GP STRATEGIES CORP
Form 10-K
March 03, 2011
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended December 31, 2010**

**¨ 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**<br>(State of Incorporation) | **13-1926739**<br>(I.R.S. Employer Identification No.) |
| **6095 Marshalee Drive, Suite 300, Elkridge, MD**<br>(Address of principal executive offices) | **21075**<br>(Zip Code) |

**(410) 379-3600**
Registrant s telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

| **Title of Each Class** | **Name of each exchange on which registered:** |
|---|---|
| Common Stock, $.01 par value | New York Stock Exchange, Inc. |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

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 x No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the outstanding shares of the Registrant s Common Stock, par value $.01 per share, held by non-affiliates as of June 30, 2010 was approximately $106,696,000.

The number of shares outstanding of the registrant s Common Stock as of February 28, 2011:

| **Class** | **Outstanding** |
| --- | --- |
| Common Stock, par value $.01 per share | 18,727,247 shares |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its 2011 Annual Meeting of Stockholders are incorporated herein by reference into Part III hereof.

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**Cautionary Statement Regarding Forward-Looking Statements**

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 Exchange Act ). 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, anticip estimates, plans and similar 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 under Item 1A - Risk Factors 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.

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.

**Company Information Available on the Internet**

Our internet address is www.gpworldwide.com. We make available free of charge through our internet site, our annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and any amendment to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the U.S. Securities and Exchange Commission ( SEC ).

**PART I**

**Item 1: Business**

***Introduction***

GP Strategies Corporation ( GP Strategies or the Company ) was incorporated in Delaware in 1959. The Company is a New York Stock Exchange ( NYSE ) listed company traded under the symbol GPX. The Company s business consists of its training, engineering, technical services and consulting business operated by its subsidiary, General Physics Corporation ( General Physics or GP ) which was established in 1966. 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. References in this report to GP Strategies, the Company, we and our are to GP Strategies and its subsidiaries, collectively.

***General Development of Business***

During the first four decades of our existence, we were engaged in a broad array of businesses, ranging from optical plastics to consulting services. In June 2003, we embarked upon a plan to spin off non-core businesses and focus upon training, consulting, engineering and technical services. We completed the spin-off of all of our non-core assets by September 2005. In addition, on January 19, 2006, we completed a restructuring of our capital stock, which had the

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effect of eliminating all outstanding shares of our Class B stock, which had ten votes per share and represented approximately 41% of our aggregate voting power.

We then began building our custom training business through internal growth and the acquisition of several complementary businesses. We expanded our service offerings and geographic reach through the following acquisitions:

- Peters Management Consultancy Ltd. ( PMC ), a performance improvement and sales training company in the United Kingdom (February 2006);
- Sandy Corporation ( Sandy ), a leader in custom product sales training primarily in the U.S. automotive industry and previously part of the ADP Dealer Services division of ADP, Inc. ( ADP ) (January 2007);
- Smallpeice Enterprises Limited ( SEL ), a provider of business improvement and technical and management training services in the United Kingdom (June 2007);
- Via Training, LLC ( Via ), a U.S. custom e-Learning sales training company (October 2007);
- Performance Consulting Services, Inc. ( PCS ), an engineering and training company serving the power generation industry (March 2008);
- Future Perfect Limited ( FPL ), a training and sustainability consulting company (September 2008);
- Milsom Industrial Designs Limited ( Milsom ), a provider of technical documentation, technical publications, technical recruiting and engineering design services in the United Kingdom primarily for the aerospace sector (September 2009);
- Option Six, Inc. ( Option Six ), a provider of e-Learning and custom courseware development services with expertise in the software and pharmaceutical industries (December 2009);
- PerformTech, Inc. ( PerformTech ), a provider of e-Learning, custom courseware development and other training services primarily for the U.S. Government (December 2009);
- Marton House Plc ( Marton House ), a provider of custom e-Learning content development with expertise in leadership and product sales training in the United Kingdom (April 2010);
- Bath Consulting Group ( Bath Consulting ), a niche leadership and organizational development consulting firm in the United Kingdom (November 2010);
- Academy of Training Ltd ( AoT ), an independent training provider in the United Kingdom (December 2010); and
- Communication Consulting, a provider of training services in China (February 2011).

***Company Overview***

We are a leading independent provider of customized training solutions focused on performance improvement initiatives for our clients. We also provide consulting, engineering and technical services which enhance our customized training capabilities and diversify our service offerings. We serve a large customer base across a broad range of industries. We serve leading companies in the automotive, steel, oil and gas, power, chemical, electronics and technology, software, healthcare and food and beverage industries, as well as government agencies. We have over four decades of experience in developing solutions to optimize workforce performance by providing services and products to our clients that assist them in successfully integrating their employees, processes and technology.

Our training services and products support existing, as well as the launch of new, plants, products, equipment, technologies and processes. We offer a wide range of training business process outsourcing ( BPO ) services, including design, delivery and global management of comprehensive learning programs, to national and multinational businesses and government organizations and can deliver our services individually or as a complete, integrated training solution. We have global execution capabilities and currently provide custom training services in more than 40 countries to many industry leaders, such as CIGNA Corporation, Cisco Systems, Eli Lilly, ExxonMobil, General Motors, Microsoft, Ford and United Technologies, as well as to government agencies including the U.S. Army and Office of Personnel Management. Our experience allows us to leverage our expertise across a wide variety of customer end markets ranging from heavy manufacturing such as automotive to the high tech bio-pharmaceutical industry. In 2010, for the seventh consecutive year, Training Industry, Inc., an industry trade organization, selected us as one of the Top 20 Companies in Training Outsourcing from among 500 companies. Also in 2010, Training

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Industry, Inc. selected us as one of the Top Sales Training Companies for the third consecutive year. During 2010, we also won several other industry awards including two prestigious Learning In Practice awards from *Chief Learning Officer* Magazine and two Brandon Hall Excellence in Learning awards and were named a Learning Leader in the Vendor Innovation in Learning and Talent Management categories by Bersin & Associates.

Our consulting, engineering, and technical support services range from traditional business consulting, including lean enterprise consulting services, to specialized engineering and technical support services, such as design and evaluation services regarding facilities, processes and systems. Our consulting and engineering customers typically operate in technically complex industries such as oil and gas, power, chemical, aerospace, transportation and manufacturing industries, and include customers such as Pratt & Whitney, General Dynamics Corporation, Luminant Energy, NRG Energy and Ameren Energy. We have a strong reputation for providing services for leading edge and emerging technologies and believe we are a leader in the rapidly developing field of design and construction of alternative fuel stations, including liquefied natural gas ( LNG ) and hydrogen fueling stations. In addition, our consulting services support regulatory and environmental compliance, modification of facilities and processes and plant performance improvement.

***Operating Segments***

As of December 31, 2010, we operated through four reportable business segments: (i) Manufacturing & BPO, (ii) Process & Government, (iii) Energy, and (iv) Sandy Training & Marketing ( Sandy ). 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. Our Manufacturing & BPO segment represents an aggregation of two operating groups in accordance with the aggregation criteria defined by U.S. generally accepted accounting principles ( GAAP ), and our Process & Government, 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 financial information herein for the prior year to reflect this change and conform to the current period s presentation. 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 and large government contractors. 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 EtaProTM Performance Monitoring and Optimization System provides a suite of performance solutions for power generation plants and is installed at approximately 800 power generating units in over 30 countries. In addition, this segment provides web-based training through our GPiLearnTM portal to over 30,000 power plant personnel in the U.S. and in over 40 countries.

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**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.

Segment Financial Information

For financial information about our business segments and geographic operations and revenue, see Note 13 to the accompanying Consolidated Financial Statements.

***Services and Products***

Our personnel bring a wide variety of professional, technical and military backgrounds together to create cost-effective solutions for modern business and governmental challenges. Our primary service and product categories are discussed in more detail below.

**Custom Training, Sales Training and Performance Improvement**. We provide custom training services and products to support existing, as well as the launch of new, plants, products, equipment, technologies and processes. The range of services includes fundamental analysis of a client s training needs, curriculum design, instructional material development (in hard copy, electronic/software or other format), information technology service support and delivery of training. Training products include custom instructor and student training manuals, and instructional materials suitable for web-based and blended learning solutions. Our instructional delivery capabilities include traditional classroom, structured on-the-job training (OJT), just-in-time methods, computer-based, web-based, video-based and the full spectrum of e-Learning technologies. Our e-Learning services enable us to function as a single-source e-Learning solutions provider through our integration services and hosting, the development and provisioning of proprietary content and the aggregation and distribution of third party content. In addition, our Sandy segment provides customer relationship marketing (CRM) products including brand loyalty publications and other related products. Sandy develops personalized publications for automotive clients which establish a link between the manufacturer/dealer and each customer. Sandy has also produced brand specific portfolios that are installed in the gloveboxes of new cars and trucks at the time of vehicle assembly.

**Business Process Outsourcing.** We provide end-to-end business process outsourcing solutions, including the management of our customers training departments, as well as administrative processes, such as tuition assistance program management, vendor management, call center / help desk administration and learning management system (LMS) administration. Our training BPO services encompass a wide spectrum of learning engagements from transactional multi-week assignments focused on a single aspect of a learning process to multi-year contracts where we manage the learning infrastructure of our customer. In addition, we automate a large amount of our customers tuition reimbursement programs by utilizing our own proprietary software, Tuition Outsourced Processing Services (TOPS).

**Consulting.** Consulting services include not only training-related consulting services, but also more traditional business management, engineering and other disciplines. We are able to provide high-level lean enterprise consulting services, as well as training in the concept, methods and application of lean enterprise and other quality practices, organizational development and change management. We also provide engineering consulting services to support regulatory and environmental compliance, modification of facilities and processes, plant performance improvement, reliability-centered maintenance practices and plant start-up activities. Consulting services also include operations continuity assessment, planning, training and procedure development. Consulting products include proprietary training and reference materials.

**Technical Support and Engineering.** We are staffed and equipped to provide engineering and technical support services and products to clients. We have civil, mechanical and electrical engineers who provide consulting, design

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and evaluation services regarding facilities, processes and systems. We believe that we are a leader in the design and construction of alternative fuel stations, cryogenic systems and high pressure systems. Technical support services include procedure writing and configuration control for capital intensive facilities, plant start-up assistance, logistics support (e.g., inventory management and control), implementation and engineering assistance for facility or process modifications, facility management for high technology training environments, staff augmentation and help-desk support for standard and customized client desktop applications. Technical support products include our proprietary EtaPRO and Virtual PlantTM software applications that serve the power generation industry.

***Competitive Strengths***

We believe our key competitive strengths include:

**Independent and Single-Source Custom Training Solutions Provider.** We believe we are one of the largest independent single-source custom training solutions providers in the markets in which we compete. We provide business process outsourcing solutions spanning the full life-cycle of the training process, including the management of training departments and administrative processes for our customers. We believe that the breadth of our service and product offerings, which encompass fully integrated training business process outsourcing solutions as well as discrete services, allows us to better serve the needs of our clients by providing them with a single-source solution for custom training, consulting and technical and engineering services. We believe that the integration of our services into a single platform, together with our international presence and delivery capabilities, allows our customers to leverage an enterprise-wide solution to address their performance improvement needs in a way that streamlines their internal operations, improves the speed and efficiency at which critical know-how is disseminated on a firm-wide basis, and enables them to achieve their desired performance improvement goals.

**Scalable Technology Platform.** Our training programs are delivered online, in classroom settings or a combination of both. We have the ability to work with outside information technology (IT) vendors in combination with our own proprietary software in order to deliver a scalable technology platform capable of addressing training needs of various size and commitment, ranging from a one-time project to a multi-year training program.

**Legacy Technical Expertise.** In the 1960 s, we began providing technical services to the U.S. Navy nuclear submarine program and nuclear power generation industry and have since maintained and expanded our reputation for providing technically complex consulting, engineering, and training services. Many of our employees have engineering degrees, technical training or years of relevant technical industry experience. Through repeat projects with industry leaders, such as ExxonMobil, Applied Materials and Pratt & Whitney, we have acquired significant industry experience in providing highly technical consulting services. We believe that our technical expertise allows us to address market opportunities for complex business challenges that require in-depth expertise and certifications typically acquired over several years of specialized training and many years of experience. We also believe that our ability to provide both training-related and business consulting services allows us to gain insight into operations of our customers, understand the challenges they face and develop optimal solutions to meet these challenges. We also believe that the knowledge that we develop while working with our clients provides us with a significant competitive advantage as those clients look to expand the scope of services outsourced to third party service providers.

**Well Positioned to Capitalize on the Large Product Sales Training Market.** We believe that the introduction of new products with advanced features, combined with the growing amount and accessibility of information available to consumers, requires companies to maintain a highly skilled and technologically current sales force to most effectively capture customer interest and confidence. In-house implementation of product sales training programs can be expensive and time-consuming as these programs typically involve significant levels of face-to-face training, in some cases across a large sales force that can be located around the globe. In addition, product sales training tends to be a continuous process, as the pace of new products and features in many cases requires year-round updating of the sales force. We have what we believe to be one of the industry s leading product sales training platforms, and are well positioned to benefit from increased training outsourcing as companies look for ways to reduce costs.

**Business Model Supports Visibility of Revenues.** We believe the nature of our business, which includes established relationships with our clients, average project duration of one year, as well as many long term contracts with our

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customers provides us with a platform from which to drive revenues and gives us visibility into our future performance. We have long-standing relationships with many of our clients, with over 60% of our top 25 clients having used our services for four or more years. Additionally, over 90% of our annual revenue is generated by existing prior year clients. We also had a backlog for services under executed contracts of $136.1 million as of December 31, 2010, most of which we anticipate will be recognized as revenue during 2011**.**

**Highly Qualified and Dedicated Employees and Tenured Management Team.** Our most important asset is our people, as their wide-ranging skill set enables us to serve our diverse and expanding global client base. As a result, we are committed to the continued development of our employees. We offer our employees technical, functional, industry, managerial and leadership skill development and training throughout their careers with us. We seek to reinforce our employees commitment to our clients, culture and values through a comprehensive performance management system and a career philosophy that rewards both individual performance and teamwork. We also benefit from the skill and experience of our executive management team, who together have in excess of 100 years experience in the training industry and have an average tenure with our company of over 20 years.

***Contracts***

We currently perform under fixed price (including fixed-fee per transaction), time-and-materials and cost-reimbursable contracts. Our contracts with the U.S. Government have predominantly been cost-reimbursable contracts and fixed price contracts. We are required to comply with Federal Acquisition Regulations and Government Cost Accounting Standards with respect to services provided to the U.S. Government and its agencies. These Regulations and Standards govern the procurement of goods and services by the U.S. Government and the nature of costs that can be charged with respect to such goods and services. All such contracts are subject to audit by a designated government audit agency, which in most cases is the Defense Contract Audit Agency (the DCAA ). The DCAA has audited our contracts and indirect rates through 2004 without any material disallowances.

The following table illustrates the percentage of our total revenue attributable to each type of contract for the year ended December 31, 2010:

| | |
|---|---|
| Fixed price (including fixed-fee per transaction) | 65% |
| Time-and-materials, including fixed rate | 24 |
| Cost-reimbursable | 11 |
| Total revenue | 100% |

Fixed price contracts provide for payment to us of pre-determined amounts as compensation for the delivery of specific products or services, without regard to the actual costs incurred. We bear the risk that increased or unexpected costs required to perform the specified services may reduce our profit or cause us to sustain a loss, but we have the opportunity to derive increased profit if the costs required to perform the specified services are less than expected. Fixed price contracts generally permit the client to terminate the contract on written notice; in the event of such termination we would typically be paid a proportionate amount of the fixed price.

Time-and-materials contracts generally provide for billing of services based upon the hourly billing rates of the employees performing the services and the actual expenses incurred multiplied by a specified mark-up factor up to a certain aggregate dollar amount. Our time-and-materials contracts include certain contracts under which we have agreed to provide training, engineering and technical services at fixed hourly rates. Time-and-materials contracts generally permit the client to control the amount, type and timing of the services to be performed by us and to terminate the contract on written notice. If a contract is terminated, we are typically paid for the services we have provided through the date of termination.

Cost-reimbursable contracts provide for us to be reimbursed for our actual direct and indirect costs plus a fee. These contracts also are generally subject to termination at the convenience of the client. If a contract is terminated, we are

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typically reimbursed for our costs through the date of termination, plus the cost of an orderly termination and paid a proportionate amount of the fee.

***International***

We conduct our business outside of the United States in over 40 countries primarily through General Physics wholly owned subsidiaries located in the United Kingdom, France, Germany, Canada, Mexico, Singapore, China and India. Through these subsidiaries, we are capable of providing substantially the same services and products as are available to clients in the United States, although modified as appropriate to address the language, business practices and cultural factors unique to each client and country. In combination with our subsidiaries, we are able to coordinate the delivery to multi-national clients of services and products that achieve consistency on a global, enterprise-wide basis. Revenue from operations outside the United States represented approximately 18% of our consolidated revenue for the year ended December 31, 2010 (see Note 13 to the accompanying Consolidated Financial Statements).

***Customers***

During 2010, we provided services to over 500 customers. Significant customers include *multinational automotive manufacturers*, such as General Motors Corporation, Ford Motor Company and Hyundai Motor Company; *commercial electric power utilities*, such as Ameren Energy, NRG Energy and Eskom; *governmental agencies*, such as the U.S. Department of Defense, U.S. Naval Undersea Warfare Center, Office of Personnel Management, and U.S. Social Security Administration; *U.S. Government prime contractors*, such as Bechtel National, Inc. and URS Corporation; and other *large multinational companies*, such as Cisco Systems, Inc., Texas Instruments, Microsoft, Eli Lilly & Co., United Technologies Corporation, CIGNA Corporation, Exxon Mobil and United States Steel Corporation.

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. Revenue from General Motors accounted for approximately 12% of our consolidated revenue for the year ended December 31, 2010, and revenue from the automotive industry accounted for approximately 18% of our consolidated revenue for the year ended December 31, 2010. In addition, revenue from the U.S. Government accounted for approximately 22% of our consolidated revenue for the year ended December 31, 2010. Revenue was derived from many separate contracts with a variety of government agencies that are regarded by us as separate customers. No other customer accounted for more than 10% of our revenue in 2010.

***Employees***

Our principal resource is our personnel. As of December 31, 2010, we had 1,892 employees. We also have access to additional adjunct instructors and consultants as needed. Our future success depends to a significant degree upon our ability to continue to attract, retain and integrate into our operations instructors, engineers, technical personnel and consultants who possess the skills and experience required to meet the needs of our clients.

We utilize a variety of methods to attract and retain personnel. We believe that the compensation and benefits offered to our employees are competitive with the compensation and benefits available from other organizations with which we compete for personnel. In addition, we encourage the professional development of our employees, both internally via GP University (our own internal training resource) and through third parties, and we also offer tuition reimbursement for job-related educational costs. We believe that we have good relations with our employees.

***Competition***

We face a highly competitive environment. The principal competitive factors are the experience and capability of service personnel, performance, quality and functionality of products, reputation and price. The training industry is highly fragmented and competitive, with low barriers to entry and no single competitor accounting for a significant market share. Our competitors include several large publicly traded and privately held companies, vocational and technical training schools, degree-granting colleges and universities, continuing education programs and thousands of small privately held training providers and individuals. In addition, many of our clients maintain internal training departments, which have the resources and ability to provide the same or similar services in-house. Some of our

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competitors offer services and products at lower prices, and some competitors have significantly greater financial, managerial, technical, marketing and other resources. Moreover, we expect to face additional competition from new entrants into the training and performance improvement market due, in part, to the evolving nature of the market and the relatively low barriers to entry. There can be no assurance that we will be successful against such competition.

Engineering and consulting services such as those that we provide are performed by many of the customers themselves, large architectural and engineering firms that have expanded their range of services beyond design and construction activities, large consulting firms, information technology companies, major suppliers of equipment and individuals and independent service companies similar to us. The engineering and construction markets are highly competitive and require substantial resources and capital investment in equipment, technology and skilled personnel. Many of our competitors for our engineering and technical consulting services have greater financial resources than we do. Competition also places downward pressure on our contract prices and profit margins. We cannot provide any assurance that we will be able to compete successfully, and the failure to do so could adversely affect our business and financial condition.

***Marketing***

Business development and sales resources are aligned with our operating groups to support existing customer accounts and new customer development. We use attendance at trade shows, presentations of technical papers at industry and trade association conferences, press releases, webinars and workshops given by our personnel to serve an important marketing function. We also carry out selective advertising and send a variety of sales literature to current and prospective clients. By staying in contact with clients and looking for opportunities to provide further services, we sometimes obtain contract awards or extensions without having to undergo competitive bidding. In other cases, clients request us to bid competitively. In both cases, we submit proposals to the client for evaluation. The period between submission of a proposal to final award can range from 30 days or less (generally for noncompetitive, short-term contracts), to a year or more (generally for large, competitive multi-year contracts).

***Backlog***

Our backlog for services under executed contracts and subcontracts was approximately $136.1 million and $125.2 million as of December 31, 2010 and 2009, respectively. We anticipate that most of our backlog as of December 31, 2010 will be recognized as revenue during 2011. However, the rate at which services are performed under certain contracts, and thus the rate at which backlog will be recognized, is at the discretion of the client and most contracts are, as mentioned above, subject to termination by the client upon written notice.

***Environmental Statutes and Regulations***

We provide environmental engineering services to our clients, including the development and management of site environmental remediation plans. Our activities in connection with providing environmental engineering services may also subject us to federal, state and local environmental laws and regulations (including, without limitation, the Clean Water Act, the Clean Air Act, Superfund, the Resource Conservation and Recovery Act and the Occupational Safety and Health Act). Although we subcontract most remediation construction activities and all removal and offsite disposal and treatment of hazardous substances, we could still be held liable for clean-up or violations of such laws as an operator or otherwise under such federal, state and local environmental laws and regulations with respect to a site where we have provided environmental engineering and support services. We believe, however, that we are in compliance in all material respects with such environmental laws and regulations.

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**Item 1A: Risk Factors**

The following are some of the factors that we believe could cause our actual results to differ materially from historical results and from the results contemplated by the forward-looking statements contained in this report and other public statements made by us. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also harm our business. Most of these risks are generally beyond our control. If any of the risks or uncertainties described below, or any such additional risks and uncertainties actually occur, our business, results of operations and financial condition could be materially and adversely affected.

***Changing economic conditions in the United States, the United Kingdom and the other countries in which we conduct our operations could harm our business, results of operations and financial condition.***

Our revenues and profitability are related to general levels of economic activity and employment primarily in the United States and the United Kingdom. As a result, economic recession in both of those countries could harm our business and financial condition, as seen by a decrease in our revenue and income during 2009. A significant portion of our revenues is derived from Fortune 500 companies and their international equivalents, which historically have decreased expenditures for external training during economic downturns. If the economies in which these companies operate remain or are further weakened in any future period, these companies may reduce their expenditures on external training, and other products and services supplied by us, which could materially and adversely affect our business, results of operations and financial condition. As we expand our business globally, we might be subject to additional risks associated with economic conditions in the countries into which we enter or in which we expand our operations.

***Our revenue and financial condition could be adversely affected by the loss of business from significant customers, including automotive manufacturers, the U.S. Government and other customers.***

During the years ended December 31, 2010, 2009 and 2008, revenue from General Motors accounted for approximately 12%, 16% and 20%, respectively, of our consolidated revenue and revenue from our customers in the automotive industry, including General Motors, accounted for approximately 18%, 21% and 28%, respectively, of our consolidated revenue. In addition, accounts receivable from General Motors totaled $6.1 million as of December 31, 2010. In recent periods, General Motors and other auto manufacturers reported a sharp reduction in vehicle sales which resulted in substantial losses and severe liquidity problems, leading to efforts to restructure their operations to remain solvent and to seek government funding. Further cost-cutting, a lack of sufficient funding or a decision to cease or reduce contract awards to us, could adversely affect our business and financial condition. In addition, default in payment of accounts receivable from General Motors or other significant customers could cause us to incur substantial losses.

For the years ended December 31, 2010, 2009 and 2008, revenue from the U.S. Government represented approximately 22%, 23% and 18% of our consolidated revenue, respectively. However, the revenue was derived from a number of separate contracts with a variety of government agencies we regard as separate customers. Government contracts are subject to various uncertainties, restrictions and regulations, including oversight audits by government representatives and profit and cost controls. If we fail to comply with all of the applicable regulations, requirements or laws, our existing contracts with the government could be terminated and our ability to seek future government contracts or subcontracts could be adversely affected. In addition, the funding of government contracts is subject to Congressional appropriations. Budget decisions made by the U.S. Government are outside of our control and could result in a reduction or elimination of contract funding. A shift in government spending to other programs in which we are not involved or a reduction in general government spending could have a negative impact on our financial condition. The U.S. Government is under no obligation to maintain funding for or to continue to fund our contracts or subcontracts.

Substantially all of our contracts are subject to termination on written notice and, therefore, our operations are dependent upon our customers continued satisfaction with our services and their continued inability or unwillingness to perform those services themselves or to engage other third-parties to deliver such services.

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***The price of our common stock is highly volatile and could decline regardless of our operating performance.***

The market price of our common stock could fluctuate in response to, among other things:

- changes in economic and general market conditions;
- changes in the outlook and financial condition of certain of our significant customers and industries in which we have a concentration of business;
- changes in financial estimates, treatment of our tax assets or liabilities or investment recommendations by securities analysts following our business;
- changes in accounting standards, policies, guidance or interpretations or principles;
- sales of common stock by our directors, officers and significant stockholders;
- factors affecting securities of companies included in the Russell 3000R Index, in which our common stock is included;
- our failure to achieve operating results consistent with securities analysts projections; and
- the operating and stock price performance of competitors.

These factors might adversely affect the trading price of our common stock and prevent you from selling your common stock at or above the price at which you purchased it. In addition, in recent periods, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including ours and others in our industry. These changes can occur without regard to the operating performance of the affected companies. As a result, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our share price.

***We incurred goodwill and intangible asset impairment charges of $10.2 million and $5.5 million for the years ended December 31, 2009 and 2008, respectively, and could incur further material goodwill and other intangible asset impairment charges in future periods.***

We recognized a goodwill and intangible asset impairment loss of $10.2 million during the second quarter of 2009 related to our Manufacturing reporting unit and a goodwill impairment loss of $5.5 million for the year ended December 31, 2008 related to our Sandy reporting unit. The impairment losses were primarily due to a significant decline in our market capitalization during these periods and significant declines in the volume of business with customers in the manufacturing and automotive sectors. As of December 31, 2010, we had goodwill of $73.0 million and other intangible assets of $9.8 million in connection with acquisitions. In accordance with U.S. GAAP, goodwill is reviewed annually for impairment unless circumstances or events indicate that an impairment test should be performed sooner to determine if there has been any impairment to value. The review for impairment is based on several factors requiring judgment. A decrease in expected cash flows or change in market conditions, among other things, may indicate potential impairment of recorded goodwill. We tested our goodwill at the reporting unit level as of December 31, 2010 and there was no indication of impairment.

Our acquisitions in recent years have not involved the acquisition of significant tangible assets and, as a result, a significant portion of the purchase price in each case was allocated to goodwill and other intangible assets. We will continue to test for impairment on an annual basis, coinciding with our fiscal year-end, or on an interim basis if events and circumstances indicate a possible impairment. However, we may incur further material goodwill or other intangible asset impairment charges in the future related to past acquisitions.

***Our financial results are subject to quarterly fluctuations, which may result in volatility or declines in our stock price.***

We experience, and expect to continue to experience, fluctuations in quarterly operating results. Consequently, you should not deem our results for any particular quarter to be necessarily indicative of future results.  Factors that may affect quarterly operating results in the future include:

- the overall level of services and products sold;

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- the volume of publications shipped by our Sandy segment each quarter, because revenue and cost of publications contracts are recognized in the quarter during which the publications ship;
- fluctuations in project profitability;
- the gain or loss of material clients;
- the timing, structure and magnitude of acquisitions;
- participant training volume and general levels of outsourcing demand from clients in the industries that we serve;
- the budget and purchasing cycles of our clients, especially of the governments and government agencies that we serve;
- the commencement or completion of client engagements or services and products in a particular quarter;
- currency fluctuations; and
- the general level of economic activity.

In addition, we provide domestic preparedness and emergency management services, including disaster recovery services, which can result in revenue volatility associated with the unpredictability of certain events occurring and the need for these types of services. Accordingly, it is difficult for us to forecast our growth and results of operations on a quarterly basis. If we fail to meet expectations of investors or analysts, our stock price may fall rapidly and without notice. Furthermore, the fluctuation of quarterly operating results may render less meaningful period-to-period comparisons of our operating results.

***Sagard Capital Partners, L.P. ( Sagard ) may exert influence over us and could delay or deter a change of control or other business combination or otherwise cause us to take actions with which other stockholders may disagree.***

As of December 31, 2010, Sagard beneficially owned 2,879,443 shares or 15.4% of our outstanding common stock. In addition, until Sagard owns less than certain specified amounts of common stock or certain other conditions have been met, Sagard is entitled to designate an individual to serve on our board of directors. As a result, Sagard may exert influence over our decision to enter into any corporate transaction or with respect to any transaction that requires the approval of stockholders, regardless of whether other stockholders believe that the transaction is in their own best interests. This could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

***We are vulnerable to the cyclical nature of the markets we serve.***

The demand for our services and products is dependent upon training and marketing budgets and the existence of projects with training, engineering, procurement, construction or management needs. Although downturns can impact our entire business, the automotive, construction, alternative fuels and energy industries are examples of sectors that are cyclical in nature and have been affected from time to time by fluctuations in either national or worldwide demand for these projects. Industries such as these and many of the others we serve have historically been and might continue to be vulnerable to general downturns and are and might continue to be cyclical in nature. During economic downturns, our clients might demand better terms. In addition, many of our training contracts are subject to modification in the event of certain material changes in the business or demand for our services. Our government clients also might face budget deficits that prohibit them from funding proposed and existing projects. As a result, our past results have varied considerably and could continue to vary depending upon the demand for future projects in the industries that we serve.

***We may continue making acquisitions as part of our growth strategy, which subjects us to numerous risks that could have a material adverse effect on our business, financial condition and results of operations.***

As part of our growth strategy, we may continue to pursue selective acquisitions of businesses that broaden our service and product offerings, deepen our capabilities and allow us to enter attractive new domestic and international markets. Pursuit of acquisitions exposes us to many risks, including that:

- acquisitions may require significant capital resources and divert management s attention from our existing business;

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- acquisitions may not provide the benefits anticipated;
- acquisitions could subject us to contingent or other liabilities, including liabilities arising from events or conduct predating the acquisition of a business that were not known to us at the time of the acquisition;
- we may incur significantly greater expenditures in integrating an acquired business than had been initially anticipated;
- acquisitions may create unanticipated tax and accounting problems; and
- acquisitions may result in a material weakness in our internal controls if we are not able to successfully establish and implement proper controls and procedures for the acquired business.

Our failure to successfully accomplish future acquisitions or to manage and integrate completed or future acquisitions could have a material adverse effect on our business, financial condition or results of operations.  We can provide no assurances that we:

- will identify suitable acquisition candidates;
- can consummate acquisitions on acceptable terms;
- can successfully compete for acquisition candidates against larger companies with significantly greater resources;
- can successfully integrate any acquired business into our operations or successfully manage the operations of any acquired business; or
- will be able to retain an acquired company s significant client relationships, goodwill and key personnel or otherwise realize the intended benefits of any acquisition.

In addition, acquisitions might involve our entry into new businesses that might not be as profitable as we expect.  We can provide no assurances that our expectations regarding the profitability of future acquisitions will prove to be accurate. Acquisitions might also increase our exposure to the risks inherent in certain markets or industries.  For example, Sandy s business is heavily oriented toward providing product sales training to auto manufacturers in the U.S. and, consequently, this acquisition increased our exposure to the risks of the auto manufacturing industry.

As a result of completed and possible future acquisitions, our past performance is not indicative of future performance, and investors should not base their expectations as to our future performance on our historical results.

***Future acquisitions may require that we incur debt or issue dilutive equity.***

Future acquisitions may require us to incur debt, under our existing credit facility or otherwise, or issue equity, resulting in additional leverage or dilution of ownership.

***Difficulties in integrating acquired businesses could result in reduced revenues and income.***

We might not be able to integrate successfully any business we have acquired or could acquire in the future. The integration of the businesses will be complex and time consuming and will place a significant strain on our management, administrative services personnel and information systems. This strain could disrupt our business. Furthermore, we could be adversely impacted by unknown liabilities of acquired businesses. We could encounter substantial difficulties, costs and delays involved in integrating common accounting, information and communication systems, operating procedures, internal controls and human resources practices, including incompatibility of business cultures and the loss of key employees and customers. Also, depending on the type of acquisition, a key element of our strategy may include retaining management and key personnel of the acquired business to operate the acquired business for us. Our inability to retain these individuals could materially impair the value of an acquired business. In addition, small businesses acquired by us may have greater difficulty competing for new work as a result of being part of our larger entity. These difficulties could reduce our ability to gain customers or retain existing customers, and could increase operating expenses, resulting in reduced revenues and income and a failure to realize the anticipated benefits of acquisitions.

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***Our business and financial condition could be adversely affected by government limitations on contractor profitability.***

A significant portion of our revenue and profit is derived from contracts with the U.S. Government and subcontracts with prime contractors of the U.S. Government. The U.S. Government places limitations on contractor profitability; therefore, government-related contracts might have lower profit margins than the contracts we enter into with commercial customers.

***A negative audit or other actions by the U.S. Government could adversely affect our future operating performance.***

As a U.S. Government contractor, we must comply with laws and regulations relating to U.S. Government contracts and are subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which companies with solely commercial customers are not subject. We are subject to audit and investigation by the DCAA and other government agencies with respect to our compliance with federal laws, regulations and standards. These audits may occur several years after the period to which the audit relates. The DCAA, in particular, also reviews the adequacy of, and our compliance with, our internal control systems and policies, including our purchasing, property, estimating, compensation and management information systems. Any payments received by us from the U.S. Government for allowable direct and indirect costs are subject to adjustment after audit by government auditors and repayment to the government if the payments exceed allowable costs as defined in the government contracts, which could result in a material adjustment of the payments received by us under such contracts. In addition, any costs found to be improperly allocated to a specific contract will not be reimbursed. If we are found to be in violation of the law, we may be subject to civil or criminal penalties or administrative sanctions, including contract termination, the assessment of penalties and suspension or debarment from doing business with U.S. Government agencies. For example, many of the contracts we perform for the U.S. Government are subject to the Service Contract Act, which requires hourly employees to be paid certain specified wages and benefits. If the Department of Labor determines that we violated the Service Contract Act or its implementing regulations, we could be suspended for a period of time from winning new government contracts or renewals of existing contracts, which could materially and adversely affect our future operating performance.

Furthermore, our reputation could suffer serious harm if allegations of impropriety were made against us. If we are suspended or prohibited from contracting with the U.S. Government, or any significant U.S. Government agency, if our reputation or relationship with U.S. Government agencies becomes impaired or if the U.S. Government otherwise ceases doing business with us or significantly decreases the amount of business it does with us, it could materially and adversely affect our operating performance and could result in additional expenses and a loss of revenue.

***We are a party to fixed price contracts and may enter into similar contracts in the future, which could result in reduced profits or losses if we are not able to accurately estimate or control costs.***

A significant portion of our revenue is attributable to contracts entered into on a fixed price basis, which allows us to benefit from cost savings, but we carry the burden of cost overruns. If our initial estimates are incorrect, or if unanticipated circumstances arise, we could experience cost overruns which would result in reduced profits or even result in losses on these contracts. Our financial condition is dependent upon our ability to maximize our earnings from our contracts. Lower earnings or losses caused by cost overruns could have a negative impact on our financial results.

Under time and materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Under cost-reimbursable contracts, which are subject to a contract ceiling amount, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based. However, if costs exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs.

Our inability to successfully estimate and manage costs on each of these contract types may materially and adversely affect our financial condition. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

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***Our revenues may be adversely affected if we fail to win competitively awarded contracts or to receive renewal or follow-on contracts.***

We obtain many of our significant contracts, including U.S. Government contracts, through a competitive bidding process. Competitive bidding presents a number of risks, including, without limitation:

- the need to compete against companies or teams of companies that may have more financial and marketing resources and more experience in bidding on and performing major contracts than we have;
- the need to compete against companies or teams of companies that may be long-term, entrenched incumbents for a particular contract for which we are competing;
- the need to compete to retain existing contracts that have in the past been awarded to us;
- the expense and delay that may arise if our competitors protest or challenge new contract awards;
- the need to submit proposals in advance of the completion of their design, which may result in unforeseen cost overruns;
- the substantial cost and managerial time and effort, including design, development and marketing activities necessary to prepare bids and proposals for contracts that we may not win;
- the need to develop, introduce and implement new and enhanced solutions to our customers needs;
- the need to locate and contract with teaming partners and subcontractors; and
- the need to accurately estimate the resources and cost structure that will be required to perform any fixed price contract that we win.

There are no assurances that we will continue to win competitively awarded contracts or to receive renewal or follow-on contracts. Renewal and follow-on contracts are important because our contracts are for fixed terms. These terms vary from shorter than one year to over five years, particularly for contracts with extension options. The loss of revenues from our possible failure to win competitively awarded contracts or to obtain renewal or follow-on contracts may be significant because competitively awarded contracts account for a substantial portion of our sales.

***Our backlog is subject to reduction and cancellation, which could negatively impact our future revenues or earnings.***

Our backlog for services under executed contracts (including subcontracts and purchase orders) was approximately $136.1 million, $125.2 million and $131.7 million as of December 31, 2010, 2009 and 2008, respectively. There can be no assurance that the revenues projected in our backlog will be realized or, if realized, will result in profits. Further, contract terminations or reductions in the original scope of contracts reflected in our backlog might occur at any time as discussed below in more detail.

Our backlog consists of projects for which we have signed contracts from customers. The rate at which services are performed under contracts, and thus the rate at which backlog will be recognized, is at the discretion of the client. We cannot predict with certainty when or if backlog will be performed. In addition, even where a project proceeds as scheduled, it is possible that customers could default or otherwise fail to pay amounts owed to us. Material delays, terminations or payment defaults under contracts included in our backlog could have a material adverse effect on our business, results of operations and financial condition.

In addition, most of our contracts are subject to termination by the client upon written notice. Reductions in our backlog due to termination by a customer or for other reasons could materially and adversely affect the revenues and earnings we actually receive from contracts included in our backlog. If we experience terminations of significant contracts or significant scope adjustments to contracts reflected in our backlog, our financial condition, results of operations, and cash flow could be materially and adversely impacted.

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***We rely on third parties, including subcontractors, suppliers and joint venture partners, to perform a portion of the services we must provide to our customers and disputes with or the failure to perform satisfactorily of such a third party could materially and adversely affect our performance and our ability to obtain future business.***

Many of our contracts involve subcontracts or agreements with other companies upon which we rely to perform a portion of the services we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract or our hiring of personnel of a subcontractor. A failure by one or more of our subcontractors to satisfactorily provide, on a timely basis, the agreed upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders.

Also, from time to time we have entered, and expect to continue to enter, into joint venture, teaming and other similar arrangements which involve risks and uncertainties. These risks and uncertainties could result in reduced profits or, in some cases, significant losses for us with respect to the joint venture, teaming and other similar arrangements.

***We maintain a workforce based upon anticipated staffing needs. If we do not receive future contract awards or if these awards are delayed or reduced in scope or funding, we could incur significant costs.***

Our estimates of future staffing requirements depend in part on the timing of new contract awards. We make our estimates in good faith, but our estimates could be inaccurate or change based upon new information. In the case of larger projects, it is particularly difficult to predict whether we will receive a contract award and when the award will be announced. In some cases the contracts that are awarded require staffing levels that are different, sometimes lower, than the levels anticipated when the work was proposed. The uncertainty of contract award timing and changes in scope or funding can present difficulties in matching our workforce size with our contract needs. If an expected contract award is delayed or not received, or if a contract is awarded for a smaller scope of work than proposed, we could incur significant costs associated with making or failing to make reductions in staff.

***Failure to continue to attract and retain qualified personnel could harm our business.***

Our principal resource is our personnel. A significant portion of our revenue is derived from services and products that are delivered by instructors, engineers, technical personnel and consultants. Our consulting, technical training and engineering services require the employment of individuals with specific skills, training, licensure and backgrounds. An inability to hire or maintain employees with the required skills, training, licensure or backgrounds could have a material adverse effect on our ability to provide quality services, to expand the scope of our service offerings or to attract or retain customers or to accept contracts, which could negatively impact our business and financial condition. In order to initiate and develop client relationships and execute our growth strategy, we must continue to hire and maintain qualified salespeople. We must also continue to attract and develop capable management personnel to guide our business and supervise the use of our resources.

Similarly, our U.S. Government contracts require employment of individuals with specified skills, work experience, licensures, security clearances and backgrounds. An inability to hire or maintain employees with the required skills, work experience, licensure, security clearances or backgrounds could have a material adverse effect on our ability to win new contracts or satisfy existing contractual obligations, and could result in additional expenses or possible loss of revenue.

Competition for qualified personnel can be intense.  We cannot assure you that qualified personnel will continue to be available to us or will be available to us when our needs arise or on terms favorable to us.  Any failure to attract or retain qualified instructors, engineers, technical personnel, consultants, salespeople and managers in sufficient numbers could have a material adverse effect our business and financial condition.

***The loss of our key personnel, including our executive management team, could harm our business.***

Our success is largely dependent upon the experience and continued services of our executive management team and our other key personnel. The loss of one or more of our key personnel and a failure to attract, develop or promote

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suitable replacements for them could materially and adversely affect our business, results of operation or financial condition.

***Competition could materially and adversely affect our performance.***

The training industry is highly fragmented and competitive, with low barriers to entry and no single competitor accounting for a significant market share. Our competitors include divisions of several large publicly traded and privately held companies, vocational and technical training schools, degree-granting colleges and universities, continuing education programs and thousands of small privately held training providers and individuals. In addition, many of our clients maintain internal training departments, which have the resources and ability to provide the same or similar services in-house. Some of our competitors offer similar services and products at lower prices, and some competitors have significantly greater financial, managerial, technical, marketing and other resources. Moreover, we expect to face additional competition from new entrants into the training and performance improvement market due, in part, to the evolving nature of the market and the relatively low barriers to entry.

The engineering and construction markets in which we compete are also highly competitive. Many of our competitors are niche engineering and construction companies. In some instances, it is necessary for us to partner with those competitors who meet the small business administration s criteria for a small business in order to win contract awards. This competition places downward pressure on our contract prices and profit margins. Intense competition is expected to continue in our training, engineering and technical services markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our profits.

We cannot provide any assurance that we will be able to compete successfully in the industries or markets in which we compete, and the failure to do so could materially and adversely affect our business, results of operations and financial condition.

***Failure to keep pace with technology and changing market needs could harm our business.***

Our future success will depend upon our ability to adapt to changing client needs, to gain expertise in technological advances rapidly and to respond quickly to evolving industry trends and market needs. Many of our clients are demanding that our services be available across the U.S. and worldwide. We cannot assure you that we will be able to expand our operations into all geographic areas into which our multinational clients seek to use our services or that we will be able to attract and retain qualified personnel to provide our services in all such geographic areas. We also cannot assure you that we will be successful in adapting to advances in technology or marketing our services and products in advanced formats. In addition, services and products delivered in the newer formats might not provide comparable training results. Furthermore, subsequent technological advances might render moot any successful expansion of the methods of delivering our services and products. If we are unable to develop new means of delivering our services and products due to capital, personnel, technological or other constraints, our business, results of operations and financial condition could be materially and adversely affected.

***We have only a limited ability to protect the intellectual property rights that are important to our success, and we face the risk that our services or products may infringe upon the intellectual property rights of others.***

Our future success depends, in part, upon our ability to protect our proprietary methodologies and other intellectual property, including our EtaPROTM software. Existing laws of some countries in which we provide or license or intend to provide or license our services or products may offer only limited protection of our intellectual property rights. We rely upon a combination of trade secrets, confidentiality policies, non-disclosure and other contractual arrangements and copyright and trademark laws to protect our intellectual property rights. The steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Protecting our intellectual property rights might also consume significant management time and resources.

We cannot be sure that our services and products, or the products of others that we offer to our clients, do not infringe on the intellectual property rights of third parties, and we might have infringement claims asserted against us or

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against our clients. These claims might harm our reputation, result in financial liabilities and prevent us from offering some services or products. We have generally agreed in our contracts to indemnify our clients against expenses or liabilities resulting from claimed infringements of the intellectual property rights of third parties. In some instances, the amount of these indemnities could be greater than the revenues we receive from the client. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, injure our reputation or require us to enter into royalty or licensing arrangements. We might not be able to enter into these royalty or licensing arrangements on acceptable terms. Any limitation on our ability to provide or license a service or product could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future projects.

***Our information technology systems are subject to risks that we cannot control.***

Our information technology systems are dependent upon global communications providers, web browsers, telephone systems, and other aspects of the Internet infrastructure that have experienced system failures and electrical outages in the past. Our systems are susceptible to slow access and download times, outages from fire, floods, power loss, telecommunications failures, break-ins, and similar events. Our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. The occurrence of any of these events could disrupt or damage our information technology systems and inhibit our internal operations, our ability to provide services to our customers, and the ability of our customers to access our information technology systems. This could result in our loss of customers, loss of revenue or a reduction in demand for our services.

***A breach of our security measures could harm our business, results of operations and financial condition.***

Our databases contain confidential data of our clients and our clients customers, employees and vendors. A party who is able to circumvent our security measures could misappropriate such confidential information or interrupt our operations. Many of our contracts require us to comply with specific data security requirements. If we are unable to maintain our compliance with these data security requirements or any person, including any of our current or former employees, penetrates our network security or misappropriates sensitive data, we could be subject to significant liabilities to our clients for breaching these data security requirements or other contractual confidentiality provisions. Furthermore, unauthorized disclosure of sensitive or confidential data of our clients or other parties, whether through breach of our computer systems, systems failure or otherwise, could also damage our reputation and cause us to lose existing and potential clients. We may also be subject to civil actions for breaches related to such data or need to expend significant capital and other resources to continue to protect against security breaches or to address any problem they may cause.

***Our international sales and operations expose us to various political and economic risks, which could have a material adverse effect on our business, results of operations and financial condition.***

Our revenue outside of the U.S. was approximately 18%, 14% and 13% of our total revenue for the years ended December 31, 2010, 2009 and 2008, respectively. We conduct our business primarily in the U.S., the United Kingdom, Canada, Mexico and Singapore, but also in other developed and developing countries, including India and China. We intend to continue to expand our global operations which could involve expanding into countries other than those in which we currently operate. It could also involve expanding into less developed countries, which may have less political, social or economic stability and less developed infrastructure and legal systems. International sales and operations might be subject to a variety of risks, including:

- greater difficulty in staffing and managing foreign operations;
- greater risk of uncollectible accounts;
- longer collection cycles;
- logistical and communications challenges;
- potential adverse changes in laws and regulatory practices, including export license requirements, trade barriers, tariffs and tax laws;
- changes in labor conditions, burdens and costs of compliance with a variety of foreign laws;

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- political and economic instability;
- increases in duties and taxation;
- exchange rate risks;
- greater difficulty in protecting intellectual property;
- general economic and political conditions in these foreign markets;
- acts of war or terrorism or natural disasters, and limits on the ability of governments to respond to such acts;
- restrictions on the transfer of funds into or out of a particular country; or
- nationalization of foreign assets and other forms of governmental protectionism.

As we expand our business into new countries, we may increase our exposure to the risks discussed above. An adverse development relating to one or more of these risks could affect our relationships with our customers or could have a material adverse effect on our business, results of operations and financial condition.

***We are subject to risks associated with currency fluctuations, which could have a material adverse effect on our results of operations and financial condition.***

Approximately 18% of our revenue for the year ended December 31, 2010 were denominated in foreign currencies, including the British Pound Sterling, the Canadian Dollar and the Euro, and, to a lesser extent, the Mexican Peso, the Indian Rupee, the Singapore Dollar and the Chinese Yuan. British Pound Sterling-denominated revenue represented approximately 15% of our revenue for the year ended December 31, 2010. As a result, changes in the exchange rates of these foreign currencies to the U.S. Dollar will affect our consolidated U.S. dollar revenue, cost of revenue and operating margins and could result in exchange losses. The impact of future exchange rate fluctuations on our results of operations cannot be accurately predicted.

***Business disruptions could adversely affect our future sales, financial condition, reputation or stock price or increase costs and expenses.***

Our business, and that of our key suppliers and customers, may be impacted by disruptions including, but not limited to, threats to physical security, information technology attacks or failures, damaging weather or other acts of nature and pandemics or other public health crises. Such disruptions could affect our internal operations or services provided to customers, adversely impacting our sales, financial condition, reputation or stock price or increase our costs and expenses.

***We are subject to potential liabilities which are not covered by our insurance.***

We engage in activities in which there are substantial risks of potential liability. We provide services involving electric power distribution and generation, nuclear power, chemical weapons destruction, petrochemical process training, pipeline operations, volatile fuels such as hydrogen and liquefied natural gas ( LNG ), environmental remediation, engineering design and construction management. We maintain a consolidated insurance program (including general liability coverage) covering the companies we currently own, including General Physics. Claims by or against any covered insured could reduce the amount of available insurance coverage for the other insureds and for other claims. In addition, certain liabilities might not be covered at all, such as deductibles, self-insured retentions, amounts in excess of applicable insurance limits and claims that fall outside the coverage of our policies.

Although we believe that we currently have appropriate insurance coverage, we do not have coverage for all of the risks to which we are subject and we may not be able to obtain appropriate coverage on a cost-effective basis in the future.

Our policies exclude coverage for incidents involving nuclear liability, and we may not be covered by U.S. laws or industry programs providing liability protection for licensees of the Nuclear Regulatory Commission (typically utilities) for damages caused by nuclear incidents; we are not a licensee and few of our contracts with clients have contained provisions waiving or limiting their liability. Therefore, we could be materially and adversely affected by a nuclear incident. In addition, certain environmental risks, such as liability under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, ( Superfund ), also might not be covered by our insurance.

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Some of our policies, such as our professional liability insurance policy, provide coverage on a claims-made basis covering only claims actually made during the policy period then in effect. To the extent that a risk is not insured within our then-available coverage limits, insured under a low-deductible policy, indemnified against by a third party or limited by an enforceable waiver or limitation of liability, claims could be material and could materially and adversely affect our business, results of operations and financial condition.

***We could incur substantial costs as a result of violations of, or liabilities under, environmental laws.***

We provide environmental engineering services, including the development and management of site environmental remediation plans. Although we subcontract most remediation construction activities, and in all cases subcontract the removal and off-site disposal and treatment of hazardous substances, we could be subject to liability relating to the environmental services we perform directly or through subcontracts. For example, if we were deemed under federal or state laws, including Superfund, to be an operator of sites to which we provide environmental engineering and support services, we could be subject to liability for cleanup costs or violations of applicable environmental laws and regulations at such sites. Any incurrence of any substantial Superfund or other environmental liability could materially and adversely affect our business, results of operations or financial condition by reducing profits, causing us to incur losses related to the cost of resolving such liability or otherwise.

In addition, our environmental engineering services involve professional judgments about the nature of physical and environmental conditions, including the extent to which hazardous substances are present, and about the probable effect of procedures to mitigate or otherwise affect those conditions. If the judgments and the recommendations based upon those judgments are incorrect, we may be liable for resulting damages incurred by our clients.

***We are subject to potential liabilities related to operations we have discontinued.***

In November 2004, we completed the spin-off to our stockholders of the shares of stock we owned in National Patent Development Corporation ( NPDC ). Prior to the spin-off, we provided certain financial guarantees and entered into transactions involving assets owned by NPDC or subsequently contributed by us to NPDC. We may be contingently liable for certain lease obligations of NPDC subsequent to the spin-off. We no longer have the assets of NPDC available to us to use to satisfy these obligations, and if NPDC fails to satisfy obligations for which we continue to guarantee, we could be responsible for satisfying those obligations, which could adversely impact our financial condition.

***Our authorized preferred stock and certain provisions in our amended and restated by-laws could make a third party acquisition of us difficult.***

Our restated certificate of incorporation, as amended, ( restated certificate ), allows us to issue up to 10,000,000 shares of preferred stock, the rights, preferences, qualifications, limitations and restrictions of which may be fixed by the Board of Directors without any further vote or action by the stockholders. In addition, our amended and restated bylaws provide, among other things, that stockholders seeking to bring business before or to nominate candidates for election as directors at an annual meeting of stockholders must provide us with timely advance written notice of their proposal in a prescribed form. Our amended and restated bylaws also provide that stockholders desiring to call a special meeting for any purpose, must submit to us a request in writing of stockholders representing at least 50% of the combined voting power of all issued and outstanding classes of capital stock and stating the purpose of such meeting. The ability to issue preferred stock and such provisions in our bylaws might have the effect of delaying, discouraging or preventing a change in control that might otherwise be beneficial to stockholders and might materially and adversely affect the market price of our common stock.

In addition, some provisions of Delaware law, particularly the business combination statute in Section 203 of Delaware General Corporation Law, might also discourage, delay or prevent someone from acquiring us or merging with us. As a result of these provisions in our charter documents and Delaware law, the price investors might be willing to pay in the future for shares of our common stock might be limited.

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***Our restated certificate allows us to redeem or otherwise dispose shares of our common stock owned by a foreign stockholder if certain U.S. Government agencies threaten termination of any of our contracts as a result of such an ownership interest.***

The United States Departments of Energy and Defense have policies regarding foreign ownership, control or influence over government contractors who have access to classified information, and might conduct an inquiry as to whether any foreign interest has beneficial ownership of 5% or more of a contractor s or subcontractor s voting securities. If either Department determines that an undue risk to the defense and security of the United States exists as a result of foreign ownership, control or influence over a government contractor (including as a result of a potential acquisition), it might, among other things, terminate the contractor s or subcontractor s existing contracts. Our restated certificate allows us to redeem or require the prompt disposition of all or any portion of the shares of our common stock owned by a foreign stockholder beneficially owning 5% or more of the outstanding shares of our common stock if either Department threatens termination of any of our contracts as a result of such an ownership interest. These provisions may have the additional effect of delaying, discouraging or preventing a change in control and might materially and adversely affect the market price of our common stock. In connection with the sale of shares of common stock to Sagard in December 2009, we agreed to render these provisions, as well as other anti-takeover measures, inapplicable to Sagard.

## Item 1B: Unresolved Staff Comments

None.

## Item 2: Properties

We do not own any significant real property, but we and our subsidiaries lease an aggregate of approximately 322,000 square feet of primarily office and related space at various locations throughout the United States, the United Kingdom, Canada, Mexico, India, Singapore and China. We occupy approximately 30,700 square feet in an office building in Elkridge, Maryland for our corporate headquarters under a lease which expires in 2013, and approximately 60,000 square feet in an office building in Troy, Michigan under a sublease we entered into with Lear Corporation, which in 2009 filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code and subsequently obtained court approval to reject both our sublease and the superior lease under which the sublease was made. Although there has been no interruption of our operations in that location, the legal status of our continued occupancy of space in the building is uncertain (see Item 3, *Legal Proceedings*, below for further discussion).

We believe that our properties have been well maintained, are suitable and adequate for us to operate at present levels and the productive capacity and extent of utilization of the facilities are appropriate for our existing real estate requirements. Upon expiration of these leases, we do not anticipate any difficulty in obtaining renewals or alternative space.

## Item 3: Legal Proceedings

On May 27, 2010, General Physics Corporation filed a complaint in U.S. District Court for the Eastern District of Michigan seeking a declaratory judgment regarding its status as an occupant of two floors in a building previously leased by Lear Corporation ( Lear ) and its obligation to pay rent. General Physics had entered into a sublease with Lear in 2008 for a term scheduled to end in March 2015. In July 2009, Lear filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code and subsequently obtained approval of the Bankruptcy Court to reject both the building lease and the sublease with General Physics. General Physics has sought unsuccessfully to enter into a direct lease with the building owner and the building owner, Osprey-Troy Officentre, LLC ( Osprey ), has claimed rights through Lear and threatened legal action if General Physics vacates the building and ceases to pay rent under the sublease. General Physics believes that the sublease was terminated and that it is a tenant-at-sufferance in the building, no longer bound by the sublease and obligated to pay only the reasonable rental value of the space it occupies. Osprey has asked the Court to deny the relief requested by General Physics and argued that the sublease constituted an assignment by Lear to General Physics of Lear s lease of the portion of the building occupied by General Physics. Both parties have filed motions for summary judgment which are now pending.

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On February 22, 2011, General Physics Corporation was named as a defendant in a complaint filed by the State of Tennessee in the Chancery Court for the 20th Judicial District of Tennessee. The complaint alleges that defendants Bryan Oil Company ( Bryan Oil ), an executive of Bryan Oil, General Physics and a former employee of General Physics, violated provisions of the Tennessee Petroleum Underground Storage Tank Act (the UST Act ) in connection with the removal of the contents of a waste oil storage tank and the filling of the tank with concrete in 1997 on a site owned by Bryan Oil in Tullahoma, Tennessee. The State of Tennessee is seeking civil penalties in an amount not to exceed $10,000 per day for each violation of the UST Act, post-judgment interest on any award of damages and court costs. The State has also begun an administrative action requiring General Physics to show cause why it should not be removed from the State list of approved corrective action contractors. General Physics is investigating the allegations and believes that its actions complied with the UST Act and applicable regulations and that it has valid defenses against the State s allegations.

## PART II

### Item 5: Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock, $0.01 par value, is traded on the New York Stock Exchange. The following table presents our high and low market prices for the last two fiscal years. During the periods presented below, we have not paid any cash dividends.

| | 2010 | |
|---|---|---|
| **Quarter** | **High** | **Low** |
| First | $ 8.72 | $ 6.86 |
| Second | 8.75 | 6.72 |
| Third | 9.29 | 6.80 |
| Fourth | 10.84 | 8.14 |

| | 2009 | |
|---|---|---|
| **Quarter** | **High** | **Low** |
| First | $ 4.85 | $ 2.70 |
| Second | 6.84 | 3.11 |
| Third | 7.80 | 5.80 |
| Fourth | 8.39 | 5.76 |

The number of shareholders of record of our common stock as of February 28, 2011 was 998 and the closing price of our common stock on the New York Stock Exchange on that date was $11.58.

We have not declared or paid any cash dividends on our common stock during the two most recent fiscal years. We do not anticipate paying cash dividends on our common stock in the foreseeable future and intend to retain future earnings to finance the growth and development of our business. In addition, the General Physics Credit Agreement (see Item 7) contains 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 $6.6 million remaining available for future share repurchases under the $10 million authorized amount as of December 31, 2010. General Physics is otherwise currently restricted under the Credit Agreement from paying dividends or management fees to GP Strategies in excess of $1.0 million in any fiscal year.

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**Performance Graph**

The following graph assumes $100 was invested on January 1, 2006 in GP Strategies Common Stock, and compares the share price performance with the Education Training Services Index (Hemscott Group Index) and the NYSE Market Index.  Values are as of December 31 of the specified year assuming that all dividends were reinvested.

| **Company / Index** | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|
| **Name** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| GP Strategies Corp. | $ 100.00 | $ 101.72 | $ 130.51 | $ 55.27 | $ 92.28 | $ 125.49 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Hemscott Group Index | 100.00 | 89.44 | 126.56 | 127.98 | 117.46 | 90.36 |
| NYSE Market Index | 100.00 | 120.47 | 131.15 | 79.67 | 102.20 | 115.87 |

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**Issuer Purchases of Equity Securities**

The following table provides information about our share repurchase activity for the three months ended December 31, 2010:

| Issuer Purchases of Equity Securities | | | | |
|---|---|---|---|---|
| **Month** | **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** |
| October 1-31, 2010 | | | | $ 2,119,000 |
| November 1-30, 2010 | 23,932(1) | $ 9.49 | | $ 2,119,000 |
| December 1-31, 2010 | 609(1) | $ 9.41 | | $ 2,119,000 |

(1) Represents shares surrendered to satisfy tax withholding obligations on restricted stock units which vested during these periods.

**Item 6: Selected Financial Data**

The selected financial data presented below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and our consolidated financial statements and the notes thereto included elsewhere in this report. Our consolidated statement of operations data for the years ended December 31, 2010, 2009, and 2008 and our consolidated balance sheet data as of December 31, 2010 and 2009 have been derived from our audited consolidated financial statements included elsewhere in this report. Our consolidated statement of operations data for the years ended December 31, 2007 and 2006 and our consolidated balance sheet data as of December 31, 2008, 2007, and 2006 have been derived from audited consolidated financial statements, which are not presented in this report.

| | Years ended December 31, | | | | |
|---|---|---|---|---|---|
| **Statement of Operations Data** | **2010** | **2009** | **2008** | **2007** | **2006** |
| | (In thousands, except per share amounts) | | | | |
| Revenue | $ 259,926 | $ 219,240 | $ 267,893 | $ 248,422 | $ 178,783 |
| Gross profit | 42,690 | 34,091 | 40,809 | 38,075 | 27,651 |
| Goodwill and intangible asset impairment loss | | 10,163 | 5,508 | | |
| Interest expense | 236 | 217 | 699 | 1,218 | 1,558 |
| Income before income taxes | 20,852 | 3,395 | 14,150 | 16,906 | 11,710 |
| Net income (loss) | 12,732 | (1,190) | 7,837 | 9,684 | 6,642 |
| Diluted earnings (loss) per share | 0.68 | (0.07) | 0.47 | 0.56 | 0.40 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| **Balance Sheet Data** | **2010** | **2009** | **2008** | **2007** | **2006** |
| | (In thousands, except per share amounts) | | | | |
| Cash and cash equivalents | $ 28,902 | $ 10,803 | $ 3,961 | $ 3,868 | $ 8,660 |
| Short-term borrowings | | | 3,234 | 2,953 | |
| Working capital | 47,322 | 37,377 | 22,849 | 18,080 | 23,142 |

| | | | | | |
|---|---|---|---|---|---|
| Total assets | 183,196 | 156,701 | 135,840 | 147,445 | 121,400 |
| Long-term debt, including current maturities | | | | 7,986 | 10,926 |
| Stockholders equity | 124,787 | 110,890 | 92,806 | 90,382 | 79,731 |

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**Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis provides information we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended December 31, 2010 which are located in Item 8 of this report.

***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 December 31, 2010, we operated through four reportable business segments: (i) Manufacturing & BPO, (ii) Process & Government, (iii) Energy, and (iv) Sandy Training & Marketing ( Sandy ). 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. Our Manufacturing & BPO segment represents an aggregation of two operating groups in accordance with the aggregation criteria in U.S. GAAP, and our Process & Government, Energy and Sandy groups each represent one operating segment. 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 and large government contractors. 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 EtaProTM Performance Monitoring and Optimization System provides a suite of performance solutions for power generation plants and is installed at approximately 800 power generating units in over 30 countries. In addition, this segment provides web-based training through our GPiLearnTM portal to over 30,000 power plant personnel in the U.S. and in over 40 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.

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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.

We discuss our business in more detail in *Item 1.Business* and the risk factors affecting our business in *Item 1A. Risk Factors*.

***Business Strategy***

We seek to increase shareholder value by pursuing the following strategies:

**Continuously enhance our service offerings and capabilities.** We believe the demand for learning and development services will continue to increase. In a knowledge based economy, this demand is driven by ever increasing technology, processes, products, and attrition of personnel. The rate and effectiveness of the transfer of knowledge to the workforce of our clients, their partners, and even their customers can positively impact their performance. We plan to meet this demand by continuously expanding our services and capabilities through organic growth initiatives based upon our technical expertise as well as through targeted acquisitions. Our acquisitions in recent years have added product sales training to our services offering, strengthened our e-Learning and custom training content development services in both the commercial and government sectors, and expanded our geographical reach. We believe that the breadth of our service and product offerings allows us to effectively compete for customers by offering a comprehensive solution for custom training, consulting, engineering and technical services. We will continue to focus on increasing our capabilities to drive incremental growth from new, as well as existing, clients.

**Develop and maintain strong customer relationships.** We plan to preserve and grow our business by cross-selling our services and capabilities across and within our existing client base. We have a successful track record of increasing the scope of our work for a number of our clients, many of whom we estimate currently outsource only a fraction of their training expenditures. We believe that as our clients benefit from the effective, cost-efficient and flexible training solutions and services that we provide, many of them will find it beneficial to increase the scope of training services that they outsource to third party providers. We believe that the strength of our relationships with our existing clients, including the insight and knowledge into their operations that we have developed through these relationships, when combined with the broad range of our service and product offerings, provide us with an advantage when competing for these additional expenditures. We realize that many companies have reduced their external training expenditures due to the economic recession; however, we will strive to preserve our relationships and increase our proportion of our customers total spend.

**Remain competitive in the current economic environment.** We experienced a reduction in revenue during 2009 as a result of the economic recession, primarily due to a slow down in certain of the end market sectors we serve, such as automotive and manufacturing. At the beginning of 2009, we implemented a cost management strategy to ensure that we remained competitive in this economic environment and are well positioned when the economy recovers. We will continue to manage costs to ensure we remain competitive in addition to continuing to invest in what we believe are key areas of growth.

**Invest in our Energy services business.** We believe there is a significant potential for growth in training and engineering services for customers in the energy sector due to the ever-increasing demand for products and services that help power generation plants deliver energy in an efficient, environmentally compliant and profitable manner. To take advantage of the opportunities in the energy sector, we plan to continue to enhance and expand our product and service offerings to this industry.

**Leverage BPO capabilities.** We have a demonstrated ability to provide training services across a wide spectrum of learning engagements from transactional multi-week assignments focused on a single aspect of a learning process to multi-year contracts where we manage the learning infrastructure of our customer. Integrated BPO engagements typically require us to assume responsibility for the development, delivery and administration of learning functions and are generally carried out under multi-year agreements. We intend to leverage our BPO capabilities to expand the customers and markets we serve.

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**Maintain our international presence.** We believe international markets offer growth opportunities for our services. We intend to leverage our current international presence as well as continue pursuing our strategy of enhancing our international platform by selectively acquiring businesses in targeted geographies and following our current clients into new geographic markets. In our experience, many of our clients are seeking access to these and other attractive international markets and as such we intend to enhance our international capabilities. In order to support their business expansion we are providing employee training solutions across organizations in different countries and different languages, while maintaining quality and consistency in the overall training program. By moving into specific international markets with our existing clients, we are able to not only deepen our relationships with those clients, but are also able to develop expertise in those markets that we can leverage to additional customers. We believe that following this strategy provides us with opportunities to gain access to international markets with established client relationships in those markets.

**Continue our disciplined acquisition strategy.** We plan to continue to focus on evaluating compelling strategic acquisition targets to enhance our service offerings and delivery capabilities and to expand our geographic footprint. We have followed a disciplined approach to target selection and have been able to acquire complementary businesses at what we believe are attractive valuations. Since 2006, we have acquired thirteen businesses with current annualized revenues totaling over $115 million, expanding our e-Learning capabilities and adding complementary services such as product sales training. Seven of these businesses are in the United Kingdom and have strengthened our international platform, enabling us to meet the needs of our global clients while providing additional client opportunities. We also believe that our current operating structure, which utilizes a centralized infrastructure of corporate services to support our various platforms, enhances our ability to quickly and cost-effectively integrate acquisitions. We look to identify acquisitions to augment our capabilities when we believe acquisitions are the quickest and most efficient way of expanding our platform and service offerings.

***Significant Events***

Acquisitions

Below is a summary of the acquisitions we completed during 2009 and 2010. See Note 2 to the accompanying Consolidated Financial Statements for further details, including the purchase price allocations.

***Academy of Training***

Effective December 1, 2010, General Physics, through its wholly owned subsidiary, General Physics (UK) Ltd. ( GPUK ), completed the acquisition of Academy of Training Ltd. ( AoT ), an independent training provider in the United Kingdom. GPUK acquired 100% ownership of AoT for a purchase price of $1.1 million in cash. In addition, the purchase agreement requires GPUK to pay up to an additional $0.2 million which would be payable subsequent to the twelve-month period following completion of the acquisition, contingent upon AoT achieving a revenue target during that period, as defined in the purchase agreement. AoT is included in the Company s Manufacturing & BPO segment and its results of operations have been included in the consolidated financial statements since December 1, 2010.

***Bath Consulting***

Effective November 1, 2010, General Physics, through its wholly owned subsidiary, GPUK, completed the acquisition of Bath Consulting Group ( Bath Consulting ), a niche leadership and organizational development consulting firm in the United Kingdom. GPUK acquired 100% ownership of Bath Consulting for a purchase price of $1.4 million in cash. In addition, the purchase agreement requires GPUK to pay up to an additional $2.4 million, which would be payable subsequent to each of the three twelve-month periods following completion of the acquisition, contingent upon Bath Consulting achieving certain earnings targets during those periods, as defined in the purchase agreement. Bath Consulting is included in the Company s Manufacturing & BPO segment and its results of operations have been included in the consolidated financial statements since November 1, 2010.

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***Marton House***

Effective April 1, 2010, General Physics, through its wholly owned subsidiary, 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 in the United Kingdom. GPUK acquired 100% ownership of Marton House for a purchase price of $2.8 million in cash. In addition, the purchase agreement requires GPUK to pay up to an additional $3.7 million, of which approximately $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 is included in the Company s Manufacturing & BPO segment and its results of operations have been included in the consolidated financial statements since April 1, 2010.

***PerformTech***

Effective December 30, 2009, General Physics acquired PerformTech, a provider of custom courseware development and other training services primarily for the U.S. Government. PerformTech, located in Alexandria, Virginia, is a leading developer of custom training solutions, with a significant presence supporting federal government priorities including border security, anti-terrorism, and highway engineering. PerformTech leverages its extensive past performance, proprietary development tools, and technical expertise in needs analysis, curriculum development (classroom and web-based), and training delivery to address clients mission critical needs. The final purchase price consisted of $17.6 million in cash paid to the sellers. In addition, the purchase agreement requires up to an additional $4.5 million 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. No contingent consideration was paid for the first twelve-month period following completion of the acquisition as the revenue target was not achieved. PerformTech is included in our Manufacturing & BPO segment and the results of its operations have been included in the consolidated financial statements since January 1, 2010.

***Option Six***

Effective December 1, 2009, General Physics acquired Option Six, a provider of custom courseware development services with expertise in the software and pharmaceutical industries. Option Six, located in Bloomington, Indiana, provides blended learning courseware development. The final purchase price consisted of $4.1 million in cash paid to the sellers. In addition, the purchase agreement requires up to an additional $2.0 million 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 our Manufacturing & BPO segment and the results of its operations have been included in the consolidated financial statements since December 1, 2009.

***Milsom***

Effective September 1, 2009, General Physics, through its wholly owned subsidiary, GPUK, acquired Milsom, a provider of technical documentation, technical publications, technical recruiting and engineering design services. Milsom provides extensive technical services for aerospace and engineering companies. GPUK acquired 100% ownership of Milsom for a purchase price of approximately $2.5 million in cash. 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 Milsom achieving certain earnings targets during those periods, as defined in the purchase agreement. In December 2010, we paid $0.8 million of contingent consideration to the sellers based on the earnings targets achieved for the first twelve-month period following the completion of the acquisition. Milsom is included in the Company s Manufacturing & BPO segment and its results of operations are included in the consolidated financial statements since September 1, 2009.

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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, 2010, 2009 and 2008, we repurchased approximately 37,000, 526,000 and 1,091,000 shares, respectively, of our common stock in the open market for a total cost of approximately $0.3 million, $2.2 million and $8.8 million, respectively. As of December 31, 2010, there was approximately $2.1 million available for future repurchases under the buyback program. There is no expiration date for the repurchase program.

***Results of Operations***

*Operating Highlights*

**Year ended December 31, 2010 compared to the year ended December 31, 2009**

For the year ended December 31, 2010, we had income before income taxes of $20.9 million compared to $3.4 million for the year ended December 31, 2009.  During 2009, we incurred goodwill and intangible asset impairment losses of $10.2 million. Excluding the impairment losses, we had an increase in operating income of $7.2 million, the components of which are discussed below. The increase in operating income included a $1.3 million gain on the change in estimated fair value of contingent consideration during 2010 related to acquisitions completed, which is discussed further below and in Note 2 to the Consolidated Financial Statements. Net income was $12.7 million, or $0.68 per diluted share, for the year ended December 31, 2010 compared to a net loss of $1.2 million, or ($0.07) per diluted share, for 2009. Excluding the impact of the impairment losses, net income was $7.4 million, or $0.47 per diluted share for the year ended December 31, 2009.

Diluted weighted average shares outstanding were 18.7 million for the year ended December 31, 2010 compared to 15.9 million for the same period in 2009. The increase in shares outstanding is primarily due to the equity investment by Sagard in December 2009.

*Revenue*

| | Years ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Manufacturing & BPO | $ 146,675 | $ 98,929 |
| Process & Government | 43,140 | 52,003 |
| Energy | 22,958 | 22,674 |
| Sandy Training & Marketing | 47,153 | 45,634 |
| | $ 259,926 | $ 219,240 |

Manufacturing & BPO revenue increased $47.7 million or 48.3% during the year ended December 31, 2010 compared to 2009. The increase in revenue is due to the following:

- $34.1 million increase in revenue attributable to acquisitions completed during 2009 and 2010, which includes $7.8 million for Milsom, $5.0 million for Option Six, $13.1 million for PerformTech, $7.2 million for Marton House, $0.7 million for Bath Consulting and $0.3 million for AoT;

- $7.5 million net increase in training BPO revenue primarily due to new projects with existing BPO clients in 2010;

- $4.0 million net increase in e-Learning revenue primarily due to a new content development contract awarded by a global software client during 2009;

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- $1.7 million increase in e-Learning sales training for a large pharmaceutical company; and

- $0.7 million net increase in revenue due to increased training services for various clients.

The above revenue increases were offset by a $0.3 million decrease in U.S. dollar revenue recognized from our operations in the United Kingdom due to the change in currency exchange rates compared to 2009.

Process & Government revenue decreased $8.9 million or 17.0% during the year ended December 31, 2010 compared to 2009. The decrease in revenue is primarily due to the following:

- $4.7 million net decrease relating to construction projects for liquefied natural gas (LNG) fueling station facilities primarily due to the completion of a large project in 2009;

- $4.2 million net decrease in revenue from various contracts primarily related to environmental engineering services, homeland security / first responder training services and other technical services, largely due to certain contracts being completed during 2009 or running at reduced volumes in 2010.

Energy group revenue increased $0.3 million or 1.3% during the year ended December 31, 2010 compared to 2009 primarily due to an increase in training product sales.

Sandy Training & Marketing revenue increased $1.5 million or 3.3% during the year ended December 31, 2010 compared to 2009 due to the following:

- $7.7 million increase in revenue primarily due to an increase in training services for new vehicle launch and other new training programs for various automotive customers;

- $1.9 million increase in glove box portfolio revenue due to the addition of products in 2010 and increased vehicle sales volume;

- $4.5 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; and

- $3.6 million decrease in publication revenue due to the elimination of vehicle brands and a reduction in dealerships which resulted in lower 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, 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.

In addition, we have a concentration of revenue from General Motors as well as a market concentration in the automotive sector. Revenue from General Motors accounted for approximately 12% and 16% of our consolidated revenue for the years ended December 31, 2010 and 2009, respectively, and revenue from the automotive industry accounted for approximately 18% and 21% of our consolidated revenue for the years ended December 31, 2010 and 2009, respectively.

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*Gross profit*

| | Years ended December 31, 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | | | % Revenue | | | % Revenue |
| | (Dollars in thousands) | | | | | |
| Manufacturing & BPO | $ | 22,640 | 15.4% | $ | 13,448 | 13.6% |
| Process & Government | | 6,677 | 15.5% | | 7,810 | 15.0% |
| Energy | | 7,263 | 31.6% | | 6,306 | 27.8% |
| Sandy Training & Marketing | | 6,110 | 13.0% | | 6,527 | 14.3% |
| | $ | 42,690 | 16.4% | $ | 34,091 | 15.5% |

Manufacturing & BPO gross profit of $22.6 million or 15.4% of revenue for the year ended December 31, 2010 increased by $9.2 million or 68.4% when compared to gross profit of approximately $13.4 million or 13.6% of revenue for the year ended December 31, 2009. Approximately $5.5 million of the increase in gross profit is attributable to the acquisitions we completed in 2009 and 2010. In addition, the remaining increases in gross profit and improved margins as a percentage of revenue were primarily due to increased BPO and training services in 2010 noted above.

Process & Government gross profit of $6.7 million or 15.5% of revenue for the year ended December 31, 2010 decreased by $1.1 million or 14.5% when compared to gross profit of approximately $7.8 million or 15.0% of revenue for the year ended December 31, 2009 primarily due to the revenue decreases discussed above.

Energy gross profit of $7.3 million or 31.6% of revenue for the year ended December 31, 2010 increased by $1.0 million or 15.2% when compared to gross profit of approximately $6.3 million or 27.8% of revenue for the year ended December 31, 2009. This increase in gross profit is primarily due to an increase in higher margin product sales and reduced costs relating to our GPiLearn e-Learning portal.

Sandy Training and Marketing gross profit of $6.1 million or 13.0% of revenue for the year ended December 31, 2010 decreased by $0.4 million or 6.4% when compared to gross profit of $6.5 million or 14.3% for the year ended December 31, 2009. The decrease in gross profit is primarily due to a reduction in higher margin publications revenue as discussed above.

*Selling, general and administrative expenses*

Selling, general and administrative expenses increased $2.7 million or 12.8% from $20.8 million for the year ended December 31, 2009 to $23.5 million for the year ended December 31, 2010. The increase is largely due to a $0.9 million increase in amortization expense and a $0.7 million increase in labor and benefits expense related to the acquisitions we completed in 2009 and 2010. There were also increases in bad debt expense, software costs and legal expenses totaling approximately $0.8 million. In addition, there was a $0.3 million increase in restructuring charges recognized during 2010 related to facility leases in the United Kingdom.

*Change in Fair Value of Contingent Consideration*

During the year ended December 31, 2010, we recognized a $1.3 million net gain on the change in fair value of contingent consideration related to acquisitions we completed in 2009 and 2010. Effective January 1, 2009, we adopted Accounting Standards Codification ( ASC ) Topic 805, *Business Combinations* ( ASC 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

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estimated fair value and changes in fair value subsequent to the acquisitions will be reflected in operating 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, 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 2 to the Condensed Consolidated Financial Statements for a detailed discussion of the acquisitions we completed subsequent to the adoption of ASC Topic 805 in 2009 and the changes in fair value of contingent consideration during the year ended December 31, 2010.

*Goodwill impairment loss*

We incurred a goodwill and intangible asset impairment loss of $10.2 million during the second quarter of 2009 related to our Manufacturing & BPO segment and a $5.5 million goodwill impairment loss during the fourth quarter of 2008 related to our Sandy segment.  See the *Management Discussion of Critical Accounting Policies* section below for further discussion regarding the factors leading to the goodwill impairments and the valuation methodologies and assumptions used in the goodwill impairment tests.

*Interest expense*

Interest expense was $0.2 million for both the years ended December 31, 2010 and 2009.

*Other income*

Other income was $0.6 million and $0.5 million for the years ended December 31, 2010 and 2009, respectively, and consisted primarily of income from a joint venture and interest income, offset by a foreign currency loss in both years.

*Income taxes*

Income tax expense was $8.1 million for the year ended December 31, 2010 compared to $4.6 million for the year ended December 31, 2009. The increase in income tax expense is primarily due to an increase in income before income taxes in 2010 compared to 2009. We recognized a $1.5 million income tax benefit related to the $10.2 million goodwill and intangible asset impairment loss incurred during the second quarter of 2009 for the portion of goodwill which was deductible for tax purposes. Excluding the impact of the impairment loss in 2009, the effective income tax rate was 38.9% and 45.1% for the years ended December 31, 2010 and 2009, respectively. Approximately 2.1% of the decrease in the effective income tax rate is due to a larger portion of our 2010 income being derived from foreign jurisdictions which are taxed at lower rates and approximately 2.0% of the decrease is due to the closure of our Malaysian operations during 2010 for which we recognized a loss on our investment for tax purposes. In addition, during 2010 in conjunction with the filing of our 2009 tax return, we identified an error in the deferred tax liabilities on the consolidated balance sheet. We recorded a $0.4 million decrease in tax expense during the fourth quarter of 2010 to correct the error which had accumulated over several prior years. The error correction resulted in a 2.0% decrease in our effective income tax rate for 2010 compared to 2009. The Company determined that the out-of-period correction was not material quantitatively or qualitatively to the consolidated financial statements taken as a whole for any of the periods in which the accounts were mis-stated. See Note 9 to the accompanying

Consolidated Financial Statements for further information regarding income taxes.

**Year ended December 31, 2009 compared to the year ended December 31, 2008**

For the year ended December 31, 2009, we had income before income taxes of $3.4 million compared to $14.2 million for the year ended December 31, 2008. We incurred goodwill and intangible asset impairment losses of $10.2 million during 2009 and $5.5 million in 2008 which are discussed in more detail below. Excluding the goodwill impairment losses in both years, we had a decrease in operating income of $6.0 million, the components of which are discussed below, a decrease in interest expense of $0.5 million and a decrease in other income of $0.6 million. Net loss was $1.2 million, or ($0.07) per diluted share, for the year ended December 31, 2009 compared to net income of $7.8 million, or $0.47 per diluted share, for 2008. Excluding the impact of the goodwill impairment losses in both years, net income was $7.4 million, or $0.47 per diluted share for the year ended December 31, 2009, compared to net income of $11.1 million, or $0.67 per diluted share, for 2008.

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Diluted weighted average shares outstanding were 15.9 million for the year ended December 31, 2009 compared to 16.6 million for the same period in 2008. The decrease in shares outstanding is primarily due to repurchases of our common stock in the open market in connection with our share repurchase program discussed above.

*Revenue*

| | Years ended December 31, 2009 | | 2008 | |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Manufacturing & BPO | $ | 98,929 | $ | 123,060 |
| Process & Government | | 52,003 | | 50,375 |
| Energy | | 22,674 | | 22,018 |
| Sandy Training & Marketing | | 45,634 | | 72,440 |
| | $ | 219,240 | $ | 267,893 |

Manufacturing & BPO revenue decreased $24.1 million or 19.6% during the year ended December 31, 2009 compared to 2008. The decrease in revenue is due to the following:

- $13.0 million net decrease in revenue from BPO customers primarily due to a slowdown in spending by several customers resulting in an overall decline in the number of training courses run and many training courses running below full capacity;

- $3.1 million decrease in U.S. dollar revenue recognized from our operations in the United Kingdom, which consists of a $3.6 million decrease in revenue due to the unfavorable effect of currency exchange rates and a net decrease of $6.5 million primarily due to a decrease in volume with training outsourcing and other customers, offset by an increase in revenue of $4.8 million due to acquisitions completed in 2008 and 2009 and a $2.2 million increase due to the expansion of government funded training programs in the UK;

- $6.9 million reduction in process and maintenance reliability training services provided primarily to steel industry clients;

- $2.3 million reduction in process, maintenance and reliability training services provided primarily to petrochemical industry clients; and

- $3.2 million reduction in services for a pharmaceutical industry client.

The above decreases within the Manufacturing & BPO segment were offset by other net revenue increases of $4.4 million, primarily attributable to a new content development contract awarded by an existing global software client during 2009.

Process & Government revenue increased $1.6 million or 3.2% during the year ended December 31, 2009 compared to 2008. The increase in revenue is primarily due to a $6.7 million net increase relating to construction projects for liquefied natural gas (LNG) fueling station facilities offset by the following:

- $4.1 million net decrease in revenue primarily related to certain homeland security / first responder training contracts and a reduced volume of chemical demilitarization training services; and

- a $1.0 million decrease in technical services primarily for the aerospace industry.

Energy group revenue increased $0.7 million or 3.0% during the year ended December 31, 2009 compared to 2008. The increase is primarily due to PCS being included for a full first quarter in 2009 as the acquisition was completed on March 1, 2008.

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Sandy Training & Marketing revenue decreased $26.8 million or 37.0% during the year ended December 31, 2009 compared to 2008 due to the following:

- $13.1 million net decrease in revenue from product sales and other training programs for various automotive customers primarily due to a reduction in the number of trainers required, and a reduction in related in-dealership training programs;

- $5.3 million net decrease in revenue related to new vehicle launch programs and related training services provided in 2008 which did not recur in 2009;

- $4.6 million decrease in publications revenue primarily due to a reduction in the volume of publications produced and shipped during 2009 compared to 2008. 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, 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.

- $1.8 million decrease in glovebox portfolios sales due to lower vehicle production volumes; and

- $2.0 million decrease in technical training services provided to automotive customers due to a reduction in plant spending.

In addition, we have a concentration of revenue from General Motors as well as a market concentration in the automotive sector. Revenue from General Motors accounted for approximately 16% and 20% of our consolidated revenue for the years ended December 31, 2009 and 2008, respectively, and revenue from the automotive industry accounted for approximately 21% and 28% of our consolidated revenue for the years ended December 31, 2009 and 2008, respectively.

*Gross profit*

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | % Revenue | 2008 | % Revenue |
| | (Dollars in thousands) | | | |
| Manufacturing & BPO | $ 13,448 | 13.6% | $ 17,928 | 14.6% |
| Process & Government | 7,810 | 15.0% | 8,858 | 17.6% |
| Energy | 6,306 | 27.8% | 6,028 | 27.4% |
| Sandy Training & Marketing | 6,527 | 14.3% | 7,995 | 11.0% |
| | $ 34,091 | 15.5% | $ 40,809 | 15.2% |

Manufacturing & BPO gross profit of $13.4 million or 13.6% of revenue for the year ended December 31, 2009 decreased by $4.5 million or 25.0% when compared to gross profit of approximately $17.9 million or 14.6% of revenue for the year ended December 31, 2008. The decrease in gross profit is primarily attributable to the revenue decreases discussed above. In addition, gross margin decline due to a reduction in services provided to petrochemical industry clients during 2009 which had higher margins in 2008.

Process & Government gross profit of $7.8 million or 15.0% of revenue for the year ended December 31, 2009 decreased by $1.0 million or 11.8% when compared to gross profit of approximately $8.9 million or 17.6% of revenue for the year ended December 31, 2008. The decrease in gross profit is primarily attributable to the following: the decreases in revenue discussed above; lower margins on certain homeland security / first responder contracts during 2009 compared to 2008; and revenue growth in this segment being derived from lower margin LNG services.

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Energy gross profit of $6.3 million or 27.8% of revenue for the year ended December 31, 2009 increased by $0.3 million or 4.6% when compared to gross profit of approximately $6.0 million or 27.4% of revenue for the year ended December 31, 2008. This increase in gross profit is primarily due to the revenue increases discussed above.

Sandy Training and Marketing gross profit of $6.5 million or 14.3% of revenue for the year ended December 31, 2009 decreased by $1.5 million or 18.4% when compared to gross profit of $8.0 million or 11.0% for the year ended December 31, 2008. The decrease in gross profit dollars is primarily due to the revenue decreases discussed above. Gross profit as a percentage of revenue increased in this segment during 2009 compared to 2008, primarily due to increased profitability on publications that were shipped during 2009 compared to 2008, as well as a reduction in personnel and other cost reduction initiatives which also contributed to the increase in gross profit as a percentage of revenue.

*Selling, general and administrative expenses*

Selling, general and administrative expenses decreased $0.7 million or 3.4% from $21.5 million for the year ended December 31, 2008 to $20.8 million for the year ended December 31, 2009. The net decrease is attributable to a decrease in the provision for doubtful accounts in 2009 compared to 2008, a 2008 write-off of $0.4 million of deferred financing costs related to a terminated equity offering which did not recur in 2009, and decreases in various corporate expenses due to reduced overall spending in 2009 compared to 2008. These decreases in SG&A expenses were offset by an increase due to $0.3 million of transaction costs incurred for the acquisitions completed in 2009.

*Goodwill impairment loss*

We incurred a goodwill and intangible asset impairment loss of $10.2 million during the second quarter of 2009 related to our Manufacturing & BPO segment and a $5.5 million goodwill impairment loss during the fourth quarter of 2008 related to our Sandy segment. See the *Management Discussion of Critical Accounting Policies* section below for further discussion regarding the factors leading to the goodwill impairments and the valuation methodologies and assumptions used in the goodwill impairment tests.

*Interest expense*

Interest expense decreased $0.5 million or 69.0% from $0.7 million for the year ended December 31, 2008 to $0.2 million for the year ended December 31, 2009. The decrease in interest expense is primarily due to the repayment of long-term debt obligations in 2008 and a decrease in the interest rate and borrowing balances under our revolving line of credit.

*Other income*

Other income decreased $0.6 million or 55.4% from $1.1 million for the year ended December 31, 2008 to $0.5 million for the year ended December 31, 2009. The decrease is primarily due to two non-recurring gains in 2008, including a $0.1 million gain on the early extinguishment of debt and a $0.3 million litigation gain, as well as an increase in foreign currency exchange losses during 2009 compared to 2008.

*Income taxes*

Income tax expense was $4.6 million for the year ended December 31, 2009 compared to $6.3 million for the year ended December 31, 2008. The decrease in income tax expense is primarily due to a decrease in income before income taxes in 2009 compared to 2008. We recognized a $1.5 million income tax benefit related to the $10.2 million goodwill and intangible asset impairment loss incurred during the second quarter of 2009 for the portion of goodwill which was deductible for tax purposes. Excluding the impact of the impairment loss, the effective income tax rate was 45.1% and 44.6% for the years ended December 31, 2009 and 2008, respectively. The increase in the effective income tax rate is primarily due to the decrease in income before income taxes, an increase in tax expense in 2009 compared to 2008 related to disregarded foreign entities for tax purposes and an increase in losses by the foreign subsidiaries for which we receive no income tax benefit (see Note 9 to the accompanying Consolidated Financial Statements).

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***Liquidity and Capital Resources***

Working Capital

For the year ended December 31, 2010, our working capital increased $9.9 million from $37.4 million at December 31, 2009 to $47.3 million at December 31, 2010. The increase in working capital is primarily due to an increase in our cash balance due to cash generated from operations during 2010. As of December 31, 2010, we had no long-term debt or short-term borrowings outstanding. We believe that cash generated from operations and borrowings available under the General Physics Credit Agreement ($29.8 million of available borrowings as of December 31, 2010), will be sufficient to fund our working capital and other requirements for at least the next twelve months.

During the year ended December 31, 2010, we used $4.6 million of cash to complete acquisitions, $0.5 million of cash to make a deferred payment related to our 2008 acquisition of PCS, and $0.8 million of cash for contingent consideration payments related to our 2009 acquisition of Milsom. In addition to the upfront purchase prices paid for acquisitions, we may be required to pay the following additional contingent consideration in connection with acquisitions we previously completed (dollars in thousands):

| | Maximum contingent consideration due in | | | | Recorded Liability as of |
|---|---|---|---|---|---|
| **Acquisition:** | **2011** | **2012** | **2013** | **Total** | **Dec. 31, 2010** |
| Milsom * | $ 1,160 | $ 1,160 | $ | $ 2,320 | $ 1,198 |
| Option Six * | 650 | 1,000 | | 1,650 | 902 |
| PerformTech * | | 2,000 | | 2,000 | |
| Marton House * | 1,238 | 1,238 | 1,238 | 3,714 | 2,366 |
| Bath Consulting * | 449 | 851 | 1,052 | 2,352 | 940 |
| Academy of Training * | 155 | | | 155 | 132 |
| Other | 502 | 595 | | 1,097 | 194 |
| Total | $ 4,154 | $ 6,844 | $ 2,290 | $ 13,288 | $ 5,732 |

* In accordance with ASC 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 as well as a market concentration in the automotive sector. For the years ended December 31, 2010, 2009 and 2008, revenue from General Motors accounted for approximately 12%, 16% and 20%, respectively, of our consolidated revenue. Revenue from the automotive industry accounted for approximately 18%, 21% and 28% of our consolidated revenue for the years ended December 31, 2010, 2009 and 2008, respectively. Accounts receivable from General Motors totaled $6.1 million as of December 31, 2010 which is reflected in the consolidated balance sheet. Our accounts receivable balance from General Motors is subject to fluctuation related to our publications business, since the volume and timing of publications shipped varies on a quarter to quarter basis.

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Cash Flows

**Year ended December 31, 2010 compared to the year ended December 31, 2009**

Our cash balance increased $18.1 million from $10.8 million as of December 31, 2009 to $28.9 million as of December 31, 2010. The increase in cash and cash equivalents during the year ended December 31, 2010 resulted from cash provided by operating activities of $26.2 million, cash used in investing activities of $6.7 million, cash used in financing activities of $1.4 million and a $0.1 million negative effect due to exchange rate changes on cash and cash equivalents.

Cash provided by operating activities was $26.2 million for the year ended December 31, 2010 compared to $18.8 million in 2009. The increase in cash provided by operating activities compared to the prior year is primarily due to an increase in net income and favorable changes in working capital items during 2010 compared to 2009.

Cash used in investing activities was $6.7 million for the year ended December 31, 2010 compared to $25.4 million in 2009. The decrease in cash used in investing activities is primarily due to a decrease in cash used for acquisitions during 2010 compared to 2009. We used a total of $5.1 million of cash during the year ended December 31, 2010 for acquisitions, net of cash acquired, compared to $24.2 million of cash during 2009.

Cash used in financing activities was $1.4 million for the year ended December 31, 2010 compared to cash provided by financing activities of $13.2 million in 2009. The decrease in cash is primarily due to $19.6 million of cash proceeds in 2009 from the equity investment by Sagard that did not recur in 2010. In addition, there was a $1.9 million decrease in cash used for share repurchases in 2010 compared to 2009, and $3.2 million in net repayments of short-term borrowings during 2009 compared to zero in 2010. During 2010, we paid $0.8 million of contingent consideration relating to our 2009 acquisition of Milsom in respect of the earnings targets achieved for the first twelve-month period following completion of the acquisition. In accordance with ASC Topic 805, which was adopted effective for all acquisitions after January 1, 2009, the portion of the payment of liability-classified contingent consideration arrangement that is included as part of the initial fair value measurement is classified as a financing activity in the statement of cash flows.

**Year ended December 31, 2009 compared to the year ended December 31, 2008**

Our cash balance increased $6.8 million from $4.0 million as of December 31, 2008 to $10.8 million as of December 31, 2009. The increase in cash and cash equivalents during the year ended December 31, 2009 resulted from cash provided by operating activities of $18.8 million, cash used in investing activities of $25.4 million, cash provided by financing activities of $13.2 million and a $0.2 million positive effect due to exchange rate changes on cash and cash equivalents.

Cash provided by operating activities was $18.8 million for the year ended December 31, 2009 compared to $24.0 million in 2008. The decrease in cash provided by operating activities compared to the prior year is primarily due to a decrease in net income during 2009 compared to 2008 after adding back non-cash adjustments to net income, as well as unfavorable changes in working capital items during 2009 compared to

2008.

Cash used in investing activities was $25.4 million for the year ended December 31, 2009 compared to $7.6 million in 2008. The increase in cash used in investing activities is primarily due to an increase in cash used for acquisitions during 2009 compared to 2008. We used a total of $24.2 million of cash during the year ended December 31, 2009 for acquisitions, net of cash acquired, compared to $4.7 million of cash during the same period in 2008. During 2009, we used $20.7 million to fund the cash purchase price for three acquisitions and paid $3.5 million of contingent consideration and deferred acquisition costs for prior year acquisitions. During 2008, we used $2.0 million to fund the cash purchase price for acquisitions completed in 2008 and paid $2.7 million of contingent consideration for prior year acquisitions which was accounted for under prevailing GAAP prior to the adoption of ASC Topic 805 on January 1, 2009.

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Cash provided by financing activities was $13.2 million for the year ended December 31, 2009 compared to cash used in financing activities of $15.5 million in 2008. The increase in cash provided by financing activities is primarily due to $19.6 of cash proceeds from the equity investment by Sagard in December 2009, a $6.6 million decrease in cash used for share repurchases in 2009 compared to 2008, and a $3.6 million decrease in net repayments of long-term debt and short-term borrowings during 2009 compared to 2008. These increases in cash provided by financing activities were offset by a $2.0 million decrease in income tax benefits for stock compensation during 2009 compared to 2008.

Short-term Borrowings

General Physics has a $35 million Credit Agreement with a bank that expires on October 31, 2012, 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 December 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 amended Credit Agreement as of December 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 $6.6 million remaining available for future share repurchases under the $10 million authorized amount as of December 31, 2010. General Physics is otherwise currently restricted from paying dividends or management fees to GP Strategies in excess of $1 million in any year. As of December 31, 2010, there were no borrowings outstanding and $29.8 million of available borrowings under the Credit Agreement, based upon 80% of eligible accounts receivable and 80% of eligible unbilled receivables.

Contractual Payment Obligations

We enter into various agreements that result in contractual obligations in connection with our business activities. These obligations primarily relate to our financing arrangements, such as capital leases, as well operating leases and purchase commitments under non-cancelable contracts for certain products and services. The following table summarizes our total contractual payment obligations as of December 31, 2010 (in thousands):

| | Payments due in | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012<br>2013 | 2014<br>2015 | After<br>2016 | Total |
| Capital lease commitments | $ 5 | $ 14 | $ | $ | $ 19 |
| Operating lease commitments | 5,664 | 8,582 | 3,892 | 1,221 | 19,359 |
| Purchase commitments * | 1,578 | 866 | | | 2,444 |
| Total | $ 7,247 | $ 9,462 | $ 3,892 | $ 1,221 | $ 21,822 |

* Excludes purchase orders for goods and services entered into by the Company in the ordinary course of business, which are non-binding and subject to amendment or termination within a reasonable notification period.

The table above excludes contingent consideration in connection with acquisitions which may be payable to the sellers if the revenue and/or earnings targets set forth in the purchase agreements are achieved (see Note 2 to the Consolidated Financial Statements.)

Off-Balance Sheet Commitments

Subsequent to the spin-off of NPDC in 2004, we continued to guaranty the lease of a warehouse used by NPDC s subsidiary, Five Star Products, Inc. In connection with the spin-off of NPDC, NPDC agreed to assume our obligations under the guaranty, to use commercially reasonable efforts to cause us to be released from the guaranty, and to hold us

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harmless from all claims, expenses and liabilities connected with the lease or NPDC s breach of any agreements effecting the spin-off. In connection with the warehouse lease, the landlord subsequently agreed to release us from liability under the guaranty if we delivered a letter of credit for $0.1 million to secure the tenant s obligations under the lease. We delivered the letter of credit in 2010 and understand that the term of the lease ended February 28, 2011. We do not expect to incur any material payments associated with this guaranty, and as such, no liability is reflected in the consolidated balance sheets.

As of December 31, 2010, we had two outstanding letters of credit totaling $0.1 million, which expire in 2011**.** We do not have any off-balance sheet financing except for operating leases and letters of credit entered into in the normal course of business and the items disclosed above.

***Management Discussion of Critical Accounting Policies***

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Certain of our accounting policies require higher degrees of judgment than others in their application. These include revenue recognition, valuation of accounts receivable, stock-based compensation, impairment of intangible assets, including goodwill, valuation of contingent consideration for business acquisitions, and income taxes, which are summarized below. In addition, Note 1 to the accompanying Consolidated Financial Statements includes further discussion of our significant accounting policies.

Revenue Recognition

We provide services under time-and-materials, cost-reimbursable, fixed price and fixed-fee per transaction contracts to both government and commercial customers. Each contract has different terms based on the scope, deliverables and complexity of the engagement, requiring us to make judgments and estimates about recognizing revenue. Revenue is recognized as services are performed.

Under time-and-materials contracts, as well as certain government cost-reimbursable and certain fixed price contracts, the contractual billing schedules are based on the specified level of resources we are obligated to provide. As a result, for these level-of-effort contracts, the contractual billing amount for the period is a measure of performance and, therefore, revenue is recognized in that amount.

Revenue under government fixed price and certain commercial fixed price contracts is recognized using the percentage-of-completion method. Under the percentage-of-completion method, management estimates the percentage-of-completion based upon costs incurred as a percentage of the total estimated costs.

For other commercial fixed price contracts which typically involve a discrete project, such as development of training content and materials, design of training processes, software implementation, or engineering projects, the contractual billing schedules are not based on the specified level of resources we are obligated to provide. These discrete projects generally do not contain milestones or other reliable measures of performance. As a result, revenue on these arrangements is recognized using a percentage-of-completion method based on the relationship of costs incurred to total estimated costs expected to be incurred over the term of the contract. We believe this methodology is a reasonable measure of proportional performance since performance primarily involves personnel costs and services provided to the customer throughout the course of the projects through regular communications of progress toward completion and other project deliverables. In addition, the customer typically is required to pay us for the proportionate amount of work and cost incurred in the event of contract termination.

When total cost estimates exceed revenues, the estimated losses are recognized immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenues and

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costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in estimated salaries and other costs. Estimates of total contract revenues and costs are continuously monitored during the term of the contract, and recorded revenues and costs are subject to revision as the contract progresses. When revisions in estimated contract revenues and costs are determined, such adjustments are recorded in the period in which they are first identified.

For certain commercial fixed-fee per transaction contracts, such as providing training courses, revenue is recognized during the period in which services are delivered in accordance with the pricing outlined in the contracts.

For certain fixed-fee per transaction and fixed price contracts in which the output of the arrangement is measurable, such as for the shipping of publications and print materials, revenue is recognized when the deliverable is met and the product is delivered based on the output method of performance.  The customer is required to pay for the cost incurred in the event of contract termination.

Certain of our fixed price commercial contracts contain revenue arrangements with multiple deliverables.  Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables can be divided into more than one unit of accounting. For contracts determined to have more than one unit of accounting, we recognize revenue for each deliverable based on the revenue recognition policies discussed above; that is, we recognize revenue in accordance with work performed and costs incurred, with the fee being allocated proportionately over the service period.  Within each multiple deliverable project, there is objective and reliable fair value across all units of the arrangement, as discounts are not offered or applied to one deliverable versus another, and the rates bid across all deliverables are consistent.

As part of our on-going operations to provide services to our customers, incidental expenses, which are commonly referred to as out-of-pocket expenses, are billed to customers, either directly as a pass-through cost or indirectly as a cost estimated in proposing on fixed price contracts. Out-of-pocket expenses include expenses such as airfare, mileage, hotel stays, out-of-town meals and telecommunication charges. Our policy provides for these expenses to be recorded as both revenue and direct cost of services.

In connection with our delivery of products, primarily for publications delivered by our Sandy segment, we incur shipping and handling costs which are billed to customers directly as a pass-through cost.  Our policy provides for these expenses to be recorded as both revenue and direct cost of revenue.

Valuation of Accounts Receivable

Trade accounts receivable are recorded at invoiced amounts. We evaluate the collectability of trade accounts receivable based on a combination of factors. When aware that a specific customer may be unable to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer s operating results or financial position, we evaluate the need to record a specific reserve for bad debt to reduce the related receivable to the amount we reasonably believe is collectible. We also record reserves for bad debt for all other customers based on a variety of factors, including the length of time the receivables are past due, historical collection experience and trends of past due accounts, write-offs and specific identification and review of past due accounts. Actual collections of trade receivables could differ from management s estimates due to changes in future economic or industry conditions or specific customers financial conditions. The allowance for doubtful accounts was $0.7 million at December 31, 2010.

Stock-Based Compensation

Pursuant to our stock-based incentive plans, we grant stock options, restricted stock, stock units, and equity to officers, employees, and members of the Board of Directors. We recognize compensation expense for all equity-based compensation awards issued to employees using the fair-value measurement method. Determining the appropriate fair value of stock options requires judgment, including estimating stock price volatility and expected life of the award. In addition, determining appropriate forfeiture rates requires judgment, including estimating the number of stock-based compensation awards that are expected to vest.

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We recognize compensation expense on a straight-line basis over the requisite service period for stock-based compensation awards with both graded and cliff vesting terms. We apply a forfeiture estimate to compensation expense recognized for awards that are expected to vest during the requisite service period, and revise that estimate if subsequent information indicates that the actual forfeitures will differ from the estimate. We recognize the cumulative effect of a change in the number of awards expected to vest in compensation expense in the period of change. We do not capitalize any portion of our stock-based compensation. We estimate the fair value of our stock options on the date of grant using the Black-Scholes option pricing model, which requires various assumptions such as expected term, expected stock price volatility and risk-free interest rate. We estimate the expected term of stock options granted taking into consideration historical data related to stock option exercises. We use historical stock price data in order to estimate the expected volatility factor of stock options granted. The risk-free interest rate for the periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Impairment of Intangible Assets, Including Goodwill

We review goodwill for impairment annually as of December 31 and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. A reporting unit is an operating segment, or one level below an operating segment, as defined by U.S. GAAP. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit s assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value allocated to goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. We evaluate the reasonableness of the fair value calculations of our reporting units by reconciling the total of the fair values of all of our reporting units to our total market capitalization, and adjusting for an appropriate control premium.

Our reporting units are: (i) Manufacturing, (ii) E-Business & Learning Solutions ( EBLS ), (iii) Process & Government (iv) Energy; and (v) Sandy. The Manufacturing & EBLS reporting units comprise our Manufacturing & BPO segment and the Process & Government, Energy and Sandy reporting units each represent a separate reportable segment. The Process & Government reporting unit previously consisted of two reporting units (Process & Aerospace and Homeland Security Environmental & Emergency Management). In the first quarter of 2010, due to a change in management, the two reporting units became one reporting unit, Process & Government. Our goodwill balances as of December 31, 2010 for each reporting unit were as follows (in thousands):

| **Reporting Unit** | | |
|---|---|---|
| Manufacturing | $ | 22,909 |
| EBLS | | 27,390 |
| Process & Government | | 14,527 |
| Energy | | 8,170 |
| Sandy | | |
| | $ | 72,996 |

We determine the fair value of our reporting units using a discounted cash flow approach. The discounted cash flow analysis incorporates management s cash flow projections over a five-year period and a terminal value is calculated by applying a capitalization rate to terminal year projections based on an estimated long-term growth rate. The five-year projected cash flows and calculated terminal value are discounted using a weighted average cost of capital ( WACC ) which takes into account the costs of debt and equity. The cost of equity is based on the risk-free interest rate, equity risk premium, industry and size equity premiums and any additional market equity risk premiums as deemed appropriate for each reporting unit. To arrive at a fair value for each reporting unit, the terminal value is discounted by the WACC and added to the present value of the estimated cash flows over the discrete five-year period. There are a number of other variables which impact the projected cash flows, such as expected revenue growth and profitability

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levels, working capital requirements, capital expenditures and related depreciation and amortization. In addition, we make certain judgments in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

***Annual Impairment Test as of December 31, 2010***

We tested the goodwill of each of our reporting units as of December 31, 2010 and the estimated fair values of each reporting unit exceeded their respective carrying values, indicating the underlying goodwill of each unit was not impaired. Each of our reporting units had a substantial excess of fair value over their respective carrying values.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing will prove to be accurate predictions of the future. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. If our assumptions regarding forecasted revenue or profitability growth rates of certain reporting units are not achieved, we may be required to recognize goodwill impairment charges in future periods, whether in connection with our next annual impairment testing or prior to that, if any such change constitutes a triggering event that requires us to test for impairment during an interim period. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present.

***Interim Impairment Test as of June 30, 2009***

Based upon indicators of impairment in the second quarter of 2009, which included significantly lower than projected revenue and profit and a revised lower outlook for a longer period of time for certain of our reporting units, we performed an interim impairment test on our Manufacturing and Process & Aerospace reporting units as of June 30, 2009. During the second quarter of 2009, the Manufacturing reporting unit s revenue and profit projections were significantly lowered as a result of the impact of the economic recession and the corresponding reduction in spending by several customers. The Process & Aerospace reporting unit s profit projections were decreased due to a lower profit margin as a percentage of revenue experienced by this reporting unit, despite revenue being in line with projections, and a change in projected future profit margin which was lower than previously assumed. We determined that the fair value of our Manufacturing reporting unit was below its carrying value and recognized a goodwill impairment loss of $9.9 million for the three months ended June 30, 2009 related to this reporting unit. We determined that the fair value of our Process & Aerospace reporting unit was above its carrying value and no impairment was indicated as of June 30, 2009. During the second quarter of 2009 and in connection with the goodwill impairment loss discussed above, we also recorded an intangible asset impairment loss of $0.3 million relating to a non-compete agreement that was no longer deemed to have value as of June 30, 2009.

***Annual Impairment Test as of December 31, 2009***

We tested the goodwill of each of our reporting units as of December 31, 2009 and the estimated fair values of each reporting unit exceeded their respective carrying values, indicating the underlying goodwill of each unit was not impaired. Each of our reporting units had a substantial excess of fair value over their respective carrying values.

***Annual Impairment Test as of December 31, 2008***

As of December 31, 2008, the carrying value of our Sandy reporting unit exceeded its estimated fair value, indicating the underlying goodwill was impaired at the testing date. As a result of performing the second step of the goodwill impairment test, we recognized an impairment loss of $5.5 million for the year ended December 31, 2008. The goodwill impairment loss was attributable to a significant decline in our market capitalization during the fourth quarter of 2008 and uncertainty regarding the automotive industry, which resulted in a reduction in the future cash flow projections and comparable company multiples used in the fair value calculation as compared to the prior year.

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Valuation of Contingent Consideration for Business Acquisitions

Acquisitions may include contingent consideration payments based on future financial measures of an acquired company. For acquisitions completed before 2009, these obligations were recognized as incurred and accounted for as an adjustment to the initial purchase price of the acquired assets. For acquisitions in 2009 and beyond, contingent consideration is required to be recognized at fair value as of the acquisition date. We estimate the fair value of these 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 acquisition will be reflected in income or expense in the consolidated statements of operations, and could cause a material impact to 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.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, assessing tax rates that we expect to apply and determining the years when the temporary differences are expected to affect taxable income requires judgment about the future apportionment of our income among the states in which we operate.

The measurement of deferred taxes often involves an exercise of judgment related to the computation and realization of tax basis. Our deferred tax assets and liabilities reflect our assessment that tax positions taken, and the resulting tax basis, are more likely than not to be sustained if they are audited by taxing authorities. We establish accruals for uncertain tax positions taken or expected to be taken in a tax return 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. A number of years may elapse before a particular matter, for which we have or have not established an accrual, is audited and finally resolved. Favorable or unfavorable adjustment of the accrual for any particular issue would be recognized as an increase or decrease to our income tax expense in the period of a change in facts and circumstances.

In assessing the realizability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future income during the periods in which temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon these factors, we believe it is more likely than not that we will realize the benefits of our deferred tax assets, net of the valuation allowance. The valuation allowance relates to both foreign and domestic net operating loss carryforwards for which we do not believe the benefits may be realized.

The above matters, and others, involve the exercise of significant judgment. Any changes in our practices or judgments involved in the measurement of deferred tax assets and liabilities could materially impact our financial condition or results of operations.

***Accounting Standards Issued and Adopted***

We discuss recently issued and adopted accounting standards in Note 1 to the accompanying Consolidated Financial Statements.

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**Item 7A: Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to the impact of interest rate, market risks and currency fluctuations. In the normal course of business, we employ internal processes to manage our exposure to interest rate, market risks and currency fluctuations. Our objective in managing our interest rate risk is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs.

We are exposed to the impact of currency fluctuations because of our international operations. We are not a party to any exchange rate hedging programs to mitigate the effect of exchange rate fluctuations. Our net investment in our foreign subsidiaries, including intercompany balances, at December 31, 2010 was not significant and, accordingly, fluctuations in foreign currency did not have a material impact on our financial position.

Our revenues and profitability are related to general levels of economic activity and employment, principally in the United States and the United Kingdom. As a result, any significant economic downturn or recession in one or both of those countries could harm our business and financial condition. A significant portion of our revenues is derived from Fortune 500 level companies and their international equivalents, which historically have adjusted expenditures for training and other services during economic downturns. If the economies in which these companies operate remain or are further weakened in any future period, these companies may reduce their expenditures on training and other services, which could adversely affect our business and financial condition.

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**Item 8: Financial Statements and Supplementary Data**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

GP Strategies Corporation:

We have audited the accompanying consolidated balance sheets of GP Strategies Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed under item 15a(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GP Strategies Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (ASC Topic 805), on January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), GP Strategies Corporation and subsidiaries internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Baltimore, Maryland

March 3, 2011

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

GP Strategies Corporation:

We have audited GP Strategies Corporation s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). GP Strategies Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting (Item 9A(b)). Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, GP Strategies Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of GP Strategies Corporation as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 3, 2011, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Baltimore, Maryland

March 3, 2011

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2010 and 2009

(In thousands, except shares and par value per share)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 28,902 | $ | 10,803 |
| Accounts and other receivables, less allowance for doubtful accounts of $701 in 2010 and $566 in 2009 | | 47,874 | | 45,471 |
| Inventories, net | | 305 | | 557 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | | 12,929 | | 10,590 |
| Deferred tax assets | | 1,759 | | 1,143 |
| Prepaid expenses and other current assets | | 4,054 | | 5,549 |
| Total current assets | | 95,823 | | 74,113 |
| | | | | |
| Property, plant and equipment, net | | 2,965 | | 3,121 |
| Goodwill | | 72,996 | | 67,283 |
| Intangible assets, net | | 9,795 | | 10,248 |
| Other assets, net | | 1,617 | | 1,936 |
| | $ | 183,196 | $ | 156,701 |
| **Liabilities and Stockholders Equity** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | $ | 32,694 | $ | 23,464 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | | 15,807 | | 13,272 |
| Total current liabilities | | 48,501 | | 36,736 |
| Deferred tax liabilities | | 3,423 | | 1,275 |
| Other noncurrent liabilities | | 6,485 | | 7,800 |
| Total liabilities | | 58,409 | | 45,811 |
| | | | | |
| Stockholders equity: | | | | |
| Preferred stock, par value $0.01 per share; Authorized 10,000,000 shares; no shares issued | | | | |
| Common stock, par value $0.01 per share; Authorized 35,000,000 shares; issued 18,709,260 shares in 2010 and 18,588,391 shares in 2009 | | 187 | | 186 |
| Additional paid-in capital | | 163,422 | | 161,975 |
| Accumulated deficit | | (36,593) | | (49,325) |
| Treasury stock, at cost (219 shares in 2010 and zero shares in 2009) | | (2) | | |
| Accumulated other comprehensive loss | | (2,227) | | (1,946) |
| Total stockholders equity | | 124,787 | | 110,890 |
| | $ | 183,196 | $ | 156,701 |

See accompanying notes to consolidated financial statements.

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 2010, 2009 and 2008

(In thousands, except per share data)

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenue | $ 259,926 | $ 219,240 | $ 267,893 |
| Cost of revenue | 217,236 | 185,149 | 227,084 |
| Gross profit | 42,690 | 34,091 | 40,809 |
| Selling, general and administrative expenses | 23,466 | 20,800 | 21,538 |
| Gain on change in fair value of contingent consideration, net | 1,313 | | |
| Goodwill and intangible asset impairment loss | | 10,163 | 5,508 |
| Operating income | 20,537 | 3,128 | 13,763 |
| Interest expense | 236 | 217 | 699 |
| Other income (including interest income of $105 in 2010, $63 in 2009 and $88 in 2008) | 551 | 484 | 1,086 |
| Income before income taxes | 20,852 | 3,395 | 14,150 |
| Income tax expense | 8,120 | 4,585 | 6,313 |
| Net income (loss) | $ 12,732 | $ (1,190) | $ 7,837 |
| | | | |
| Basic weighted average shares outstanding | 18,621 | 15,835 | 16,516 |
| Diluted weighted average shares outstanding | 18,729 | 15,911 | 16,638 |
| | | | |
| Per common share data: | | | |
| Basic earnings (loss) per share | $ 0.68 | $ (0.08) | $ 0.47 |
| Diluted earnings (loss) per share | $ 0.68 | $ (0.07) | $ 0.47 |

See accompanying notes to consolidated financial statements.

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss)

Years ended December 31, 2010, 2009 and 2008

(In thousands, except for par value per share)

| | Common stock ($0.01 par) | Additional paid-in capital | Accumulated deficit | Treasury stock at cost | Accumulated other comprehensive loss | Total stockholders equity | Comprehensive income |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2007 | $ 178 | $ 156,422 | $ (55,972) | $ (9,785) | $ (461) | $ 90,382 | |
| Net income | | | 7,837 | | | 7,837 | $ 7,837 |
| Other comprehensive loss | | | | | (2,168) | (2,168) | (2,168) |
| Total comprehensive income | | | | | | | $ 5,669 |
| Repurchases of common stock in the open market | | | | (8,797) | | (8,797) | |
| Stock-based compensation expense | | 898 | | 155 | | 1,053 | |
| Exercise of warrants | | (243) | | 1,179 | | 936 | |
| Income tax benefit from stock-based compensation | | 1,964 | | | | 1,964 | |
| Net issuances of stock pursuant to stock compensation and benefit plans and other | | (579) | | 2,178 | | 1,599 | |
| Balance at December 31, 2008 | $ 178 | $ 158,462 | $ (48,135) | $ (15,070) | $ (2,629) | $ 92,806 | |
| Net loss | | | (1,190) | | | (1,190) | $ (1,190) |
| Other comprehensive income | | | | | 683 | 683 | 683 |
| Total comprehensive loss | | | | | | | $ (507) |
| Repurchases of common stock in the open market | | | | (2,166) | | (2,166) | |
| Equity investment by Sagard Capital Partners, L.P. | 8 | 3,953 | | 15,620 | | 19,581 | |
| Stock-based compensation expense | | 1,231 | | 208 | | 1,439 | |
| Net issuances of stock pursuant to stock compensation and benefit plans and other | | (1,671) | | 1,408 | | (263) | |
| Balance at December 31, 2009 | $ 186 | $ 161,975 | $ (49,325) | $ | $ (1,946) | $ 110,890 | |
| Net income | | | 12,732 | | | 12,732 | $ 12,732 |
| Other comprehensive loss | | | | | (281) | (281) | (281) |
| Total comprehensive income | | | | | | | $ 12,451 |
| Repurchases of common stock in the open market | | | | (266) | | (266) | |
| Stock-based compensation expense | | 1,657 | | | | 1,657 | |
| Net issuances of stock pursuant to stock compensation and benefit | 1 | (210) | | 264 | | 55 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| plans and other | | | | | | | | | | | |
| Balance at December 31, 2010 | $ | 187 | $ | 163,422 | $ | (36,593) | $ | (2) | $ | (2,227) | $ 124,787 |

See accompanying notes to consolidated financial statements.

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2010, 2009 and 2008

(In thousands)

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $ 12,732 | $ (1,190) | $ 7,837 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Goodwill and intangible asset impairment loss | | 10,163 | 5,508 |
| Gain on change in fair value of contingent consideration | (1,313) | | |
| Depreciation and amortization | 4,230 | 3,380 | 3,448 |
| Non-cash compensation expense | 2,012 | 1,638 | 2,776 |
| Deferred income taxes | 1,064 | 1,862 | 66 |
| Changes in other operating items, net of acquired amounts: | | | |
| Accounts and other receivables | (13) | 2,329 | 4,941 |
| Inventories | 252 | (20) | 40 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (1,771) | (1,163) | 6,057 |
| Prepaid expenses and other current assets | 1,502 | 637 | (1,247) |
| Accounts payable and accrued expenses | 5,145 | (2,076) | (3,262) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 2,084 | 2,815 | (1,736) |
| Other | 266 | 401 | (458) |
| Net cash provided by operating activities | 26,190 | 18,776 | 23,970 |
| | | | |
| Cash flows from investing activities: | | | |
| Additions to property, plant and equipment | (1,531) | (1,174) | (1,936) |
| Acquisitions, net of cash acquired | (4,621) | (20,773) | (2,004) |
| Deferred acquisition payments, including contingent consideration | (500) | (3,464) | (2,665) |
| Purchase of intellectual property | | | (1,000) |
| Net cash used in investing activities | (6,652) | (25,411) | (7,605) |
| | | | |
| Cash flows from financing activities: | | | |
| Net proceeds from (repayment of) short-term borrowings | | (3,234) | 281 |
| Repayment of long-term debt | | | (7,085) |
| Equity investment by Sagard Capital Partners, L.P. | | 19,581 | |
| Contingent consideration payments | (775) | | |
| Change in negative cash book balance | 5 | (595) | (1,783) |
| Repurchases of common stock in the open market | (266) | (2,166) | (8,797) |
| Income tax benefit from stock-based compensation | 129 | | 1,964 |
| Proceeds from issuance of common stock | 39 | 51 | 55 |
| Other financing activities | (502) | (408) | (137) |
| Net cash provided by (used in) financing activities | (1,370) | 13,229 | (15,502) |

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2010, 2009 and 2008

(In thousands)

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | (69) | 248 | (770) |
| Net increase in cash and cash equivalents | 18,099 | 6,842 | 93 |
| Cash and cash equivalents at beginning of year | 10,803 | 3,961 | 3,868 |
| Cash and cash equivalents at end of year | $ 28,902 | $ 10,803 | $ 3,961 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 36 | $ 46 | $ 374 |
| Income taxes | $ 5,570 | $ 3,110 | $ 2,430 |
| | | | |
| Non-cash investing and financing activities: | | | |
| Accrued contingent consideration | $ 2,880 | $ 5,058 | $ 2,500 |
| Reduction in carrying value of long-term debt upon exercise of detachable stock purchase warrants | | | 936 |

See accompanying notes to consolidated financial statements.

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(1) Description of Business and Significant Accounting Policies**

***Business***

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 its subsidiary, 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.

***FASB Codification***

The Company follows accounting standards set by the Financial Accounting Standards Board ( FASB ). The FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure it consistently reports its financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification,* sometimes referred to as the Codification or ASC.

***Principles of Consolidation***

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

***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. Revenue from General Motors accounted for approximately 12%, 16% and 20% of the Company s consolidated revenue for the years ended December 31, 2010, 2009 and 2008, respectively, and revenue from the automotive industry accounted for approximately 18%, 21% and 28% of the Company s consolidated revenue for the years ended December 31, 2010, 2009 and 2008, respectively. Accounts receivable from General Motors totaled $6,058,000 and $7,806,000 as of December 31, 2010 and 2009, respectively, which is reflected in the consolidated balance sheet. No other single customer accounted for more than 10% of the Company s revenue in 2010 or accounts receivable as of December 31, 2010.

For the years ended December 31, 2010, 2009 and 2008, sales to the United States government and its agencies represented approximately 22%, 23% and 18%, 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.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of short-term highly liquid investments with original maturities of three months or less. Outstanding checks which have been issued but not presented to the banks for payment may create negative book cash balances. We transfer cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. Such negative cash balances are included in accounts payable and accrued expenses and totaled $5,000 and $0 as of December 31, 2010 and 2009, respectively. Changes in negative book cash balances from period to period are reported as a financing activity in the consolidated statement of cash flows.

***Allowance for Doubtful Accounts Receivable***

Trade accounts receivable are recorded at invoiced amounts. The Company evaluates the collectability of trade accounts receivable based on a combination of factors. When aware that a specific customer may be unable to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer s operating results or financial position, the Company evaluates the need to record a specific reserve for bad debt

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to reduce the related receivable to the amount the Company reasonably believes is collectible. The Company also records reserves for bad debt for all other customers based on a variety of factors, including the length of time the receivables are past due, historical collection experience and trends of past due accounts, write-offs and specific identification and review of past due accounts. Actual collections of trade receivables could differ from management s estimates due to changes in future economic or industry conditions or specific customers financial conditions.

***Foreign Currency Translation***

The functional currency of the Company s international operations is the respective local currency. The translation of the foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted average exchange rates prevailing during the year. The unrealized gains and losses resulting from such translation are included as a component of other comprehensive income.

***Revenue Recognition***

The Company provides services under time-and-materials, cost-reimbursable, and fixed price (including fixed-fee per transaction) contracts to both government and commercial customers. Each contract has different terms based on the scope, deliverables and complexity of the engagement, requiring the Company to make judgments and estimates about recognizing revenue. Revenue is recognized as services are performed.

Under time-and-materials contracts, as well as certain government cost-reimbursable and certain fixed price contracts, the contractual billing schedules are based on the specified level of resources the Company is obligated to provide. As a result, for these level-of-effort contracts, the contractual billing amount for the period is a measure of performance and, therefore, revenue is recognized in that amount.

Revenue under government fixed price and certain commercial fixed price contracts is recognized using the percentage-of-completion method. Under the percentage-of-completion method, management estimates the percentage-of-completion based upon costs incurred as a percentage of the total estimated costs.

For other commercial fixed price contracts which typically involve a discrete project, such as development of training content and materials, design of training processes, software implementation, or engineering projects, the contractual billing schedules are not based on the specified level of resources the Company is obligated to provide. These discrete projects generally do not contain milestones or other reliable measures of performance. As a result, revenue on these arrangements is recognized using a percentage-of-completion method based on the relationship of costs incurred to total estimated costs expected to be incurred over the term of the contract. The Company believes this methodology is a reasonable measure of proportional performance since performance primarily involves personnel costs and services provided to the customer throughout the course of the projects through regular communications of progress toward completion and other project deliverables. In addition, the customer typically is required to pay the Company for the proportionate amount of work and cost incurred in the event of contract termination.

When total cost estimates exceed revenues, the estimated losses are recognized immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenues and costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in estimated salaries and other costs. Estimates of total contract revenues and costs are continuously monitored during the term of the contract, and recorded revenues and costs are subject to revision as the contract progresses. When revisions in estimated contract revenues and costs are determined, such adjustments are recorded in the period in which they are first identified.

For certain commercial fixed-fee per transaction contracts, such as providing training courses, revenue is recognized during the period in which services are delivered in accordance with the pricing outlined in the contracts.

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For certain fixed-fee per transaction and fixed price contracts in which the output of the arrangement is measurable, such as for the shipping of publications and print materials, revenue is recognized when the deliverable is met and the product is delivered based on the output method of performance. The customer is required to pay for the cost incurred in the event of contract termination.

Certain of the Company s fixed price commercial contracts contain revenue arrangements with multiple deliverables. Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables can be divided into more than one unit of accounting. For contracts determined to have more than one unit of accounting, the Company recognizes revenue for each deliverable based on the revenue recognition policies discussed above; that is, the Company recognizes revenue in accordance with work performed and costs incurred, with the fee being allocated proportionately over the service period. Within each multiple deliverable project, there is objective and reliable fair value across all units of the arrangement, as discounts are not offered or applied to one deliverable versus another, and the rates bid across all deliverables are consistent.

As part of the Company s on-going operations to provide services to its customers, incidental expenses, which are commonly referred to as out-of-pocket expenses, are billed to customers, either directly as a pass-through cost or indirectly as a cost estimated in proposing on fixed price contracts. Out-of-pocket expenses include expenses such as airfare, mileage, hotel stays, out-of-town meals and telecommunication charges. The Company s policy provides for these expenses to be recorded as both revenue and direct cost of services.

In connection with the delivery of products, primarily for publications delivered by the Sandy Training & Marketing segment, the Company incurs shipping and handling costs which are billed to customers directly as a pass-through cost. The Company s policy provides for these expenses to be recorded as both revenue and direct cost of revenue.

***Contract Related Assets and Liabilities***

Costs and estimated earnings in excess of billings on uncompleted contracts in the accompanying consolidated balance sheets represent unbilled amounts earned and reimbursable under contracts in progress. These amounts become billable according to the contract terms, which usually consider the passage of time, achievement of milestones or completion of the project. Generally, such unbilled amounts will be billed and collected over the next twelve months.

Billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets represent advanced billings to clients on contracts in advance of work performed. Generally, such amounts will be earned and recognized in revenue over the next twelve months.

***Comprehensive Income (Loss)***

Comprehensive income (loss) consists of net income and foreign currency translation adjustments, net of tax.

***Inventories***

Inventories are stated at lower of cost or market, with cost determined using an average cost method.

***Property, Plant and Equipment***

Property, plant and equipment are carried at cost (or fair value at acquisition date for assets obtained through business combinations). Major additions and improvements are capitalized, while maintenance and repairs which do not extend the lives of the assets are expensed as incurred. Gain or loss on the disposition of property, plant and equipment is recognized in operations when realized.

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Depreciation of property, plant and equipment is recognized on a straight-line basis over the following estimated useful lives:

| Class of assets | Useful life |
|---|---|
| Buildings and improvements | 5 to 40 years |
| Machinery, equipment, and furniture and fixtures | 3 to 10 years |
| Leasehold improvements | Shorter of asset life or term of lease |

***Impairment of Long-Lived Assets***

Long-lived assets, such as property, plant, and equipment, and intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized at the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

***Goodwill and Intangible Assets***

The Company s intangible assets include amounts recognized in connection with acquisitions, including customer relationships, contract backlog and software. Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets, except for contract backlog which is recognized in proportion to the projected revenue streams of the related backlog. Intangible assets with definite lives are reviewed for impairment if indicators of impairment arise. Except for goodwill, the Company does not have any intangible assets with indefinite useful lives.

Goodwill represents the excess of costs over fair value of assets of businesses acquired. The Company reviews its goodwill for impairment annually as of December 31 and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company performs a two-step impairment test on goodwill. In the first step, the Company compares the fair value of each reporting unit to its carrying value. A reporting unit is an operating segment, or one level below an operating segment, as defined by U.S. GAAP. The Company determines the fair value of its reporting units based on an income approach, whereby it calculates the fair value of each reporting unit based on the present value of estimated future cash flows, which are formed by evaluating historical trends, current budgets, operating plans and industry data. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit s assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value allocated to goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded. The Company evaluates the reasonableness of the fair value calculations of its reporting units by reconciling the total of the fair values of all reporting units to the Company s total market capitalization, and adjusting for an appropriate control premium.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. The Company bases its fair value estimates on

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assumptions it believes to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, the Company makes certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of its reporting units. The timing and frequency of the Company s goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. The Company will continue to monitor its goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present.

The Company tested the goodwill of all of its reporting units as of December 31, 2010 and 2009 and the estimated fair values of each reporting unit exceeded their respective carrying values, indicating the underlying goodwill of each unit was not impaired.

Based upon indicators of impairment in the second quarter of 2009, which included significantly lower than projected revenue and profit and a revised lower outlook for certain reporting units, the Company performed an interim impairment test on its Manufacturing and Process & Aerospace reporting units as of June 30, 2009. The Manufacturing reporting unit s revenue and profit projections were significantly lowered as a result of the impact of the economic recession and the corresponding reduction in spending by several customers. The Process & Aerospace reporting unit s profit projections were decreased due to a lower profit margin as a percentage of revenue experienced by this reporting unit, despite revenue being in line with projections, and a change in projected future profit margin which was lower than previously assumed. The Company determined that the fair value of its Manufacturing reporting unit was below its carrying value and recognized a goodwill impairment loss of $9,909,000 for the second quarter of 2009 related to this reporting unit. The Company determined that the fair value of its Process & Aerospace reporting unit was above its carrying value and no impairment was indicated as of June 30, 2009. During the second quarter of 2009 and in connection with the goodwill impairment loss discussed above, the Company also recorded an intangible asset impairment loss of $254,000 relating to a non-compete agreement that was no longer deemed to have value as of June 30, 2009.

As of December 31, 2008, the carrying value of the Company s Sandy reporting unit exceeded its estimated fair value, indicating the underlying goodwill was impaired at the testing date. As a result of performing the second step of the goodwill impairment test, the Company recognized an impairment loss of $5,508,000 for the year ended December 31, 2008. The goodwill impairment loss was attributable to a significant decline in the Company s market capitalization during the fourth quarter of 2008 and uncertainty regarding the automotive industry, which resulted in a reduction in the future cash flow projections and comparable company multiples used in the fair value calculation in the impairment test.

***Contingent Consideration for Business Acquisitions***

Acquisitions may include contingent consideration payments based on future financial measures of an acquired company. For acquisitions completed before 2009, these obligations were recognized as incurred and accounted for as an adjustment to the initial purchase price of the acquired assets. For acquisitions in 2009 and beyond, contingent consideration is required to be recognized at fair value as of the acquisition date. The Company estimates the fair value of these liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. At each reporting date, the contingent consideration obligation will be revalued to estimated fair value and changes in fair value subsequent to the acquisition will be reflected in income or expense in the consolidated statements of operations, and could cause a material impact to 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.

***Other Assets***

Other assets primarily include deferred financing costs, certain software development and implementation costs, an investment in a joint venture and other assets obtained to fulfill customer related contract obligations. Deferred financing costs are amortized on a straight-line basis over the terms of the related financing arrangement and such amortization is classified as interest expense in the consolidated statements of operations.

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The Company capitalizes the cost of internal-use software in accordance with ASC Topic 350-40, *Internal-Use Software*. These costs consist of payments made to third parties for software development and implementation and are amortized using the straight-line method over their estimated useful lives, typically three to five years. The Company accounts for a 5% interest in a joint venture partnership under the equity method of accounting because significant influence exists due to certain factors, including representation on the partnership s Management Board and voting rights.

***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company establishes accruals for uncertain tax positions taken or expected to be taken in a tax return 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. Favorable or unfavorable adjustment of the accrual for any particular issue would be recognized as an increase or decrease to income tax expense in the period of a change in facts and circumstances. Interest and penalties related to income taxes are accounted for as income tax expense.

***Earnings per Share***

Basic earnings per 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, 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 weighted average dilutive common stock equivalent shares which were included in the computation of diluted EPS:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | | **(In thousands)** | |
| Non-dilutive instruments | 1,299 | 976 | 1,168 |
| Dilutive common stock equivalents | 108 | 76 | 122 |

***Stock-Based Compensation***

Pursuant to the stock-based incentive plans which are described more fully in Note 11, the Company grants stock options, restricted stock, stock units, and equity to officers, employees, and members of the Board of Directors. The Company recognizes compensation expense for all equity-based compensation awards issued to employees using the fair-value measurement method.

The Company recognizes compensation expense on a straight-line basis over the requisite service period for stock-based compensation awards with both graded and cliff vesting terms. The Company applies a forfeiture

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estimate to compensation expense recognized for awards that are expected to vest during the requisite service period, and revises that estimate if subsequent information indicates that the actual forfeitures will differ from the estimate. The Company recognizes the cumulative effect of a change in the number of awards expected to vest in compensation expense in the period of change. The Company does not capitalize any portion of its stock-based compensation.

The Company estimates the fair value of its stock options on the date of grant using the Black-Scholes option pricing model, which requires various assumptions such as expected term, expected stock price volatility and risk-free interest rate. The Company estimates the expected term of stock options granted taking into consideration historical data related to stock option exercises. The Company uses historical stock price data in order to estimate the expected volatility factor of stock options granted. The risk-free interest rate for the periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates the estimates used, including but not limited to those related to revenue recognition, the allowance for doubtful accounts receivable, impairments of goodwill and other intangible assets, valuation of intangible assets acquired and contingent consideration issued in business acquisitions, valuation of stock-based compensation awards, self-insurance liabilities and income taxes. Actual results could differ from these estimates.

***Fair Value Estimates***

ASC Topic 820, *Fair Value Measurements and Disclosure* ( Topic 820 ), defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The guidance within Topic 820 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. The fair value hierarchy prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 unadjusted quoted prices for identical assets or liabilities in active markets;

- Level 2 quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation; and

- Level 3 unobservable inputs based upon the reporting entity s internally developed assumptions which market participants would use in pricing the asset or liability.

The carrying value of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximate estimated market values because of short-maturities and interest rates that approximate current rates. The Company s fair value measurements relate to goodwill, intangible assets and contingent consideration recognized in connection with acquisitions and are valued using Level 3 inputs.

***Leases***

The Company leases various office space, machinery and equipment under noncancelable operating leases which have minimum lease obligations. Several of the leases contain provisions for rent escalations based primarily on increases in real estate taxes and operating costs incurred by the lessor. Rent expense is recognized

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in the statement of operations as incurred except for escalating rents, which are expensed on a straight-line basis over the terms of the leases.

***Legal Expenses***

The Company is involved, from time to time, in litigation and proceedings arising out of the ordinary course of business. Legal costs for services rendered in the course of these proceedings are charged to expense as they are incurred.

***Reclassifications***

Certain prior year amounts have been reclassified to conform with the current year presentation.

***Accounting Standard 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 adopted the provisions of ASU No. 2009-13 for revenue arrangements entered into subsequent to January 1, 2010. The adoption of ASU No. 2009-13 did not have a material impact on the Company s financial statements.

***Accounting Standard Adopted***

ASC Topic 805, Business Combinations

The Company adopted ASC Topic 805, *Business Combinations* ( ASC Topic 805 ), effective January 1, 2009. ASC Topic 805 requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose the information necessary to evaluate and understand the nature and financial effect of the business combination. In addition, ASC Topic 805 requires that contingent purchase consideration be recognized at fair value on the acquisition date with subsequent adjustments recognized in the consolidated statement of operations. The impact of ASC Topic 805 on the Company s consolidated financial statements will depend upon the nature, terms and size of the acquisitions it completes.

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**(2) Acquisitions**

The following tables summarize the purchase prices and purchase price allocations for the acquisitions completed during the years ended December 31, 2010 and 2009, with a description of the acquired businesses below each table. The pro-forma impact of the acquisitions in each year is not material to the Company s results of operations for the respective year in which the acquisitions were completed.

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | **(Dollars in thousands)** | | | |
| **2010 Acquisitions** | | | | **Bath** | | **Academy of** |
| Acquired company | | **Marton House** | | **Consulting** | | **Training** |
| Acquisition date | | **4/1/2010** | | **11/1/2010** | | **12/1/2010** |
| Cash purchase price | $ | 2,752 | $ | 1,415 | $ | 1,065 |
| Fair value of contingent consideration | | 1,614 | | 939 | | 133 |
| Total purchase price | $ | 4,366 | $ | 2,354 | $ | 1,198 |
| | | | | | | |
| Purchase price allocation: | | | | | | |
| Cash | $ | 5 | $ | 106 | $ | 52 |
| Accounts receivable | | 1,441 | | 1,044 | | 385 |
| Other current assets | | 520 | | 102 | | 61 |
| Property, plant and equipment | | 25 | | 35 | | 37 |
| Customer-related intangible assets | | 1,044 | | 486 | | 303 |
| Goodwill | | 3,136 | | 1,517 | | 989 |
| Total assets | | 6,171 | | 3,290 | | 1,827 |
| | | | | | | |
| Accounts payable and accrued expenses | | 1,105 | | 800 | | 501 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | | 408 | | | | 43 |
| Deferred tax liability | | 292 | | 136 | | 85 |
| Total liabilities | | 1,805 | | 936 | | 629 |
| | | | | | | |
| Net assets acquired | $ | 4,366 | $ | 2,354 | $ | 1,198 |

Marton House

Effective 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 in the United Kingdom. Marton House is included in the Company s Manufacturing & BPO segment and its results of operations have been included in the consolidated financial statements since April 1, 2010. None of the goodwill recorded for financial statement purposes is deductible for tax purposes.

Bath Consulting

Effective November 1, 2010, General Physics, through its wholly owned subsidiary, GPUK, completed the acquisition of Bath Consulting Group ( Bath Consulting ), a niche leadership and organizational development consulting firm in the United Kingdom. Bath Consulting is included in the Company s Manufacturing & BPO segment and its results of operations have been included in the consolidated financial statements since November 1, 2010. None of the goodwill recorded for financial statement purposes is deductible for tax purposes.

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Academy of Training

Effective December 1, 2010, General Physics, through its wholly owned subsidiary, GPUK, completed the acquisition of Academy of Training ( AoT ), an independent training provider in the United Kingdom. AoT is included in the Company s Manufacturing & BPO segment and its results of operations have been included in the consolidated financial statements since December 1, 2010. None of the goodwill recorded for financial statement purposes is deductible for tax purposes.

| **2009 Acquisitions** | | **(Dollars in thousands)** | |
|---|---|---|---|
| Acquired company | **Milsom** | **Option Six** | **PerformTech** |
| Acquisition date | **9/1/2009** | **12/1/2009** | **12/31/2009** |
| Cash purchase price | $ 2,544 | $ 4,103 | $ 17,626 |
| Fair value of contingent consideration | 2,437 | 827 | 1,794 |
| Total purchase price | $ 4,981 | $ 4,930 | $ 19,420 |
| | | | |
| Purchase price allocation: | | | |
| Cash | $ 557 | $ 947 | $ 2,438 |
| Accounts receivable | 1,414 | 616 | 2,866 |
| Other current assets | 466 | 151 | 1,220 |
| Property, plant and equipment | 259 | | 158 |
| Amortizable intangible assets | 1,209 | 930 | 2,981 |
| Goodwill | 2,876 | 2,647 | 10,530 |
| Total assets | 6,781 | 5,291 | 20,193 |
| | | | |
| Accounts payable and accrued expenses | 1,410 | 215 | 735 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 51 | 146 | 38 |
| Deferred tax liability | 339 | | |
| Total liabilities | 1,800 | 361 | 773 |
| | | | |
| Net assets acquired | $ 4,981 | $ 4,930 | $ 19,420 |

Milsom

Effective September 1, 2009, General Physics, through its wholly owned subsidiary, 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. 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. None of the goodwill recorded for financial statement purposes is deductible for tax purposes.

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. Option Six, located in Bloomington, Indiana, provides blended learning courseware development services. 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. The Company expects that all of the goodwill recorded for financial statement purposes will be deductible for tax purposes, except that contingent consideration is only deductible when paid. If the actual contingent consideration payments are less than the estimated fair value as of the acquisition date, a portion of goodwill will not be deductible for tax purposes.

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PerformTech

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. PerformTech, located in Alexandria, Virginia, is a leading developer of custom training solutions, with a significant presence supporting federal government priorities including border security, anti-terrorism, and highway engineering. PerformTech leverages its extensive past performance, proprietary development tools, and technical expertise in needs analysis, curriculum development (classroom and web-based), and training delivery to address clients mission critical needs. PerformTech is included in the Manufacturing & BPO segment and the results of its operations have been included in the consolidated financial statements since January 1, 2010. The Company expects that all of the goodwill recorded for financial statement purposes will be deductible for tax purposes, except that contingent consideration is only deductible when paid. If the actual contingent consideration payments are less than the estimated fair value as of the acquisition date, a portion of goodwill will not be deductible for tax purposes.

**2008 Acquisitions**

Performance Consulting Services

On March 1, 2008, General Physics completed the acquisition of Performance Consulting Services, Inc. ( PCS ), a company specializing in performance engineering support, training, combustion optimization, the implementation of smart equipment condition monitoring systems and testing services for power plants. The final purchase price totaled $2,370,000 and consisted of a final upfront cash payment of $916,000, deferred payments of $1,000,000 paid in two equal installments on January 31, 2009 and January 31, 2010, contingent consideration payments of $305,000 and acquisition costs of $149,000. The purchase price allocation primarily consisted of $1,609,000 of goodwill, which is not deductible for tax purposes, and $465,000 of customer-related intangible assets to be amortized over five years from the acquisition date. PCS is included in the Energy segment and the results of its operations have been included in the consolidated financial statements since March 1, 2008.

Other 2008 Acquisitions

During the fourth quarter of 2008, General Physics, through its wholly owned GPUK subsidiary completed two separate acquisitions of training and consulting companies in the United Kingdom. The total purchase price for these businesses was approximately $900,000 in cash. The purchase price allocations primarily consisted of $788,000 of goodwill and $124,000 of customer related intangible assets to be amortized over three years from the acquisition date. In addition, the purchase agreements require up to an additional $1,600,000 to be paid to the sellers, contingent upon the achievement of certain earnings targets, as defined in the purchase agreements, during periods subsequent to the acquisitions. In December 2009, the Company paid $159,000 of contingent consideration to the sellers of one of the acquired businesses with respect to the first twelve-month period following the completion of the acquisition. As of December 31, 2010, the Company accrued $193,000 of contingent consideration with respect to the second twelve-month period following the completion of one of the acquisitions, which will be payable during the first quarter of 2011.

**Contingent Consideration**

Effective January 1, 2009, the Company adopted ASC 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 and discounts the liabilities to present value using a weighted-average cost of capital. 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 is revalued to estimated fair value, and changes in fair value

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subsequent to the acquisitions are 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, 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.

Below is a summary of the potential contingent consideration the Company may be required to pay in connection with completed acquisitions as of December 31, 2010 (dollars in thousands):

| Acquisition: | Original range of potential undiscounted payments | As of December 31, 2010 Maximum contingent consideration due in 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|
| Milsom | $0 - $3,600 | $ 1,160 | $ 1,160 | $ | $ 2,320 |
| Option Six | $0 - $2,000 | 650 | 1,000 | | 1,650 |
| PerformTech | $0 - $4,500 | | 2,000 | | 2,000 |
| Marton House | $0 - $3,714 | 1,238 | 1,238 | 1,238 | 3,714 |
| Bath Consulting | $0 - $2,352 | 449 | 851 | 1,052 | 2,352 |
| Academy of Training | $0 - $155 | 155 | | | 155 |
| Other | | 502 | 595 | | 1,097 |
| Total | | $ 4,154 | $ 6,844 | $ 2,290 | $ 13,288 |

Below is a summary of the changes in the recorded amount of contingent consideration liabilities from December 31, 2009 to December 31, 2010 for each acquisition (dollars in thousands):

| Acquisition: | Liability as of Dec. 31, 2009 | 2010 Additions (Payments) | Change in Fair Value of Contingent Consideration | Foreign Currency Translation | Liability as of Dec. 31, 2010 |
|---|---|---|---|---|---|
| Milsom | $ 2,437 | (775) | (347) | (117) | $ 1,198 |
| Option Six | 827 | | 75 | | 902 |
| PerformTech | 1,794 | | (1,794) | | |
| Marton House | | 1,614 | 719 | 33 | 2,366 |
| Bath Consulting | | 939 | 34 | (33) | 940 |
| Academy of Training | | 133 | | (1) | 132 |
| Other | | 194 | | | 194 |
| Total | $ 5,058 | 2,105 | (1,313) | (118) | $ 5,732 |

As of December 31, 2010 and 2009, contingent consideration included in accounts payable totaled $3,062,000 and $809,000, respectively. As of December 31, 2010 and 2009, the Company also had accrued contingent consideration totaling $2,670,000 and $4,249,000, respectively, related to acquisitions which is included in other long-term liabilities on the consolidated balance sheet and represents the portion of contingent consideration estimated to be payable greater than twelve months from the balance sheet date.

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**(3) Intangible Assets**

Goodwill

Changes in the carrying amount of goodwill by reportable business segment for the years ended December 31, 2010 and 2009 were as follows (in thousands):

| | Manufacturing & BPO | Process & Government | Energy | Sandy | Total |
|---|---|---|---|---|---|
| **Net book value at Jan. 1, 2009** | | | | | |
| Goodwill | $ 37,791 | $ 14,612 | $ 7,870 | $ 5,508 | $ 65,781 |
| Accumulated impairment losses | | | | (5,508) | (5,508) |
| **Total** | 37,791 | 14,612 | 7,870 | | 60,273 |
| Acquisitions | 16,162 | | 305 | | 16,467 |
| Impairment loss | (9,909) | | | | (9,909) |
| Foreign currency translation | 454 | | | | 454 |
| Other | 88 | (85) | (5) | | (2) |
| **Net book value at Dec. 31, 2009** | | | | | |
| 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 |
| Acquisitions | 5,836 | | | | 5,836 |
| Foreign currency translation | (165) | | | | (165) |
| Other | 42 | | | | 42 |
| **Net book value at Dec. 31, 2010** | | | | | |
| Goodwill | 60,208 | 14,527 | 8,170 | 5,508 | 88,413 |
| Accumulated impairment losses | (9,909) | | | (5,508) | (15,417) |
| **Total** | $ 50,299 | $ 14,527 | $ 8,170 | $ | $ 72,996 |

The Company recognized a goodwill impairment loss of $9,909,000 for the year ended December 31, 2009 related to the Manufacturing reporting unit and a $5,508,000 goodwill impairment loss for the year ended December 31, 2008 related to the Sandy segment. The goodwill impairment losses were attributable to a significant decline in the Company s market capitalization during the fourth quarter of 2008 and first half of 2009 and worsened financial performance by these reporting units due to the impact of the economic recession, particularly in the manufacturing and automotive industries. See Note 1 for further discussion regarding the valuation methodologies and assumptions used in the goodwill impairment tests.

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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):

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Customer relationships | $ 12,551 | $ (3,542) | $ 10,958 | $ (2,007) |
| Contract backlog | 374 | (339) | 385 | (174) |
| Software and other | 1,605 | (854) | 1,609 | (523) |
| | $ 14,530 | $ (4,735) | $ 12,952 | $ (2,704) |

During the second quarter of 2009 and in connection with the goodwill impairment loss in the Manufacturing reporting unit discussed above, the Company recorded an intangible asset impairment loss of $254,000 relating to a non-compete agreement that was no longer deemed to have value as of June 30, 2009.

Amortization expense for intangible assets was $2,256,000, $1,367,000 and $1,095,000, for the years ended December 31, 2010, 2009 and 2008, respectively. Estimated amortization expense for intangible assets included in the Company s balance sheet as of December 31, 2010 is as follows (in thousands):

| | |
|---|---|
| Fiscal year ending: | |
| 2011 | $ 2,203 |
| 2012 | 2,084 |
| 2013 | 1,794 |
| 2014 | 1,612 |
| 2015 | 665 |
| Thereafter | 1,437 |
| Total | $ 9,795 |

As of December 31, 2010, the Company s intangible assets with finite lives had a weighted average remaining useful life of 5.4 years. The Company has no amortizable intangible assets with indefinite useful lives.

**(4) Inventories**

The Sandy Training & Marketing segment produces brand specific glovebox portfolios, brochures and accessory kits for its customers, which are installed in new cars and trucks at the time of vehicle assembly. Sandy designs these items and outsources their manufacturing to suppliers that provide the raw materials, bind and/or sew the portfolio, assemble its contents, and ship the finished product to its customers assembly plants. Although the inventory is kept at third party suppliers, the Company has title to the inventory and bears the risk of loss. As of

December 31, 2010 and 2009, the Company had inventories of $305,000 and $557,000, respectively, which primarily consisted of raw materials for the glovebox portfolios, brochures and accessory kits.

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**(5) Property, Plant and Equipment**

Property, plant and equipment consisted of the following (in thousands):

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| Machinery, equipment and vehicles | $ | 9,559 | $ | 8,602 |
| Furniture and fixtures | | 1,621 | | 1,626 |
| Leasehold improvements | | 790 | | 784 |
| Buildings | | 379 | | 390 |
| | | 12,349 | | 11,402 |
| Accumulated depreciation and amortization | | (9,384) | | (8,281) |
| | $ | 2,965 | $ | 3,121 |

Depreciation expense was $1,577,000, $1,663,000, and $1,763,000, for the years ended December 31, 2010, 2009 and 2008, respectively.

**(6) Short-Term Borrowings**

General Physics has a $35 million Financing and Security Agreement (the Credit Agreement ) with a bank that expires on October 31, 2012 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. As of December 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 amended Credit Agreement as of December 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 an additional $10,000,000 of cash to repurchase shares of its outstanding common stock in the open market. There was $6,566,000 remaining available for future share repurchases under the $10 million authorized amount as of December 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 December 31, 2010, there were no borrowings outstanding and $29,778,000 of available borrowings under the Credit Agreement, based upon 80% of eligible accounts receivable and 80% of eligible unbilled receivables.

**(7) Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consisted of the following (in thousands):

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Trade accounts payable | $ 8,572 | $ 6,327 |
| Accrued salaries, vacation and benefits | 10,174 | 8,130 |
| Accrued contingent consideration | 3,062 | 809 |
| Other accrued expenses | 10,886 | 8,198 |
| | $ 32,694 | $ 23,464 |

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As of December 31, 2010 and 2009, the Company also had accrued contingent consideration totaling $2,670,000 and $4,249,000, respectively, related to acquisitions which is included in other long-term liabilities on the consolidated balance sheet and represents the portion of contingent consideration estimated to be payable greater than twelve months from the balance sheet date.

**(8) Employee Benefit Plan**

The Company offers a Retirement Savings Plan (the Plan ) to its employees. Eligible employees may elect to contribute at any time, and contributions begin as soon as administratively feasible thereafter. The Plan permits pre-tax contributions to the Plan by participants pursuant to Section 401(K) of the Internal Revenue Code (IRC). The Company may make matching contributions at its discretion. In 2010, 2009 and 2008, the Company contributed 48,440, 73,614, and 234,665 shares, respectively, of the Company s common stock directly to the Plan with a value of approximately $440,000, $349,000 and $1,724,000, respectively. In addition, the Company contributed cash of $160,000 and $83,000 to the Plan for matching contributions for the years ended December 31, 2010 and 2009, respectively. For the years ended December 31, 2010, 2009 and 2008, the Company recognized total compensation expense of $601,000, $432,000 and $1,724,000, respectively, in the consolidated statements of operations for matching contributions to the Plan.

**(9) Income Taxes**

The components of income before income taxes and income tax expense for the years ended December 31, 2010, 2009, and 2008 are as follows (in thousands):

| | Years ended December 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Income (loss) before income taxes: | | | |
| Domestic | $ 17,452 | $ 3,642 | $ 11,843 |
| Foreign | 3,400 | (247) | 2,307 |
| Total income before income taxes | $ 20,852 | $ 3,395 | $ 14,150 |
| | | | |
| Income tax expense: | | | |
| Current: | | | |
| Federal | $ 4,633 | $ 829 | $ 4,456 |
| State and local | 1,095 | 900 | 1,092 |
| Foreign | 1,328 | 994 | 699 |
| Total current | 7,056 | 2,723 | 6,247 |
| Deferred: | | | |
| Federal | 1,023 | 2,088 | 79 |
| State and local | 149 | (23) | (30) |
| Foreign | (108) | (203) | 17 |
| Total deferred | 1,064 | 1,862 | 66 |
| Total income tax expense | $ 8,120 | $ 4,585 | $ 6,313 |

The deferred tax expense excludes activity in the net deferred tax assets relating to amounts recorded directly to stockholders equity and goodwill. Income before income tax expense generated from foreign entities was approximately $2,186,000, $125,000, and $802,000 in 2010, 2009 and 2008, respectively.

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The difference between the expense for income tax expense computed at the statutory rate and the reported amount of income tax expense is as follows:

| | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|---|---|---|---|
| Federal income tax rate | 35.0% | 35.0% | 35.0% |
| State and local taxes net of federal benefit | 3.8 | 5.4 | 5.2 |
| Foreign taxes, net of federal benefit | 5.2 | 3.9 | 4.0 |
| Tax impact of foreign losses for which no U.S. tax benefit has been provided | (3.7) | (0.3) | (2.0) |
| Permanent differences | 0.1 | 1.7 | 2.8 |
| Valuation allowance adjustments | (0.5) | (0.4) | 0.1 |
| Effect of goodwill impairment loss | | 90.0 | |
| Other | (1.0) | (0.2) | (0.5) |
| Effective tax rate | 38.9% | 135.1% | 44.6% |

In connection with the $10,163,000 goodwill and intangible asset impairment loss incurred during the second quarter of 2009, the Company recognized a $1,536,000 income tax benefit for the tax deductible portion of goodwill which was written off. Excluding the impact of the impairment loss in 2009, the effective income tax rate was 45.1% for the year ended December 31, 2009 compared to an effective rate of 38.9% for the year ended December 31, 2010. Approximately 2.1% of the decrease in the effective income tax rate is due to a larger portion of the Company s 2010 income being derived from foreign jurisdictions which are taxed at lower rates and approximately 2.0% of the decrease is due to the closure of the Company s Malaysian operations during 2010 for which the Company recognized a loss on its investment for tax purposes. In addition, during 2010 in conjunction with the filing of the 2009 tax return, the Company identified an error in the deferred tax liabilities on the consolidated balance sheet. The Company recorded a $420,000 decrease in tax expense during the fourth quarter of 2010 to correct the error which had accumulated over several prior years. The error correction resulted in a 2.0% decrease in the effective income tax rate for 2010 compared to 2009. The Company determined that the out-of-period correction was not material quantitatively or qualitatively to the consolidated financial statements taken as a whole for any of the periods in which the accounts were mis-stated.

As of December 31, 2010, the Company had utilized all of its available credit carryovers for Federal tax purposes. In addition, as of December 31, 2010, the Company had foreign net operating loss carryforwards of $852,000 which expire in 2011 and beyond. There is a valuation allowance of $769,000 against the foreign net operating loss carryforwards due to the uncertainty of future profitability in foreign jurisdictions.

As of December 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. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2010, 2009 and 2008, the Company recognized $93,000, $73,000 and $0, respectively, of interest expense related to these tax positions which is reflected as income tax expense in the consolidated statements of operations. As of December 31, 2010, the Company had $166,000 of accrued interest related to these tax positions. Prior to January 2009, the Company did not recognize interest expense due to the existence of net operating loss carryforwards in the years in which the related tax positions were taken. 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 2002.

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The tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities that are included in the net deferred tax assets and liabilities are summarized as follows (in thousands):

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for doubtful accounts | $ 273 | $ 218 |
| Accrued liabilities | 926 | 530 |
| Stock-based compensation expense | 811 | 573 |
| Net federal, state and foreign operating loss carryforwards | 855 | 1,004 |
| Deferred tax assets | 2,865 | 2,325 |
| Deferred tax liabilities: | | |
| Intangible assets, property and equipment, principally due to difference in depreciation and amortization | 3,828 | 1,643 |
| Net deferred tax assets (liabilities) | (963) | 682 |
| Less valuation allowance | (701) | (814) |
| Net deferred tax liabilities, net of valuation allowance | $ (1,664) | $ (132) |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon these factors, management believes it is more likely than not that the Company will realize the benefits of deferred tax assets, net of the valuation allowance.

**(10) Comprehensive Income**

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

| | Years ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Net income (loss) | $ 12,732 | $ (1,190) | $ 7,837 |
| Other comprehensive income (loss) | (281) | 683 | (2,168) |
| Comprehensive income (loss) | $ 12,451 | $ (507) | $ 5,669 |

Other comprehensive income (loss) consists of foreign currency translations adjustments. As of December 31, 2010 and 2009, accumulated other comprehensive loss was $2,227,000 and $1,946,000, respectively, and consisted of foreign currency translation adjustments, net of tax.

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**(11) Stock-Based Compensation**

Pursuant to the Company s 1973 Non-Qualified Stock Option Plan, as amended (the Non-Qualified Plan ), and 2003 Incentive Stock Plan (the 2003 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. The Company is authorized to grant an aggregate of 4,423,515 shares under the Non-Qualified Plan and an aggregate of 2,000,000 shares under the 2003 Plan. The Company may issue new shares or use shares held in treasury to deliver shares to employees for its equity grants or upon exercise of non-qualified stock options.

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

| | Years ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-qualified stock options | $ 794 | $ 477 | $ 477 |
| Restricted stock units | 584 | 771 | 433 |
| Board of Director stock grants | 279 | 191 | 143 |
| Total | $ 1,657 | $ 1,439 | $ 1,053 |

The Company recognized a deferred income tax benefit of $551,000, $499,000 and $364,000, respectively, during the years ended December 31, 2010, 2009, and 2008 associated with the compensation expense recognized in its consolidated financial statements. As of December 31, 2010, the Company had non-qualified stock options and restricted stock units outstanding under these plans as discussed below.

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***Non-Qualified Stock Options***

Non-qualified stock options are granted with an exercise price not less than the fair market value of the Company s common stock at the date of grant, vest over a period up to ten years, and expire at various terms up to ten years from the date of grant.

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 | 500,000 | 7.51 | | |
| Exercised | (34,621) | 4.20 | | |
| Forfeited | (6,526) | 10.88 | | |
| Expired | (14,094) | 5.28 | | |
| Outstanding at December 31, 2010 | 1,377,770 | $ 9.56 | 3.39 | $ 1,780,000 |
| Stock options expected to vest | 1,258,650 | $ 9.62 | 3.32 | $ 1,556,000 |
| Exercisable at December 31, 2010 | 419,341 | $ 10.34 | 2.35 | $ 284,000 |

No stock options were granted during the year ended December 31, 2009. Summarized weighted average information for non-qualified stock options granted to certain key personnel during the years ended December 31, 2010 and 2008 is as follows:

| | 2010 | 2008 |
|---|---|---|
| Number of options granted | 500,000 | 12,600 |
| Exercise price | $7.52 | $9.66 |
| Vesting term | 5 years | 3 years |
| Contractual term | 6 years | 5 years |
| Grant-date fair value | $3.15 | $2.29 |
| | | |
| Black-Scholes assumptions: | | |
| Expected term | 4.6 years | 3.5 years |
| Expected stock price volatility | 47.6% | 27.6% |
| Risk-free interest rate | 2.15% | 2.34% |
| Expected dividend yield | % | % |

As of December 31, 2010, the Company had approximately $1,833,000 of unrecognized compensation cost related to the unvested portion of outstanding stock options to be recognized on a straight-line basis over a weighted average remaining service period of approximately 3.1 years.

The Company received cash for the exercise price associated with stock options exercised of $39,000, $51,000, and $55,000 during the years ended December 31, 2010, 2009 and 2008, respectively. During the year ended December 31, 2010, the Company settled 24,425 outstanding stock options held by Company employees for

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cash payments totaling $83,000, which represented the fair value of those stock options upon settlement. The total intrinsic value realized by participants on stock options exercised and/or settled was $130,000, $37,000, and $67,000 during the years ended December 31, 2010, 2009 and 2008, respectively. During the years ended December 31, 2010 and 2008, the Company realized income tax benefits of $129,000 and $1,964,000, respectively, related to stock option exercises and restricted stock vesting, which are reflected as an increase to additional paid-in capital on the consolidated statement of stockholders equity.

***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 to 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:

| | **Year ended December 31, 2010 (In shares)** | | **Weighted average grant date fair value (In dollars)** |
|---|---|---|---|
| Outstanding and unvested, beginning of period | 314,406 | $ | 6.52 |
| Granted | 9,424 | | 8.98 |
| Vested | (121,757) | | 6.81 |
| Forfeited | (6,457) | | 6.71 |
| Outstanding and unvested, end of period | 195,616 | $ | 6.45 |
| Restricted stock units expected to vest | 156,744 | $ | 6.70 |

The total intrinsic value realized by participants upon the vesting of restricted stock units was $1,071,000, $796,000 and $467,000 during the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, the Company had unrecognized compensation cost of $1,018,000 related to the unvested portion of its outstanding restricted stock units expected to be recognized over a weighted average remaining service period of 2.1 years.

**(12) Common Stock**

The holders of common stock are entitled to one vote per share. As of December 31, 2010, there were 18,709,041 shares of common stock issued and outstanding. In addition, as of December 31, 2010, 1,573,386 shares were reserved for issuance under outstanding equity compensation awards such as stock options and restricted stock units and an additional 113,202 and 1,446,164 shares were available for issuance for future grants of awards under the Company s 2003 Plan and the Non-Qualified Plan, respectively.

Securities Purchase Agreement

On December 30, 2009, the Company entered into a Securities Purchase Agreement (the Purchase Agreement ) with a single accredited investor, Sagard Capital Partners, L.P. ( Sagard ), pursuant to which the Company sold to Sagard, in a private placement, an aggregate of 2,857,143 shares (the Shares ) of the Company s common stock, par value $0.01, at a price of $7.00 per share (the Offering ), for an aggregate purchase price of $20,000,000. The Offering closed on December 30, 2009.

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Pursuant to the Purchase Agreement, Sagard has certain preemptive rights with respect to future issuances of equity or equity equivalent securities by the Company, which expire under the conditions described in the Purchase Agreement. These preemptive rights allow Sagard to maintain its pro rata ownership in the Company, subject to certain exceptions. Also, during a period ending no later than the second anniversary of the closing of the Offering, Sagard has the additional, special preemptive right to purchase up to $5,000,000 in additional equity or equity equivalent securities issued in future offerings, in each case subject to certain exceptions. In addition, pursuant to the Purchase Agreement, Sagard agreed to certain standstill provisions that, among other things, prohibit Sagard from acquiring beneficial ownership of more than 19.9% of the Company s common stock (calculated on a fully diluted basis) for two years from the date of the Purchase Agreement (excluding, for purposes of this calculation, securities Sagard may acquire pursuant to the special preemptive rights referenced above, which are not subject to the 19.9% maximum), and from acquiring beneficial ownership of more than 23% of the Company s common stock (calculated on a fully diluted basis) thereafter.

*Registration Rights Agreement*

In connection with the Offering, on December 30, 2009, the Company entered into a Registration Rights Agreement (the Registration Rights Agreement ) with Sagard. Pursuant to the Registration Rights Agreement, the Company agreed to prepare and file a registration statement with the Securities and Exchange Commission (the SEC ) no later than September 30, 2010 for purposes of registering the resale of the Shares and any shares of common stock issued pursuant to the preemptive rights under Section 4(l) of the Purchase Agreement (or any shares of common stock issuable upon exercise, conversion or exchange of securities issued pursuant to the preemptive rights). The Company agreed to use its reasonable best efforts to cause this registration statement to be declared effective by the SEC no later than December 30, 2010. If the Company failed to meet either of these deadlines, fails to meet filing or effectiveness deadlines with respect to any additional registration statements required by the Registration Rights Agreement, or fails to keep any registration statements continuously effective (with limited exceptions), the Company will be obligated to pay to the holders of the Shares liquidated damages in the amount of 1% of the purchase price for the Shares per month, up to a maximum of $2,400,000. The Company also agreed, among other things, to indemnify the selling holders under the registration statements from certain liabilities and to pay all fees and expenses (excluding underwriting discounts and selling commissions and all legal fees of the selling holders in excess of $25,000) incident to the Company s obligations under the Registration Rights Agreement. The Company filed the registration statement with the SEC on September 27, 2010 and it was declared effective by the SEC on October 8, 2010.

Stock Repurchase Program

Since January 2006, the Company s Board of Directors has authorized a total of $23,000,000 of repurchases of the Company s 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, 2010, 2009 and 2008, the Company repurchased approximately 37,000, 526,000 and 1,091,000 shares, respectively, of its common stock in the open market for a total cost of approximately $266,000, $2,166,000 and $8,797,000, respectively. As of December 31, 2010, there was approximately $2,119,000 available for future repurchases under the buyback program. There is no expiration date for the repurchase program.

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**(13) Business Segments**

As of December 31, 2010, the Company operated through four reportable business segments: (i) Manufacturing & BPO, (ii) Process & Government, (iii) Energy, and (iv) Sandy Training & Marketing ( Sandy ). The Company is 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, the Company integrates 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. The Company s Manufacturing & BPO segment represents an aggregation of two operating groups in accordance with the aggregation criteria in U.S. GAAP, while the Process & Government, 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 financial information herein for the prior years to reflect this change and conform to the current period s presentation. Further information regarding each business segment is discussed below. The Company reviews its reportable business segments on a continual basis and could change its reportable business segments from time to time in the event of organizational changes.

**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 and large government contractors. This segment also provides design and construction of alternative fuel stations, including LNG and hydrogen fueling stations.

**Energy.** The Energy segment provides engineering services, products and training primarily to electric power utilities. The Company s proprietary EtaProTM Performance Monitoring and Optimization System provides a suite of performance solutions for power generation plants and is installed at approximately 800 power generating units in over 30 countries. In addition, this segment provides web-based training through our GPiLearnTM portal to over 30,000 power plant personnel in the U.S. and in over 40 countries.

**Sandy Training & 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.

The Company does not allocate the following items to the segments: other income and interest expense; GP Strategies selling, general and administrative expense; and income tax expense.  Inter-segment revenue is eliminated in consolidation and is not significant.

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The following table sets forth the revenue and operating results attributable to each reportable segment and includes a reconciliation of segment revenue to consolidated revenue and operating results to consolidated income before income tax expense (in thousands):

| | Years ended December 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Revenue: | | | |
| Manufacturing & BPO | $ 146,675 | $ 98,929 | $ 123,060 |
| Process & Government | 43,140 | 52,003 | 50,375 |
| Energy | 22,958 | 22,674 | 22,018 |
| Sandy Training & Marketing | 47,153 | 45,634 | 72,440 |
| | $ 259,926 | $ 219,240 | $ 267,893 |
| Operating income (loss): | | | |
| Manufacturing & BPO (a) | $ 10,221 | $ (5,543) | $ 9,010 |
| Process & Government | 3,275 | 3,594 | 5,242 |
| Energy | 5,468 | 4,474 | 4,610 |
| Sandy Training & Marketing (b) | 1,890 | 2,411 | (3,210) |
| Corporate and other | (1,630) | (1,808) | (1,889) |
| Gain on change in fair value of contingent consideration | 1,313 | | |
| | 20,537 | 3,128 | 13,763 |