

GP STRATEGIES CORP
Form 10-Q
May 08, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from _____ **to** _____

Commission File Number 1-7234

GP STRATEGIES CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

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 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
(Do not check if a smaller
reporting company)

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 May 2, 2008 was as follows:

Class	Outstanding
Common Stock, par value \$.01 per share	16,644,948 shares

GP STRATEGIES CORPORATION AND SUBSIDIARIES

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

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,662	\$ 3,868
Accounts and other receivables, less allowance for doubtful accounts of \$865 in 2008 and 2007	46,717	46,897
Inventories, net	654	577
Costs and estimated earnings in excess of billings on uncompleted contracts	14,483	13,995
Prepaid expenses and other current assets	8,080	8,208
Total current assets	73,596	73,545
Property, plant and equipment	9,248	8,758
Accumulated depreciation	(6,375)	(5,915)
Property, plant and equipment, net	2,873	2,843
Goodwill	63,634	61,748
Intangible assets, net	6,680	6,340
Other assets	3,025	2,969
	\$ 149,808	\$ 147,445
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings	\$ 4,718	\$ 2,953
Current maturities of long-term debt	8,082	8,021
Accounts payable and accrued expenses	32,072	32,820
Billings in excess of costs and estimated earnings on uncompleted contracts	10,277	11,671
Total current liabilities	55,149	55,465
Long-term debt less current maturities	17	26
Deferred tax liabilities	490	491
Other noncurrent liabilities	1,564	1,081
Total liabilities	57,220	57,063
Stockholders equity:		
Common stock, par value \$0.01 per share	178	178
Additional paid-in capital	156,598	156,422
Accumulated deficit	(53,123)	(55,972)
Treasury stock at cost	(10,714)	(9,785)
Accumulated other comprehensive loss	(351)	(461)
Total stockholders equity	92,588	90,382
	\$ 149,808	\$ 147,445

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three months ended				
	2008		March 31,		2007
Revenue	\$	66,919	\$	53,543	
Cost of revenue		57,162		45,501	
Gross profit		9,757		8,042	
Selling, general and administrative expenses		4,803		4,619	
Operating income		4,954		3,423	
Interest expense		237		272	
Other income		151		371	
Income before income tax expense		4,868		3,522	
Income tax expense		2,019		1,468	
Net income	\$	2,849	\$	2,054	
Basic weighted average shares outstanding		16,722		16,308	
Diluted weighted average shares outstanding		16,920		16,962	
Per common share data:					
Basic earnings per share	\$	0.17	\$	0.13	
Diluted earnings per share	\$	0.17	\$	0.12	

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three months ended March 31, 2008 and 2007

(Unaudited, in thousands)

	2008	2007
Cash flows from operating activities:		
Net income	\$ 2,849	\$ 2,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	954	974
Deferred income taxes	1,407	1,109
Non-cash compensation expense	638	318
Changes in other operating items:		
Accounts and other receivables	577	(504)
Inventories	(77)	23
Costs and estimated earnings in excess of billings on uncompleted contracts	(413)	(10,585)
Prepaid expenses and other current assets	(1,256)	(565)
Accounts payable and accrued expenses	1,168	239
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,663)	602
Other	(20)	(93)
Net cash provided by (used in) operating activities	4,164	(6,428)
Cash flows from investing activities:		
Additions to property, plant and equipment	(447)	(125)
Acquisitions, net of cash acquired	(1,156)	(5,317)
Payment of contingent consideration for Sandy acquisition	(2,500)	
Net cash used in investing activities	(4,103)	(5,442)
Cash flows from financing activities:		
Net proceeds from short-term borrowings	1,765	3,852
Repurchases of common stock in the open market	(1,413)	(983)
Change in negative cash book balances	(645)	
Proceeds from issuance of common stock	23	610
Payments of obligations under capital leases	(9)	(14)
Net cash provided by (used in) financing activities	(279)	3,465
Effect of exchange rate changes on cash and cash equivalents	12	(2)
Net decrease in cash and cash equivalents	(206)	(8,407)
Cash and cash equivalents at beginning of period	3,868	8,660
Cash and cash equivalents at end of period	\$ 3,662	\$ 253
Non-cash financing activities:		
Reduction in carrying value of Gabelli Notes upon exercise of warrants	\$	\$ 2,099
Capital lease obligation		121

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

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March 31, 2008
(Unaudited)

(1) Basis of Presentation

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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.

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 results of PCS operations have been included in the consolidated financial statements for the period beginning March 1, 2008. See note 3 for further details.

On October 1, 2007, General Physics acquired Via Training, LLC (Via), a U.S. custom e-Learning sales training company. The results of Via's operations have been included in the consolidated financial statements since October 1, 2007.

On June 1, 2007, General Physics, through its wholly owned subsidiary, General Physics (UK) Ltd. (GPUK), completed the acquisition of Smallpeice Enterprises Limited (SEL), a provider of business improvement and technical and management training services in the United Kingdom. The results of SEL's operations have been included in the consolidated financial statements since June 1, 2007.

On January 23, 2007, General Physics completed the acquisition of certain operating assets and the business of Sandy Corporation (Sandy), a leader in custom product sales training and part of the ADP Dealer Services division of ADP, Inc. (ADP). Sandy, which is run as an unincorporated division of General Physics, offers custom sales training and print-based and electronic publications primarily to the U.S. automotive industry. The results of Sandy's operations have been included in the consolidated financial statements since January 23, 2007.

The accompanying condensed consolidated balance sheet as of March 31, 2008 and the condensed consolidated statements of operations and cash flows for the three months ended March 31, 2008 and 2007 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, 2007, as presented in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007. 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 2008 interim period are not necessarily indicative of results to be expected for the entire year.

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

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(2) Earnings Per Share

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Basic earnings per share (EPS) is computed by dividing net income 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 dilutive common stock equivalent shares which were included in the computation of diluted EPS:

	Three months ended March 31,	
	2008	2007
	(In thousands)	
Non-dilutive instruments	1,436	579
Dilutive common stock equivalents	198	654

(3) Acquisition

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On March 1, 2008, General Physics completed the acquisition of 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 purchase price consists of \$1,000,000 in cash paid at closing and \$1,000,000 of guaranteed future payments to be paid in two equal installments on January 31, 2009 and January 31, 2010. In addition, General Physics may be required to pay up to an additional \$2,255,000, 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.

PCS is included in the Company's Process, Energy & Government segment and the results of its operations have been included in the consolidated financial statements for the period beginning March 1, 2008. The pro-forma impact of the PCS acquisition is not material to the Company's results of operations for the three months ended March 31, 2008. The preliminary estimated purchase price for PCS was \$2,100,000, which consisted of \$1,000,000 in cash paid at closing, \$1,000,000 of deferred payments and approximately \$100,000 of acquisition costs. The preliminary purchase price allocation consists of approximately \$200,000 of tangible net assets and \$1,900,000 of goodwill and intangible assets. The Company is currently finalizing the purchase price allocation, including the valuation of intangible assets.

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(4) Intangible Assets

Goodwill

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Changes in the carrying amount of goodwill by reportable business segment for the three months ended March 31, 2008 were as follows (in thousands):

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	Manufacturing & BPO	Process, Energy & Government	Sandy Training & Marketing	Total
Balance at December 31, 2007	\$ 38,231	\$ 21,009	\$ 2,508	\$ 61,748
Acquisition (note 3)		1,367		1,367
Foreign currency fluctuations	15			15
Adjustments to purchase price allocations	4		500	504
Balance at March 31, 2008	\$ 38,250	\$ 22,376	\$ 3,008	\$ 63,634

As of December 31, 2007, the Company had accrued \$2,000,000 of contingent consideration with respect to the first twelve-month period following the completion of the Sandy acquisition based on the revenue targets achieved for the eleven-month period ended December 31, 2007. The actual contingent consideration paid during the first quarter of 2008 with respect to the first full twelve-month period completed in 2008 was \$2,500,000. The accrued contingent consideration of \$2,000,000 was applied to goodwill during 2007 and the additional \$500,000 of contingent consideration paid in excess of the accrual was applied to goodwill during the first quarter of 2008.

Intangible Assets Subject to Amortization

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

	March 31, 2008		December 31, 2007	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer relationships	\$ 6,755	\$ (818)	\$ 6,115	\$ (600)
Contract backlog	1,305	(1,305)	1,305	(1,257)
Non-compete agreements	1,340	(994)	1,340	(977)
Software and other	458	(61)	458	(44)
	\$ 9,858	\$ (3,178)	\$ 9,218	\$ (2,878)

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(5) Stock-Based Compensation

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The Company accounts for its stock-based compensation awards under Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS No. 123R) which requires the recognition of compensation expense for all equity-based compensation awards issued to employees that are expected to vest. Compensation cost is based on the fair value of awards as of the grant date.

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

	Three months ended March 31,			
	2008		2007	
Non-qualified stock options	\$	118	\$	11
Restricted stock units		66		75
Board of Director stock grants		37		23
Total stock-based compensation expense	\$	221	\$	109

Pursuant to the Company's 1973 Non-Qualified Stock Option Plan, as amended, and 2003 Incentive Stock Plan, the Company may grant awards of non-qualified stock options, incentive stock options, restricted stock, stock units, performance shares, performance units and other incentives payable in cash or in shares of the Company's common stock to officers, employees or members of the Board of Directors. As of March 31, 2008, 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:

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Stock Options	Number of options	Weighted average exercise price	Weighted average remaining years	Aggregate intrinsic value
Outstanding at December 31, 2007	1,037,221	\$ 10.22		
Granted	12,600	9.66		
Exercised	(5,605)	4.10		
Cancelled/expired	(14,913)	8.44		
Outstanding at March 31, 2008	1,029,303	\$ 10.27	4.87	\$ 655,000
Exercisable at March 31, 2008	136,703	\$ 5.12	2.52	\$ 655,000

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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. In accordance with SFAS No. 123R, 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:

	Three months ended March 31, 2008 (In shares)		Weighted average grant date fair value (In dollars)
Outstanding and unvested, December 31, 2007	163,320	\$	8.14
Granted	23,700		9.80
Vested	(16,201)		8.96
Forfeited			
Outstanding and unvested, March 31, 2008	170,819	\$	8.29

(6) Short-Term Borrowings

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General Physics has a \$25 million Financing and Security Agreement (the Credit Agreement), with a bank that expires on August 31, 2009 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 at the daily LIBOR market index rate plus 2.75%. Based upon the financial performance of General Physics, the interest rate can be reduced. As of March 31, 2008, the rate was LIBOR plus 1.25% which resulted in a rate of approximately 3.95%. The Credit Agreement contains covenants with respect to General Physics' minimum tangible net worth, leverage ratio, interest coverage ratio and its ability to make capital expenditures. General Physics was in compliance with all loan covenants under the Credit Agreement as of March 31, 2008. 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. The Company is otherwise currently restricted from paying dividends or management fees to the Company in excess of \$1,000,000 in any year, with the exception of a waiver which permits General Physics to provide up to \$8,100,000 in cash to repay debt obligations which mature in 2008 in the event the Company does not have available cash (see Note 7).

As of March 31, 2008, there were \$4,718,000 of borrowings outstanding and \$20,112,000 of available borrowings under the Credit Agreement. As of December 31, 2007, there were \$2,953,000 of borrowings outstanding under the Credit Agreement.

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(7) Long-Term Debt

Long-term debt consisted of the following (in thousands):

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	March 31, 2008	December 31, 2007
6% conditional subordinated notes due 2008 (a)	\$ 2,885	\$ 2,885
ManTech Note (b)	5,251	5,251
Capital lease obligations	52	61
	8,188	8,197
Less warrant related discount, net of accretion	(89)	(150)
	8,099	8,047
Less current maturities	(8,082)	(8,021)
	\$ 17	\$ 26

(a) In August 2003, the Company issued and sold to four Gabelli Funds \$7,500,000 in aggregate principal amount of 6% Conditional Subordinated Notes due 2008 (the Gabelli Notes) and 937,500 warrants (GP Warrants), each entitling the holder thereof to purchase (subject to adjustment) one share of the Company's common stock at an exercise price of \$8.00. The aggregate purchase price for the Gabelli Notes and GP Warrants was \$7,500,000.

The Gabelli Notes bear interest at 6% per annum payable semi-annually commencing on December 31, 2003 and mature in August 2008. The Gabelli Notes are secured by a mortgage on the Company's former property located in Pawling, New York which was distributed to National Patent Development Corporation (NPDC) in connection with its spin-off by the Company on November 24, 2004. In addition, at any time that less than \$1,875,000 of the principal amount of the Gabelli Notes is outstanding, the Company may defease the obligations secured by the mortgage and obtain a release of the mortgage by depositing with an agent for the Noteholders bonds or government securities with an investment grade rating by a nationally recognized rating agency which, without reinvestment, will provide cash on the maturity date of the Gabelli Notes in an amount not less than the outstanding principal amount of the Gabelli Notes.

Subsequent to the spin-off of NPDC in 2004 and GSE Systems, Inc. (GSE) in 2005, and in accordance with the anti-dilution provisions of the warrant agreement for stock splits, reorganizations, mergers and similar transactions, the number of GP Warrants was adjusted to 984,116 and the exercise price was adjusted to \$5.85 per share. The GP warrants are exercisable at any time until August 2008. The exercise price may be paid in cash, by delivery of the Gabelli Notes, or a combination of the two. During the years ended December 31, 2007 and 2006, Gabelli exercised 624,862 and 197,823 GP Warrants, respectively, which reduced the principal balance of the Gabelli Notes by an aggregate of \$4,615,000. Gabelli did not exercise any warrants during the

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three months ended March 31, 2008. As of March 31, 2008, there were 161,431 GP Warrants outstanding and exercisable with an exercise price of \$5.85.

The fair value of the GP Warrants at the date of issuance was \$2,389,000, which reduced long-term debt in the accompanying condensed consolidated balance sheets and is being accreted as additional interest expense using the effective interest rate over the term of the Gabelli Notes. The Gabelli Notes have a yield to maturity of 15.436% based on the discounted value. Accretion charged as interest expense was approximately \$61,000 and \$75,000 for the three months ended March 31, 2008 and 2007, respectively.

(b) In October 2003, the Company issued a five-year 5% note due in full in October 2008 in the principal amount of \$5,251,000 to ManTech International. Interest is payable quarterly. Each year during the term of the note, the holder of the note has the option to convert up to 20% of the original principal amount of the note into common stock of the Company at the then market price of the Company's common stock, but only in the event that the Company's common stock is trading at \$10 per share or more. In the event that less than 20% of the principal amount of the note is not converted in any year, such amount not converted will be eligible for conversion in each subsequent year until converted or until the note is repaid in cash. ManTech has not converted any portion of the note into common stock and the principal balance of such note was \$5,251,000 as of March 31, 2008.

(8) Income Taxes

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Uncertain tax positions are accounted for under Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN No. 48). FIN No. 48 requires that a position taken or expected to be taken in a tax return be 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.

As of March 31, 2008, the Company had \$2,218,000 of unrecognized tax benefits, all of which would impact the effective tax rate if recognized. These unrecognized tax benefits are presented as a reduction of the deferred tax asset balance in the condensed consolidated balance sheet as of March 31, 2008 since they relate to tax positions taken in years which resulted in net operating loss carryforwards. The Company has not increased or decreased the amount of unrecognized tax benefits reflected in its condensed consolidated balance sheet since the adoption of FIN No. 48 on January 1, 2007, and does not expect any material changes to its uncertain tax positions in the next twelve months. As of March 31, 2008, the Company had no accrued interest or penalties 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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(9) Stockholders Equity

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Changes in stockholders' equity during the three months ended March 31, 2008 were as follows (in thousands):

	Common stock	Additional paid-in capital	Accumulated deficit	Treasury stock at cost	Accumulated other comprehensive loss	Total stockholders equity
Balance at December 31, 2007	\$ 178	\$ 156,422	\$ (55,972)	\$ (9,785)	\$ (461)	\$ 90,382
Net income			2,849			2,849
Other comprehensive income					110	110
Repurchases of common stock				(1,413)		(1,413)
Stock-based compensation		194		27		221
Issuances of treasury stock		(18)		457		439
Balance at March 31, 2008	\$ 178	\$ 156,598	\$ (53,123)	\$ (10,714)	\$ (351)	\$ 92,588

(10) Comprehensive Income

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

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	Three months ended				
	2008		March 31,		2007
Net income	\$	2,849	\$	2,054	
Other comprehensive income - foreign currency translation		110		33	
Comprehensive income	\$	2,959	\$	2,087	

As of March 31, 2008 and December 31, 2007, accumulated other comprehensive loss was \$351,000 and \$461,000, respectively, and consisted of foreign currency translation adjustments.

(11) Business Segments

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As of March 31, 2008, the Company operated through three reportable business segments: (i) Manufacturing & Business Process Outsourcing (BPO), (ii) Process, Energy & Government, and (iii) Sandy Training & Marketing. The Company is organized by operating group primarily based upon the markets served by each group and the services performed. The Manufacturing & BPO and Process, Energy & Government segments represent an aggregation of the Company's operating segments in accordance with the aggregation criteria in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131), and the Sandy Training & Marketing segment represents one operating segment as defined in SFAS No. 131. During the first quarter of 2008, the Company transferred the management responsibility for its automotive technical training business unit from the Manufacturing &

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BPO segment to the Sandy Training & Marketing segment. The Company has reclassified the segment information below for the prior year interim period to reflect this change and conform to the current period's presentation.

Further information regarding our business segments is discussed below.

Manufacturing & BPO. The Manufacturing & BPO segment delivers training, curriculum design and development, staff augmentation, e-Learning services, system hosting, integration and help desk support, training business process outsourcing, and consulting and technical services primarily to large companies in the steel, pharmaceutical, electronics and semiconductors, automotive, financial and other industries as well as to government agencies. The October 2007 acquisition of Via has expanded this segment's delivery capabilities and diversified its core client base in the software, electronics and semiconductors and retail markets. This segment's ability to deliver a wide range of training services allows the Company to take over the entire learning function for the client, including their training personnel.

Process, Energy & Government. The Process, Energy & Government segment has over four decades of experience providing consulting, engineering, technical and training services, including emergency preparedness, safety and regulatory compliance, chemical demilitarization and environmental services primarily to federal and state government agencies, large government contractors, petroleum and chemical refining companies and electric power utilities.

Sandy Training and Marketing. Acquired in January 2007, Sandy is a provider of custom product sales training and has been a leader in serving manufacturing customers in the U.S. automotive industry for over thirty 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 its clients assess their customer relationship management strategy, measure performance against competitors and connect with customers on a one-to-one basis. As mentioned above, this segment also provides technical training services to automotive customers.

Significant Customers & Concentration of Credit Risk

The Company has a concentration of revenue from General Motors Corporation and its affiliates (General Motors) as well as a market concentration in the automotive sector. For the three months ended March 31, 2008 and 2007, revenue from General Motors accounted for approximately 22% and 20%, respectively, of the Company's consolidated revenue, and revenue from the automotive industry accounted for approximately 29% and 25%, respectively, of the Company's consolidated revenue. Accounts receivable from General Motors totaled \$11,731,000 as of March 31, 2008 which is reflected in the condensed consolidated balance sheet. No other customer accounted for more than 10% of the Company's revenue in the first quarter of 2008 or accounts receivable as of March 31, 2008.

The Company also has a concentration of revenue from the United States government. For the three months ended March 31, 2008 and 2007, sales to the United States government and its agencies represented approximately 18% and 20%, 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. Revenue from the Department of the Army, which is included in the

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Process, Energy & Government segment, accounted for approximately 6% and 10% of the Company's consolidated revenue for the three months ended March 31, 2008 and 2007, respectively.

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

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

	Three months ended	
	March 31,	
	2008	2007
Revenue:		
Manufacturing & BPO	\$ 29,121	\$ 23,500
Process, Energy & Government	19,430	16,778
Sandy Training & Marketing	18,368	13,265
	\$ 66,919	\$ 53,543
Operating income:		
Manufacturing & BPO	\$ 1,919	\$ 1,530
Process, Energy & Government	2,791	1,931
Sandy Training & Marketing	783	470
Corporate and other	(539)	(508)
	4,954	3,423
Interest expense	(237)	(272)
Other income	151	371
Income before income tax expense	\$ 4,868	\$ 3,522

(12) Guarantees

Subsequent to the spin-off of NPDC, the Company continued to guarantee certain obligations of NPDC's subsidiaries, Five Star Products, Inc. (Five Star) and MXL Industries, Inc. (MXL). The Company guaranteed certain operating leases for Five Star's New Jersey and Connecticut warehouses, which totaled approximately \$1,589,000 per year through March 31, 2007. The leases have been extended and now expire in the first quarter of 2009. The annual rent obligations are currently approximately \$1,600,000. In connection with the spin-off of NPDC by the Company, NPDC agreed to assume the Company's obligation under such guarantees, to use commercially reasonable efforts to cause the Company to be released from each such guaranty, and to hold the Company harmless from all claims, expenses and liabilities connected with the leases or NPDC's breach of any agreements effecting the spin-off. The Company has not received confirmation that it has been released from these guarantees. The Company

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does not expect to incur any material payments associated with these guarantees, and as such, no liability is reflected in the condensed consolidated balance sheets.

The Company also guarantees the repayment of a debt obligation of MXL, which is secured by property and certain equipment of MXL. The aggregate outstanding balance of MXL's debt obligation as of March 31, 2008 was \$980,000. The Company's guarantee expires upon the maturity of the debt obligation in March 2011. The Company does not expect to incur any material payments associated with this guarantee, and as such, no liability is reflected in the condensed consolidated balance sheets.

(13) **Litigation**

In 2001 the Company initiated legal proceedings in connection with its 1998 acquisition of Learning Technologies from various subsidiaries (Systemhouse) of MCI Communications Corporation (MCI) which were subsequently acquired by Electronic Data Systems Corporation (EDS). The Company has settled its fraud claims against EDS and Systemhouse, but continues to have a claim against MCI as an unsecured creditor.

The fraud action against MCI had been stayed as a result of MCI's bankruptcy filing in 2002, and the Company's claims against MCI were not tried or settled with the claims against EDS and Systemhouse. Pursuant to the spin-off agreement with NPDC, the Company will contribute to NPDC 50% of any proceeds received in the future, net of legal fees and taxes, with respect to the litigation claims.

The Company is not a party to any legal proceeding, the outcome of which is believed by management to have a reasonable likelihood of having a material adverse effect upon the financial condition and operating results of the Company.

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

Results of Operations

General Overview

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

We operate through three reportable business segments: (i) Manufacturing & Business Process Outsourcing (BPO), (ii) Process, Energy & Government, and (iii) Sandy Training & Marketing. We are organized by operating group primarily based upon the markets served by each group and the services performed. The Manufacturing & BPO and Process, Energy & Government segments represent an aggregation of our operating segments in accordance with the aggregation criteria in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131), and the Sandy Training & Marketing segment represents one operating segment as defined in SFAS No. 131. During the first quarter of 2008, we transferred the management responsibility for our automotive technical training business unit from the Manufacturing & BPO segment to the Sandy Training & Marketing segment. The Company has reclassified the segment information for the prior year interim period to reflect this change and conform to the current period's presentation.

Further information regarding our business segments is discussed below.

Manufacturing & BPO. The Manufacturing & BPO segment delivers training, curriculum design and development, staff augmentation, e-Learning services, system hosting, integration and help desk support, training business process outsourcing, and consulting and technical services primarily to large companies in the steel, pharmaceutical, electronics and semiconductors, automotive, financial and other industries as well as to government agencies. The October 2007 acquisition of Via Training, LLC (Via) has expanded this segment's delivery capabilities and diversified its core client base in the software, electronics and semiconductors and retail markets. This segment's 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, Energy & Government. The Process, Energy & Government segment has over four decades of experience providing consulting, engineering, technical and training services, including emergency preparedness, safety and regulatory compliance, chemical demilitarization and environmental services primarily to federal and state government agencies, large government contractors, petroleum and chemical refining companies and electric power utilities.

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measure performance against competitors and connect with customers on a one-to-one basis. As mentioned above, this segment also provides technical training services to automotive customers.

Significant Events

Acquisition

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 purchase price consists of \$1.0 million in cash paid at closing and \$1.0 million of guaranteed future payments to be paid in two equal installments on January 31, 2009 and January 31, 2010. In addition, General Physics may be required to pay up to an additional \$2.3 million, 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.

PCS is included in our Process, Energy & Government segment and the results of its operations have been included in our consolidated financial statements for the period beginning March 1, 2008. The pro-forma impact of the PCS acquisition is not material to our results of operations for the three months ended March 31, 2008. The preliminary estimated purchase price for PCS was \$2.1 million, which consisted of \$1.0 million in cash paid at closing, \$1.0 million of deferred payments and approximately \$0.1 million of acquisition costs. The preliminary purchase price allocation consists of approximately \$0.2 million of tangible net assets and \$1.9 million of goodwill and intangible assets. We are currently finalizing the purchase price allocation, including the valuation of intangible assets.

Share Repurchase Program

As previously disclosed, our Board of Directors authorized the repurchase of shares of our common stock from time to time in the open market, subject to prevailing business and market conditions and other factors. An aggregate of \$13.0 million of share repurchases was authorized, which consisted of \$5.0 million authorized in January 2006, an additional \$5.0 million authorized in August 2007, and an additional \$3.0 million authorized in March 2008. During the years ended December 31, 2007 and 2006, we repurchased approximately 678,500 and 420,000 shares, respectively, of our common stock in the open market for a total cost of approximately \$6.5 million and \$3.1 million, respectively. During the three months ended March 31, 2008, we repurchased approximately 152,000 shares of our common stock in the open market for a total cost of approximately \$1.4 million. As of March 31, 2008, there was approximately \$2.0 million available for future share repurchases under the buyback program. There is no expiration date for the repurchase program.

Operating Highlights

Three Months ended March 31, 2008 compared to the Three Months ended March 31, 2007

For the three months ended March 31, 2008, we had income before income tax expense of \$4.9 million compared to \$3.5 million for the three months ended March 31, 2007. The improved results were primarily due to an increase in operating income of \$1.5 million, the components of which are discussed below. Net income was \$2.8 million, or \$0.17 per diluted share, for the three months ended March 31, 2008, compared to net income of \$2.1 million, or \$0.12 per diluted share, for the three months ended March 31, 2007.