidiary, General Physics (UK) Ltd. (GPUK) completed the acquisition of Marton House PLC (Marton House), a provider of custom e-Learning content development with expertise in leadership and product sales training. GPUK acquired 100% ownership of Marton House for a purchase price of approximately \$2.4 million in cash at closing. In addition, the purchase agreement requires GPUK to pay up to an additional \$3.6 million, of which \$1.2 million would be payable subsequent to each of the three twelve-month periods following completion of the acquisition, contingent upon Marton House achieving certain earnings targets during those periods, as defined in the purchase agreement. Marton House will be included in the Manufacturing & BPO segment and the results of its operations will be included in the consolidated financial statements beginning April 1, 2010.

In addition to the payments discussed above, we may be required to pay the following additional contingent consideration in connection with acquisitions we previously completed (dollars in thousands):

| Acquisition: | Potential maximum contingent consideration due in | | | |
|--------------------------------|---|----------|----------|-----------|
| | 2010 | 2011 | 2012 | Total |
| Milsom * | \$ 1,130 | \$ 1,130 | \$ 1,130 | \$ 3,390 |
| Option Six * | | 1,000 | 1,000 | 2,000 |
| PerformTech * | | 2,500 | 2,000 | 4,500 |
| Other (2008 GPUK acquisitions) | 226 | 490 | 580 | 1,296 |
| Total | \$ 1,356 | \$ 5,120 | \$ 4,710 | \$ 11,186 |

* As of March 31, 2010, we had accrued contingent consideration of \$2.1 million for Milsom, \$0.8 million for Option Six, and \$1.1 million for PerformTech for the estimated fair value of contingent consideration payable. In accordance with Topic 805, contingent consideration is recorded at estimated fair value as of the acquisition date (for acquisitions on or after January 1, 2009) and is re-measured each reporting period with any subsequent adjustments recognized in earnings.

Significant Customers & Concentration of Credit Risk

We have a concentration of revenue from General Motors Corporation and its affiliates (General Motors) as well as a market concentration in the automotive sector. For the three months ended March 31, 2010 and 2009, revenue from General Motors accounted for approximately 12% and 20%, respectively, of our consolidated revenue, and revenue from the automotive industry accounted for approximately 18% and 25%.

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

respectively, of our consolidated revenue. As of March 31, 2010, accounts receivable from General Motors totaled \$4.3 million. No other customer accounted for more than 10% of our revenue in the first quarter of 2010 or accounts receivable as of March 31, 2010.

We also have a concentration of revenue from the United States government. For the three months ended March 31, 2010 and 2009, sales to the United States government and its agencies represented approximately

Table of Contents

23% and 21%, respectively, of our consolidated revenue. Revenue was derived from many separate contracts with a variety of government agencies that are regarded by us as separate customers.

Cash Flows

Three months ended March 31, 2010 compared to the Three Months ended March 31, 2009

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

The Company's cash balance increased \$2.7 million from \$10.8 million as of December 31, 2009 to \$13.5 million as of March 31, 2010. The increase in cash and cash equivalents during the first quarter of 2010 resulted from cash provided by operating activities of \$3.7 million, cash used in investing activities of \$0.7 million, cash used in financing activities of \$0.1 million and a \$0.2 million negative effect due to exchange rate changes on cash and cash equivalents.

Cash provided by operating activities was \$3.7 million for the first quarter of 2010 compared to \$6.7 million for the first quarter of 2009. The decrease in cash provided by operating activities compared to the prior year is primarily due to a \$3.6 increase in costs and estimated earnings in excess of billings on uncompleted contracts as of March 31, 2010 compared to December 31, 2009, resulting in a decrease in cash provided by operating activities during the first quarter of 2010 compared to the first quarter of 2009.

Cash used in investing activities was \$0.7 million for both the first quarters of 2010 and 2009 and consisted of \$0.2 million of fixed asset additions and \$0.5 million for deferred acquisition payments to the sellers of Performance Consulting Services, Inc., which was acquired in 2008.

Cash used in financing activities was \$0.1 million for the first quarter of 2010 compared to \$4.8 million for the first quarter of 2009. The decrease in cash used in financing activities is primarily due to the repayment of short-term borrowings of \$3.2 million during the first quarter of 2009 compared to no borrowings or repayments in 2010. In addition, there was a decrease of \$0.8 million of cash used for share repurchases during the first quarter of 2010 compared to the first quarter of 2009, and a \$0.6 million decrease in the change in negative cash book balances during the first quarter of 2009.

Short-term Borrowings

General Physics has a \$35 million Credit Agreement with a bank that expires on October 31, 2010, with annual renewal options, and is secured by certain assets of General Physics. The maximum interest rate on borrowings under the Credit Agreement is at the daily LIBOR Market Index Rate plus 2.25%. Based upon the financial performance of General Physics, the interest rate can be reduced. As of March 31, 2010, the rate was LIBOR plus 1.25%. The Credit Agreement contains covenants with respect to General Physics' minimum tangible net worth, total liabilities ratio, leverage ratio, interest coverage ratio and its ability to make capital expenditures. General Physics was in compliance with all loan covenants under the Credit Agreement as of March 31, 2010. The Credit Agreement also contains certain restrictive covenants regarding future acquisitions, incurrence of debt and the payment of dividends. The Credit Agreement permits General Physics to provide GP Strategies up to \$10 million of cash to repurchase shares of its outstanding common stock in the open market. There was \$6.8 million remaining available for future share repurchases under the \$10 million authorized amount as March 31, 2010. General Physics is otherwise currently restricted from paying dividends or management fees to the Company in excess of \$1.0 million in any year. As of March 31, 2010, there were no borrowings outstanding and \$27.1 million of available borrowings under the Credit Agreement, based upon 80% of eligible accounts receivable and 80% of eligible unbilled receivables.

Table of Contents

Off-Balance Sheet Commitments

Subsequent to the spin-off of National Patent Development Corporation (NPDC) in 2004, we continued to guarantee certain operating leases for the Connecticut and New Jersey warehouses of Five Star Products, Inc. (Five Star). In connection with the spin-off of NPDC, NPDC agreed to assume our obligation under such guarantees, to use commercially reasonable efforts to cause us to be released from each such guaranty, and to hold us harmless from all claims, expenses and liabilities connected with the leases or NPDC 's breach of any agreements effecting the spin-off. In 2009, we received confirmation from the landlord that we were released from the guarantee on the Connecticut warehouse lease. We have not received confirmation that we have been released from the guarantee of the New Jersey warehouse. The annual rent obligation for the New Jersey warehouse is currently believed to be approximately \$1.5 million. We do not expect to incur any material payments associated with these guarantees, and as such, no liability is reflected in the consolidated balance sheets.

Accounting Standards Issued

ASU No. 2009-13 Multiple Deliverable Revenue Arrangements

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition* (ASC Topic 605) - *Multiple-Deliverable Revenue Arrangements*, a consensus of the FASB Emerging Issues Task Force (ASU No. 2009-13). ASU No. 2009-13 amends guidance included within ASC Topic 605-25 to require an entity to use an estimated selling price when vendor specific objective evidence or acceptable third party evidence does not exist for any products or services included in a multiple element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. ASU No. 2009-13 also requires expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying this guidance. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company is currently evaluating the impact of adopting the provisions of ASU No. 2009-13.

Forward-Looking Statements

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward looking statements. Forward looking statements are not statements of historical facts, but rather reflect our current expectations concerning future events and results. We use words such as expects, intends, believes, may, will, should, could, anticipates, estimates, plan, expressions to indicate forward-looking statements, but their absence does not mean a statement is not forward-looking. Because these forward-looking statements are based upon management's expectations and assumptions and are subject to risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including, but not limited to, those factors set forth Item 1A - Risk Factors of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and those other risks and uncertainties detailed in our periodic reports and registration statements filed with the Securities and Exchange Commission. We caution that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. We cannot predict these new risk factors, nor can we assess the effect, if any, of the new risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ from those expressed or implied by these forward-looking statements.

Table of Contents

If any one or more of these expectations and assumptions proves incorrect, actual results will likely differ materially from those contemplated by the forward-looking statements. Even if all of the foregoing assumptions and expectations prove correct, actual results may still differ materially from those expressed in the forward-looking statements as a result of factors we may not anticipate or that may be beyond our control. While we cannot assess the future impact that any of these differences could have on our business, financial condition, results of operations and cash flows or the market price of shares of our common stock, the differences could be significant. We do not undertake to update any forward-looking statements made by us, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company has no material changes to the disclosure on this matter made in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain a comprehensive set of disclosure controls and procedures (as defined in Rules 13a-15(e) and under the Securities Exchange Act of 1934 (Exchange Act)) designed to provide reasonable assurance that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures are effective in providing reasonable assurance of the achievement of the objectives described above.

Internal Control Over Financial Reporting

During the quarter ended March 31, 2010, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The Company has no material changes to the disclosure on this matter made in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

The following table provides information about the Company's share repurchase activity for the three months ended March 31, 2010:

| Month | Issuer Purchases of Equity Securities | | | |
|---------------------|--|------------------------------------|---|--|
| | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced program | Approximate dollar value of shares that may yet be purchased under the program |
| January 1-31, 2010 | | | | |
| February 1-28, 2010 | | | | |
| March 1-31, 2010 | 10,649(1) | \$ 7.78 | 3,500(2) | \$ 2,357,000 |

(1) Includes 7,149 shares surrendered by employees to satisfy tax withholding obligations on restricted stock units which vested during the first quarter of 2010.

(2) Represents shares repurchased in the open market in connection with our share repurchase program under which we may repurchase shares of our common stock from time to time in the open market subject to prevailing business and market conditions and other factors. There is no expiration date for the repurchase program.

Table of Contents

Item 6. Exhibits

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

- 31.1 Certification of Chief Executive Officer of the Company dated May 6, 2010 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 Executive Vice President and Chief Financial Officer of the Company dated May 6, 2010 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 dated May 6, 2010 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

*Filed herewith

Table of Contents

SIGNATURES

Edgar Filing: GP STRATEGIES CORP - Form 10-Q

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

GP STRATEGIES CORPORATION

May 6, 2010

/s/ Scott N. Greenberg
Scott N. Greenberg
Chief Executive Officer

/s/ Sharon Esposito-Mayer
Sharon Esposito-Mayer
Executive Vice President and Chief Financial Officer