GP STRATEGIES CORP
Form 10-Q
August 04, 2011
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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, 2011

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

6095 Marshalee Drive, Suite 300, Elkridge, MD	**21075**
(Address of principal executive offices)	(Zip Code)

(410) 379-3600

Registrant s telephone number, including area code:

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

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 number of shares outstanding of the registrant s common stock as of July 29, 2011 was as follows:

Class	**Outstanding**
Common Stock, par value $.01 per share	18,793,371 shares

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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)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 5,588	$ 28,902
Accounts and other receivables, less allowance for doubtful accounts of $1,091 in 2011 and $701 in 2010	62,405	47,874
Inventories, net	315	305
Costs and estimated earnings in excess of billings on uncompleted contracts	20,391	12,929
Prepaid expenses and other current assets	7,927	5,813
Total current assets	96,626	95,823
Property, plant and equipment	14,664	12,349
Accumulated depreciation	(10,473)	(9,384)
Property, plant and equipment, net	4,191	2,965
Goodwill	88,885	72,996
Intangible assets, net	14,581	9,795
Other assets	1,821	1,617
	$ 206,104	$ 183,196
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings	$ 6,521	$
Accounts payable and accrued expenses	41,212	32,694
Billings in excess of costs and estimated earnings on uncompleted contracts	15,966	15,807
Total current liabilities	63,699	48,501
Other noncurrent liabilities	8,164	9,908
Total liabilities	71,863	58,409
Stockholders equity:		
Common stock, par value $0.01 per share	188	187
Additional paid-in capital	164,986	163,422
Accumulated deficit	(29,292)	(36,593)
Treasury stock at cost	(5)	(2)
Accumulated other comprehensive loss	(1,636)	(2,227)
Total stockholders equity	134,241	124,787
	$ 206,104	$ 183,196

See accompanying notes to condensed consolidated financial statements.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue	$ 86,034	$ 66,139	$ 150,327	$ 123,029
Cost of revenue	71,323	55,429	124,824	104,135
Gross profit	14,711	10,710	25,503	18,894
Selling, general and administrative expenses	7,863	5,996	14,611	11,439
Gain on reversal of deferred rent liability	1,041		1,041	
Gain (loss) on change in fair value of contingent consideration, net	(43)	628	203	1,533
Operating income	7,846	5,342	12,136	8,988
Interest expense	65	50	98	100
Other income	160	152	341	294
Income before income tax expense	7,941	5,444	12,379	9,182
Income tax expense	3,230	2,301	5,078	3,868
Net income	$ 4,711	$ 3,143	$ 7,301	$ 5,314
Basic weighted average shares outstanding	18,776	18,614	18,750	18,606
Diluted weighted average shares outstanding	19,049	18,702	18,971	18,708
Per common share data:				
Basic earnings per share	$ 0.25	$ 0.17	$ 0.39	$ 0.29
Diluted earnings per share	$ 0.25	$ 0.17	$ 0.38	$ 0.28

See accompanying notes to condensed consolidated financial statements.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six months ended June 30, 2011 and 2010

(Unaudited, in thousands)

	2011	2010
Cash flows from operating activities:		
Net income	$ 7,301	$ 5,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on reversal of deferred rent liability	(1,041)	
Gain on change in fair value of contingent consideration, net	(203)	(1,533)
Depreciation and amortization	2,614	2,229
Deferred income taxes	(87)	726
Non-cash compensation expense	1,387	875
Changes in other operating items:		
Accounts and other receivables	1,660	864
Costs and estimated earnings in excess of billings on uncompleted contracts	(5,103)	(1,152)
Prepaid expenses and other current assets	(2,260)	634
Accounts payable and accrued expenses	2,650	1,772
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,288)	320
Contingent consideration payments in excess of fair value on acquisition date	(721)	
Other	(115)	213
Net cash provided by operating activities	4,794	10,262
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,531)	(441)
Acquisitions, net of cash acquired	(32,263)	(3,247)
Net cash used in investing activities	(33,794)	(3,688)
Cash flows from financing activities:		
Proceeds from short-term borrowings	6,521	
Contingent consideration payments	(1,238)	
Repurchases of common stock in the open market	(4)	(228)
Proceeds from stock option exercises	232	22
Other	4	(238)
Net cash provided by (used in) financing activities	5,515	(444)
Effect of exchange rate changes on cash and cash equivalents	171	(283)
Net increase (decrease) in cash and cash equivalents	(23,314)	5,847
Cash and cash equivalents at beginning of period	28,902	10,803
Cash and cash equivalents at end of period	$ 5,588	$ 16,650

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, 2011

(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, 2011, the condensed consolidated statements of operations for the three and six months ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010 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, 2010, as presented in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. 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 2011 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, 2011 and 2010, revenue from General Motors accounted for approximately 10% and 12%, respectively, of the Company s consolidated revenue, and revenue from the automotive industry accounted for approximately 18% and 19%, respectively, of the Company s consolidated revenue. No other customer accounted for more than 10% of the Company s revenue during the six months ended June 30, 2011 or accounts receivable as of June 30, 2011.

The Company also has a concentration of revenue from the United States government. For the six months ended June 30, 2011 and 2010, sales to the United States government and its agencies represented approximately 17% and 22%, 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.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(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,	
	2011	2010	2011	2010
	(In thousands)			
Non-dilutive instruments	111	1,317	76	1,277
Dilutive common stock equivalents	273	88	221	102

(4) Acquisitions

RWD Technologies

On April 15, 2011, General Physics completed the acquisition of certain assets of the consulting business of RWD Technologies, LLC, a Delaware limited liability company, and certain of its subsidiaries (collectively, RWD). RWD is a provider of human capital management and IT consulting services, business transformation and lean process improvement, end-user training, change management, knowledge management and operator effectiveness management solutions in industries such as manufacturing, energy, automotive, aerospace, healthcare, life sciences, consumer products, financial, telecommunications, services and higher education as well as the public sector. General Physics paid $27,980,000 at closing, which was financed with $20,380,000 of cash on hand and $7,600,000 of borrowings under its revolving credit facility. The purchase price is subject to adjustment based on final determination of the working capital of the acquired business as of the closing date in accordance with the Asset Purchase Agreement. As of the date of this report, the Company estimates that a $2,505,000 payment will be due from the seller based on the working capital per the balance sheet as of the acquisition date. The purchase price adjustment is expected to be finalized and paid during the third quarter of 2011.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Based on management estimates of the fair values, the preliminary estimated purchase price allocation as of the April 15, 2011 acquisition date is as follows (in thousands):

Cash paid at closing	$	27,980
Less: estimated payment due from seller for working capital adjustment		(2,505)
Total estimated purchase price	$	25,475
Purchase price allocation:		
Assets acquired:		
Current assets		
Cash and cash equivalents	$	81
Accounts receivable		13,581
Costs and earnings in excess of billings on uncompleted contracts		2,359
Prepaids and other current assets		247
Property and equipment		573
Deferred tax asset		39
Intangible assets:		
Customer-related		2,787
Marketing-related		1,652
Goodwill		11,900
Other assets		28
Total assets acquired		33,247
Liabilities assumed:		
Accounts payable and accrued expenses		(6,308)
Billings in excess of costs and estimated earnings on uncompleted contracts		(1,464)
Total liabilities assumed		(7,772)
Net assets acquired	$	25,475

The Company recorded customer-related intangible assets of $2,787,000 relating to customer lists and relationships acquired to be amortized over an estimated useful life of 5.9 years, and marketing-related intangible assets of $1,652,000 relating to the tradename acquired to be amortized over an estimated useful life of 5 years. During the three and six months ended June 30, 2011, the Company recognized $171,000 of amortization expense for these intangible assets.

A portion of the acquired business is reported as a separate reportable segment named RWD, and the remaining other business units of RWD are included in the Manufacturing & BPO and Sandy Training & Marketing segments. The results of RWD s operations have been included in the consolidated financial statements since April 16, 2011.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

The following unaudited pro-forma condensed consolidated results of operations assume that the acquisition of RWD was completed as of January 1 for each of the interim periods shown below:

	Six months ended June 30, 2011	Six months ended June 30, 2010
	(In thousands, except per share amounts)	
Revenue	$ 171,769	$ 155,739
Net income	8,033	3,478
Basic earnings per share	0.43	0.19
Diluted earnings per share	0.43	0.19

Ultra Training Ltd.

On April 1, 2011, General Physics through its wholly-owned subsidiary, General Physics (UK) Ltd., acquired Ultra Training Ltd., an independent skills training provider located in the United Kingdom. General Physics paid approximately $2,968,000 in cash at closing. In addition, the purchase agreement requires General Physics to pay $481,000 of deferred consideration, of which $160,000 was paid in April 2011 and the remainder was paid in July 2011 upon completion of a closing condition specified in the purchase agreement. The purchase price is subject to adjustment based on final determination of the net assets of the acquired business on the closing date in accordance with the Purchase Agreement. Ultra Training Ltd. is included in the Company s Manufacturing & BPO segment and its results of operations have been included in the Company s consolidated financial statements since April 1, 2011. The pro-forma impact of the acquisition is not material to the Company s results of operations.

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

Cash purchase price	$ 2,968
Deferred consideration	481
Less: estimated payment due from seller for net asset adjustment	(48)
Total estimated purchase price	$ 3,401

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

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

Cash	$	347
Accounts receivable		154
Prepaid expenses and other assets		375
Property, plant and equipment, net		42
Amortizable intangible assets		1,250
Goodwill		2,428
Total assets acquired		4,596
Accounts payable, accrued expenses and other liabilities		870
Deferred tax liability		325
Total liabilities assumed		1,195
Net assets acquired	$	3,401

The Company recorded customer-related intangible assets as a result of the acquisition, which included $1,250,000 relating to customer lists and relationships acquired which will be amortized over an estimated useful life of five years.

Communication Consulting

On February 1, 2011, General Physics, through its wholly-owned subsidiaries GP Worldwide Hong Kong Limited and GP (Shanghai) Consulting Co., Ltd., acquired the training business and certain related assets of Cathay/Communication Consulting Limited (Communication Consulting), a Hong Kong-based training and consulting company with offices in Shanghai and Beijing, China, and Haryana (New Delhi) in India. Communication Consulting designs and delivers customized training solutions and specializes in the areas of leadership, communication skills, sales and customer service training. General Physics paid approximately $1,380,000 in cash at closing. In addition, the purchase agreement requires General Physics to pay $125,000 upon the completion of certain post-closing matters and up to an additional $700,000 of contingent consideration, which would be payable subsequent to each of the two twelve-month periods following completion of the acquisition, contingent upon the achievement of certain revenue targets during those periods, as defined in the purchase agreement. The total estimated fair value of the purchase price on the date of acquisition was $1,492,000 and consisted of the upfront cash payment of $1,380,000 and $112,000 of estimated contingent consideration. The purchase price allocation consisted of $16,000 of fixed assets, $1,086,000 of goodwill and $390,000 of intangible assets to be amortized over five years from the acquisition date. The acquired Communication Consulting business is included in the

Manufacturing & BPO segment and the results of its operations have been included in the consolidated financial statements since February 1, 2011. The pro-forma impact of the acquisition is not material to the Company s results of operations.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Contingent Consideration

Effective January 1, 2009, the Company adopted Accounting Standards Codification (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 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 June 30, 2011 (dollars in thousands):

		As of June 30, 2011 Maximum contingent consideration due in			
Acquisition:	**Original range of potential undiscounted payments**	**2011**	**2012**	**2013**	**Total**
Milsom	$0 - $3,600	$ 1,202	$ 1,202	$	$ 2,404
Option Six	$0 - $2,000		1,000		1,000
PerformTech	$0 - $4,500		2,000		2,000
Marton House	$0 - $3,849		1,282	1,282	2,564
Bath Consulting	$0 - $2,435	465	881	1,089	2,435
Academy of Training	$0 - $160	160			160
Communication Consulting	$0 - $700		400	300	700
Other		320	617		937
Total		$ 2,147	$ 7,382	$ 2,671	$ 12,200

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Below is a summary of the changes in the recorded amount of contingent consideration liabilities from December 31, 2010 to June 30, 2011 for each acquisition (dollars in thousands):

Acquisition:	Liability as of Dec. 31, 2010	2011 Additions (Payments)	Change in Fair Value of Contingent Consideration	Foreign Currency Translation	Liability as of June 30, 2011
Milsom	$ 1,198		(528)	50	$ 720
Option Six	902	(650)	263		515
PerformTech					
Marton House	2,366	(1,308)	60	111	1,229
Bath Consulting	940		(18)	32	954
Academy of Training	132		13	5	150
Communication Consulting		112	7	(4)	115
Other	194	(202)		8	
Total	$ 5,732	(2,048)	(203)	202	$ 3,683

As of June 30, 2011 and December 31, 2010, contingent consideration included in accounts payable and accrued expenses on the consolidated balance sheet totaled $2,192,000 and $3,062,000, respectively. As of June 30, 2011 and December 31, 2010, the Company also had accrued contingent consideration totaling $1,491,000 and $2,670,000, respectively, included in other noncurrent 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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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

(5) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill by reportable business segment for the six months ended June 30, 2011 were as follows (in thousands):

	Manufacturing & BPO	Process & Government	Energy	Sandy	RWD	Total
Net book value at Jan. 1, 2011						
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
Acquisitions	5,991			590	8,857	15,438
Foreign currency translation	451					451
Net book value at June 30, 2011						
Goodwill	66,650	14,527	8,170	6,098	8,857	104,302
Accumulated impairment losses	(9,909)			(5,508)		(15,417)
Total	$ 56,741	$ 14,527	$ 8,170	$ 590	$ 8,857	$ 88,885

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):

	June 30, 2011		December 31, 2010	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer relationships	$ 16,847	$ (4,697)	$ 12,551	$ (3,542)
Tradenames	1,652	(69)		
Contract backlog	388	(373)	374	(339)
Software and other	1,845	(1,012)	1,605	(854)
	$ 20,732	$ (6,151)	$ 14,530	$ (4,735)

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Estimated amortization expense for intangible assets included in the Company s consolidated balance sheet as of June 30, 2011 is as follows (in thousands):

Six months ending December 31, 2011	$	1,424
Fiscal year ending December 31, 2012		3,150
Fiscal year ending December 31, 2013		2,959
Fiscal year ending December 31, 2014		2,732
Fiscal year ending December 31, 2015		1,837
Thereafter		2,479
Total	$	14,581

(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,			
	2011		2010		2011		2010	
Non-qualified stock options	$	264	$	178	$	454	$	346
Restricted stock units		129		129		258		327
Board of Directors stock grants		101		61		201		129
Total stock-based compensation	$	494	$	368	$	913	$	802

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, 2011, the Company had non-qualified stock options and restricted stock units outstanding under these plans as discussed below.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

Non-Qualified Stock Options

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

Stock Options	**Number of options**		**Weighted average exercise price**	**Weighted average remaining contractual term**		**Aggregate intrinsic value**
Outstanding at December 31, 2010	1,377,770	$	9.56			
Granted	156,000		13.17			
Exercised	(22,660)		10.22			
Forfeited	(29,875)		10.77			
Expired	(9,960)		9.04			
Outstanding at June 30, 2011	1,471,275	$	9.94	3.25	$	5,468,000
Stock options expected to vest	1,367,250	$	10.01	3.15	$	4,909,000
Exercisable at June 30, 2011	678,275	$	10.25	2.29	$	2,312,000

In connection with the RWD acquisition in April 2011, the Company granted 156,000 non-qualified stock options to certain key personnel. The options have a weighted average exercise price of $13.17, 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 six months ended June 30, 2011 was $4.63 on the date of grant using the Black-Scholes Merton option pricing model with the following assumptions:

Expected term	4.5 years
Expected stock price volatility	39.3%
Risk-free interest rate	1.82%
Expected dividend yield	%

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

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, 2011 (In shares)		Weighted average grant date fair value (In dollars)
Outstanding and unvested, beginning of period	195,616	$	6.45
Granted	1,500		10.36
Vested	(13,827)		9.15
Forfeited	(4,340)		6.25
Outstanding and unvested, end of period	178,949	$	6.28
Restricted stock units expected to vest	144,417	$	6.52

(7) Short-Term Borrowings

General Physics has a $35 million Financing and Security Agreement (the Credit Agreement) with a bank that expires on October 31, 2013 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, 2011, the rate was LIBOR plus 1.25%. The Credit Agreement contains covenants with respect to General Physics minimum tangible net worth, total liabilities to tangible net worth ratio and interest coverage ratio. General Physics was in compliance with all loan covenants under the Credit Agreement as of June 30, 2011. 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 $6,562,000 remaining available for future share repurchases under the $10,000,000 authorized amount as of June 30, 2011. 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, 2011, there were $6,521,000 of borrowings outstanding and $27,727,000 of available borrowings under the Credit Agreement, based upon 80% of eligible accounts receivable and 80% of eligible unbilled receivables.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

(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.

As of June 30, 2011, 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, 2011 and 2010, the Company recognized $24,000 and $23,000, respectively, of interest expense related to these tax positions. For the six months ended June 30, 2011 and 2010, the Company recognized $42,000 and $46,000, 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, 2011, the Company had $208,000 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 2002.

(9) Stockholders Equity

Changes in stockholders equity during the six months ended June 30, 2011 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, 2010	$ 187	$ 163,422	$ (36,593)	$ (2)	$ (2,227)	$ 124,787
Net income			7,301			7,301
Other comprehensive income					591	591

Stock-based compensation		913				913
Other	1	651		(3)		649
Balance at June 30, 2011	$ 188	$ 164,986	$ (29,292)	$ (5)	$ (1,636)	$ 134,241

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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(Unaudited)

(10) Comprehensive Income

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

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 4,711	$ 3,143	$ 7,301	$ 5,314
Other comprehensive income (loss)				