

GP STRATEGIES CORP  
Form 10-Q  
August 05, 2010  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2010**

**or**

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

**For the transition period from                    to**

**Commission File Number 1-7234**

**GP STRATEGIES CORPORATION**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

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

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

**21075**  
(Zip Code)

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(410) 379-3600

Registrant's telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Class	Outstanding
Common Stock, par value \$.01 per share	18,609,480 shares

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

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## Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	<b>June 30, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,650	\$ 10,803
Accounts and other receivables, less allowance for doubtful accounts of \$549 in 2010 and \$566 in 2009	46,048	45,471
Inventories, net	320	557
Costs and estimated earnings in excess of billings on uncompleted contracts	12,215	10,590
Prepaid expenses and other current assets	6,321	6,692
Total current assets	81,554	74,113
Property, plant and equipment	12,004	11,402
Accumulated depreciation	(9,444)	(8,281)
Property, plant and equipment, net	2,560	3,121
Goodwill	70,113	67,283
Intangible assets, net	10,055	10,248
Other assets	1,646	1,936
	\$ 165,928	\$ 156,701
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 26,362	\$ 23,464
Billings in excess of costs and estimated earnings on uncompleted contracts	14,000	13,272
Total current liabilities	40,362	36,736
Other noncurrent liabilities	9,458	9,075
Total liabilities	49,820	45,811
Stockholders equity:		
Common stock, par value \$0.01 per share	186	186
Additional paid-in capital	162,595	161,975
Accumulated deficit	(44,011)	(49,325)
Treasury stock at cost	(154)	
Accumulated other comprehensive loss	(2,508)	(1,946)
Total stockholders equity	116,108	110,890
	\$ 165,928	\$ 156,701

See accompanying notes to condensed consolidated financial statements.



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## Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 66,139	\$ 53,757	\$ 123,029	\$ 107,348
Cost of revenue	55,429	45,022	104,135	91,124
Gross profit	10,710	8,735	18,894	16,224
Selling, general and administrative expenses	5,996	5,012	11,439	10,043
Gain on change in fair value of contingent consideration	628		1,533	
Goodwill and intangible asset impairment loss		10,163		10,163
Operating income (loss)	5,342	(6,440)	8,988	(3,982)
Interest expense	50	50	100	105
Other income	152	61	294	212
Income (loss) before income tax expense	5,444	(6,429)	9,182	(3,875)
Income tax expense	2,301	190	3,868	1,285
Net income (loss)	\$ 3,143	\$ (6,619)	\$ 5,314	\$ (5,160)
Basic weighted average shares outstanding	18,614	15,781	18,606	15,918
Diluted weighted average shares outstanding	18,702	15,816	18,708	15,944
Per common share data:				
Basic earnings (loss) per share	\$ 0.17	\$ (0.42)	\$ 0.29	\$ (0.32)
Diluted earnings (loss) per share	\$ 0.17	\$ (0.42)	\$ 0.28	\$ (0.32)

See accompanying notes to condensed consolidated financial statements.

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## Condensed Consolidated Statements of Cash Flows

Six months ended June 30, 2010 and 2009

(Unaudited, in thousands)

	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 5,314	\$ (5,160)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Goodwill and intangible asset impairment loss		10,163
Gain on change in fair value of contingent consideration	(1,533)	
Depreciation and amortization	2,229	1,562
Deferred income taxes	726	(945)
Non-cash compensation expense	875	898
Changes in other operating items:		
Accounts and other receivables	864	1,575
Inventories	237	(11)
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,152)	204
Prepaid expenses and other current assets	397	(1,292)
Accounts payable and accrued expenses	1,772	(3,081)
Billings in excess of costs and estimated earnings on uncompleted contracts	320	705
Other	213	223
Net cash provided by operating activities	10,262	4,841
Cash flows from investing activities:		
Additions to property, plant and equipment	(441)	(356)
Acquisition, net of cash acquired	(2,747)	
Deferred acquisition costs	(500)	(3,305)
Net cash used in investing activities	(3,688)	(3,661)
Cash flows from financing activities:		
Repurchases of common stock in the open market	(228)	(1,338)
Net repayment of short-term borrowings		(192)
Change in negative cash book balances		714
Other	(216)	(172)
Net cash used in financing activities	(444)	(988)
Effect of exchange rate changes on cash and cash equivalents	(283)	227
Net increase in cash and cash equivalents	5,847	419
Cash and cash equivalents at beginning of period	10,803	3,961
Cash and cash equivalents at end of period	\$ 16,650	\$ 4,380

See accompanying notes to condensed consolidated financial statements.

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

**(1) Basis of Presentation**

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

The accompanying condensed consolidated balance sheet as of June 30, 2010, the condensed consolidated statements of operations for the three and six months ended June 30, 2010 and 2009, and the condensed consolidated statements of cash flows for the six months ended June 30, 2010 and 2009 have not been audited, but have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009, as presented in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. In the opinion of management, this interim information includes all material adjustments, which are of a normal and recurring nature, necessary for a fair presentation. The results for the 2010 interim period are not necessarily indicative of results to be expected for the entire year. Certain prior year amounts have been reclassified to conform to current year presentation.

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

**(2) Significant Customers & Concentration of Credit Risk**

The Company has a concentration of revenue from General Motors and its affiliates (General Motors) as well as a market concentration in the automotive sector. For the six months ended June 30, 2010 and 2009, revenue from General Motors accounted for approximately 12% and 18%, respectively, of the Company's consolidated revenue, and revenue from the automotive industry accounted for approximately 19% and 23%, respectively, of the Company's consolidated revenue. As of June 30, 2010, accounts receivable from General Motors totaled \$6,266,000. No other customer accounted for more than 10% of the Company's revenue during the six months ended June 30, 2010 or accounts receivable as of June 30, 2010.



The Company also has a concentration of revenue from the United States government. For the six months ended June 30, 2010 and 2009, sales to the United States government and its agencies represented approximately 22% of the Company's consolidated revenue for both periods. Revenue was derived from many separate contracts with a variety of government agencies that are regarded by the Company as separate customers.

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## Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

**(3) Earnings Per Share**

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

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Non-dilutive instruments	1,317	895	1,277	1,097
Dilutive common stock equivalents	88	35	102	26

**(4) Acquisitions and Related Contingent Consideration**

Effective January 1, 2009, the Company adopted Accounting Standards Codification (ASC) Topic 805, *Business Combinations* (Topic 805), which requires that contingent consideration be recognized at fair value on the acquisition date, and re-measured each reporting period with subsequent adjustments recognized in the consolidated statement of operations. The Company estimates the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. The Company believes its estimates and assumptions are reasonable, however, there is significant judgment involved. At each reporting date, the contingent consideration obligation is revalued to estimated fair value, and changes in fair value 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.

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## Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

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

Acquisition:	Maximum contingent consideration due in			Total	Accrued Liability as of June 30, 2010
	2010	2011	2012-2013		
Milsom	\$ 1,130	\$ 1,130	\$ 1,130	\$ 3,390	\$ 2,130
Option Six		1,000	1,000	2,000	550
PerformTech		2,500	2,000	4,500	600
Marton House		1,206	2,412	3,618	1,676
Other	226	489	580	1,295	
Total	\$ 1,356	\$ 6,325	\$ 7,122	\$ 14,803	\$ 4,956

Below is a summary of the four acquisitions completed during 2009 and 2010 and the changes in fair value of contingent consideration during the three months ended June 30, 2010.

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 sales product training in the United Kingdom. GPUK acquired 100% ownership of Marton House for a purchase price of \$2,752,000 in cash. In addition, the purchase agreement requires GPUK to pay up to an additional \$3,618,000, of which approximately \$1,206,000 would be payable subsequent to each of the three twelve-month periods following completion of the acquisition, contingent upon Marton House achieving certain earnings targets during those periods, as defined in the purchase agreement. Marton House 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.

The Company accrued \$1,614,000 of contingent consideration based on its fair value estimate on the acquisition date, which was determined using a probability-weighted income approach and discounted to present value using a weighted-average cost of capital. As of June 30, 2010, the Company re-measured the fair value of contingent consideration and increased the liability to \$1,676,000 to account for the increase in fair value due to the passage of time from the acquisition date through June 30, 2010. The increase in fair value of contingent consideration resulted in expense of \$69,000 for the three months ended June 30, 2010, which is included in the net gain on change in fair value of contingent

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consideration reflected in the statement of operations. The Company will continue to re-measure the fair value of contingent consideration on a quarterly basis and any subsequent adjustments based on actual payments or revised estimates will be recognized in the consolidated statements of operations during the period of adjustment.

The estimated fair value of the purchase price recorded by the Company consisted of the following (in thousands):

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## Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

Cash purchase price	\$	2,752
Estimated contingent consideration		1,614
Total estimated purchase price	\$	4,366

The Company's preliminary purchase price allocation for the net assets acquired is as follows (in thousands):

Cash	\$	5
Accounts receivable		1,441
Costs and estimated earnings in excess of billings on uncompleted contracts		473
Prepaid expenses and other assets		56
Property, plant and equipment, net		25
Amortizable intangible assets		1,002
Goodwill		3,157
Total assets acquired		6,159
Accounts payable, accrued expenses and other liabilities		1,105
Billings in excess of costs and estimated earnings on uncompleted contracts		408
Deferred tax liability		280
Total liabilities assumed		1,793
Net assets acquired	\$	4,366

The Company recorded customer-related intangible assets as a result of the acquisition, which included \$1,002,000 relating to customer lists and relationships acquired which will be amortized over an estimated useful life of five years. The carrying value of current assets and liabilities approximate estimated market values. Goodwill, intangible assets and contingent consideration have been valued using Level 3 inputs as defined in fair value measurement accounting.

PerformTech

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Effective December 30, 2009, General Physics acquired PerformTech, Inc. ( PerformTech ) a provider of custom courseware development and other training services primarily for the U.S. Government. General Physics acquired 100% ownership of PerformTech for a purchase price of approximately \$18,074,000 in cash, which was subsequently reduced by a \$480,000 post-closing adjustment based on final actual working capital as defined in the purchase agreement. In addition, the purchase agreement requires up to an additional \$4,500,000 to be paid to the sellers, contingent upon the achievement of certain revenue targets, as defined in the purchase agreement, during the two twelve-month periods following the completion of the acquisition. PerformTech is included in the Manufacturing & BPO segment and the results of its operations have been included in the consolidated financial statements for the period

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Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

beginning January 1, 2010. The balance sheet accounts of PerformTech are reflected in the consolidated balance sheet as of December 31, 2009.

As of December 31, 2009, the Company accrued \$1,794,000 of contingent consideration based on its fair value estimate on the acquisition date, which was determined using a probability-weighted income approach and discounted to present value using a weighted-average cost of capital. As of March 31, 2010, the Company re-measured the fair value of contingent consideration and decreased the liability to \$1,053,000 based on actual results and other factors which occurred during the first quarter of 2010 which resulted in a reduction in the estimated probabilities of PerformTech achieving certain revenue targets. The reduction in fair value of contingent consideration resulted in a pre-tax gain of \$741,000 for the three months ended March 31, 2010. As of June 30, 2010, the Company re-measured the fair value of the contingent consideration and further reduced the liability to \$600,000 based on actual results during the second quarter of 2010 which resulted in a reduction in the estimated probabilities of PerformTech achieving certain revenue targets. The reduction in fair value of contingent consideration resulted in a pre-tax gain of \$453,000 and \$1,194,000 for the three and six months ended June 30, 2010, respectively, which is reflected in the consolidated statements of operations. The Company will continue to re-measure the fair value of contingent consideration on a quarterly basis and any subsequent adjustments based on actual payments or revised estimates will be recognized in the consolidated statements of operations during the period of adjustment.

Option Six

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

As of December 31, 2009, the Company accrued \$827,000 of contingent consideration based on its fair value estimate on the acquisition date, which was determined using a probability-weighted income approach and discounted to present value using a weighted-average cost of capital. The Company determined that no events occurred that would indicate that any of the assumptions used in the fair value estimate of contingent consideration should be changed as of March 31, 2010 and therefore, no adjustment to the accrued contingent consideration was made during the first quarter of 2010. As of June 30, 2010, the Company re-measured the fair value of contingent consideration and decreased the liability to \$550,000 based on actual results for the first half of 2010 which resulted in a reduction in the estimated probabilities of Option Six achieving certain earnings targets. The reduction in fair value of the contingent consideration resulted in a pre-tax gain of \$277,000 which is reflected in



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the consolidated statement of operations for the three months ended June 30, 2010. The Company will continue to re-measure the recorded amount of contingent consideration on a quarterly basis and any subsequent adjustments based

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

on actual payments or revised estimates will be recognized in the consolidated statements of operations during the period of adjustment.

Milsom

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

The Company accrued \$2,437,000 of contingent consideration based on its fair value estimate on the acquisition date, which was determined using a probability-weighted income approach and discounted to present value using a weighted-average cost of capital. As of March 31, 2010, the Company re-measured the fair value of contingent consideration and decreased the liability to \$2,097,000 based on Milsom's actual results for the first seven months subsequent to the acquisition and other factors which became known in the first quarter of 2010 which resulted in a reduction in the estimated probabilities of Milsom achieving certain earnings targets. The reduction in the fair value of the contingent consideration resulted in a pre-tax gain of \$164,000 for the three months ended March 31, 2010. As of June 30, 2010, the Company re-measured the fair value of contingent consideration and increased the liability to \$2,130,000 to account for the increase in fair value due to the passage of time. The change in the fair value of contingent consideration resulted in expense of \$33,000 for the three months ended June 30, 2010 and a net gain of \$131,000 for the six months ended June 30, 2010, which are reflected in the consolidated statements of operations. The Company will continue to re-measure the recorded amount of contingent consideration on a quarterly basis and any subsequent adjustments based on actual payments or revised estimates will be recognized in the consolidated statements of operations during the period of adjustment.

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## Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)**(5) Intangible Assets**Goodwill

Changes in the carrying amount of goodwill by reportable business segment for the six months ended June 30, 2010 were as follows (in thousands):

	Manufacturing & BPO	Process & Government	Energy	Sandy	Total
<b>Net book value at Jan. 1, 2010</b>					
Goodwill	\$ 54,495	\$ 14,527	\$ 8,170	\$ 5,508	\$ 82,700
Accumulated impairment losses	(9,909)			(5,508)	(15,417)
<b>Total</b>	44,586	14,527	8,170		67,283
Acquisition of Marton House	3,157				3,157
Other	11				11
Foreign currency translation	(338)				(338)
<b>Net book value at June 30, 2010</b>					
Goodwill	57,325	14,527	8,170	5,508	85,530
Accumulated impairment losses	(9,909)			(5,508)	(15,417)
<b>Total</b>	\$ 47,416	\$ 14,527	\$ 8,170	\$	\$ 70,113

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):

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	June 30, 2010		December 31, 2009	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer relationships	\$ 11,687	\$ (2,637)	\$ 10,958	\$ (2,007)
Contract backlog	365	(266)	385	(174)
Software and other	1,601	(695)	1,609	(523)
	\$ 13,653	\$ (3,598)	\$ 12,952	\$ (2,704)

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## Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

**(6) Stock-Based Compensation**

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

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Non-qualified stock options	\$ 178	\$ 119	\$ 346	\$ 236
Restricted stock units	129	192	327	382
Board of Directors stock grants	61	47	129	81
Total stock-based compensation	\$ 368	\$ 358	\$ 802	\$ 699

Pursuant to the Company's 1973 Non-Qualified Stock Option Plan, as amended, and 2003 Incentive Stock Plan, the Company may grant awards of non-qualified stock options, incentive stock options, restricted stock, stock units, performance shares, performance units and other incentives payable in cash or in shares of the Company's common stock to officers, employees or members of the Board of Directors. As of June 30, 2010, the Company had non-qualified stock options and restricted stock units outstanding under these plans as discussed below.

***Non-Qualified Stock Options***

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

**Weighted**

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<b>Stock Options</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>average remaining contractual term</b>	<b>Aggregate intrinsic value</b>
Outstanding at December 31, 2009	933,011	\$ 10.40		
Granted	460,000	7.42		
Exercised/settled	(29,941)	4.29		
Forfeited	(6,526)	10.88		
Expired	(9,726)	4.39		
Outstanding at June 30, 2010	1,346,818	\$ 9.56	3.81	\$ 476,000
Stock options expected to vest	1,196,290	\$ 9.58	3.76	\$ 436,000
Exercisable at June 30, 2010	428,389	\$ 10.23	2.82	\$ 208,000

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## Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

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

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

***Restricted Stock Units***

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

	Six months ended June 30, 2010 (In shares)	Weighted average grant date fair value (In dollars)
Outstanding and unvested, beginning of period	314,406	\$ 6.52
Granted	4,000	8.65
Vested	(45,025)	8.16
Forfeited	(4,801)	6.96
Outstanding and unvested, end of period	268,580	\$ 6.27
Restricted stock units expected to vest	228,052	\$ 6.41

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

**(7) Short-Term Borrowings**

General Physics has a \$35 million Amended 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. For the three months ended June 30, 2010, the rate was LIBOR plus 1.25%. The *Credit Agreement* contains covenants with respect to General Physics' minimum tangible net worth, total liabilities ratio, leverage ratio, interest coverage ratio and its ability to make capital expenditures. General Physics was in compliance with all loan covenants under the *Credit Agreement* as of June 30, 2010. The *Credit Agreement* also contains certain restrictive covenants regarding future acquisitions, incurrence of debt and the payment of dividends. The *Credit Agreement* permits General Physics to provide the Company up to \$10,000,000 of cash to repurchase shares of its outstanding common stock in the open market. There was \$6,604,000 remaining available for future share repurchases under the \$10,000,000 authorized amount as of June 30, 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 June 30, 2010, there were no borrowings outstanding and \$29,625,000 of available borrowings under the *Credit Agreement*, based upon 80% of eligible accounts receivable and 80% of eligible unbilled receivables.

**(8) Income Taxes**

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



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As of June 30, 2010, the Company had \$2,218,000 of unrecognized tax benefits, all of which would impact the effective tax rate if recognized. The Company does not expect any material changes to its uncertain tax positions in the next twelve months. For the three months ended June 30, 2010 and 2009, the Company recognized \$23,000 and \$22,000, respectively, of interest expense related to these tax positions. For the six months ended June 30, 2010 and 2009, the Company recognized \$46,000 and \$27,000, respectively, of interest expense related to these tax positions which is reflected as income tax expense in the consolidated statements of operations. As of June 30, 2010, the Company had \$119,000 of accrued interest related to these tax positions. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examination by tax authorities for years prior to 2004.

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**GP STRATEGIES CORPORATION AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

June 30, 2010  
(Unaudited)

**(9) Stockholders Equity**

Changes in stockholders equity during the six months ended June 30, 2010 were as follows (in thousands):

<b>Common</b>	<b>Additional paid-in</b>	<b>Accumulated</b>	<b>Treasury stock</b>	<b>Accumulated other comprehensive</b>	<b>Total stockholders</b>
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