

GP STRATEGIES CORP
Form 10-Q
August 01, 2018
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 June 30, 2018
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)	52-0845774 (I.R.S. Employer Identification No.)
70 Corporate Center 11000 Broken Land Parkway, Suite 200, Columbia, MD	21044
(Address of principal executive offices)	(Zip Code)

(443) 367-9600

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, smaller reporting company, or an emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 24, 2018 was as follows:

Class	Outstanding
Common Stock, par value \$.01 per share	16,535,152

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, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash	\$ 14,134	\$ 23,612
Accounts and other receivables, less allowance for doubtful accounts of \$2,360 in 2018 and \$2,492 in 2017	110,122	119,335
Unbilled revenue	45,527	42,958
Prepaid expenses and other current assets	14,664	14,212
Total current assets	184,447	200,117
Property, plant and equipment	20,410	21,466
Accumulated depreciation	(14,909)	(16,343)
Property, plant and equipment, net	5,501	5,123
Goodwill	172,975	144,835
Intangible assets, net	17,922	8,363
Other assets	8,250	6,569
	\$ 389,095	\$ 365,007
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	\$ 61,823	\$ 37,696
Current portion of long-term debt	12,000	12,000
Accounts payable and accrued expenses	72,893	78,280
Deferred revenue	18,694	22,356
Total current liabilities	165,410	150,332
Long-term debt	28,000	16,000
Other noncurrent liabilities	9,601	10,621
Total liabilities	203,011	176,953
Stockholders' equity:		
Common stock, par value \$0.01 per share	172	172
Additional paid-in capital	107,372	107,256
Retained earnings	112,410	106,599
Treasury stock at cost	(16,074)	(11,118)
Accumulated other comprehensive loss	(17,796)	(14,855)
Total stockholders' equity	186,084	188,054
	\$ 389,095	\$ 365,007

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	\$133,691	\$131,161	\$258,723	\$253,608
Cost of revenue	111,118	108,726	218,471	211,785
Gross profit	22,573	22,435	40,252	41,823
General and administrative expenses	14,121	12,777	27,980	25,376
Sales and marketing expenses	1,106	461	1,831	856
Restructuring charges	2,495	—	2,930	—
Gain (loss) on change in fair value of contingent consideration, net	894	(96)	) 3,446	101
Operating income	5,745	9,101	10,957	15,692
Interest expense	(150)	) 534	536	972
Other expense	988	107	1,152	182
Income before income tax expense	4,907	8,460	9,269	14,538
Income tax expense	1,332	2,597	3,062	4,589
Net income	\$3,575	\$5,863	\$6,207	\$9,949
Basic weighted average shares outstanding	16,510	16,717	16,565	16,729
Diluted weighted average shares outstanding	16,601	16,833	16,657	16,837
Per common share data:				
Basic earnings per share	\$0.22	\$0.35	\$0.37	\$0.59
Diluted earnings per share	\$0.22	\$0.35	\$0.37	\$0.59

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES
 Condensed Consolidated Statements of Comprehensive Income (Loss)
 (Unaudited)
 (In thousands)

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income	\$3,575	\$5,863	\$6,207	\$9,949
Foreign currency translation adjustments	(5,637)	3,465	(3,205)	4,476
Change in fair value of interest rate cap, net of tax	57	(109)	205	(109)
Change in fair value of interest rate swap, net of tax	4	32	\$59	\$(23)
Comprehensive income (loss)	\$(2,001)	\$9,251	\$3,266	\$14,293

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2018 and 2017

(Unaudited, in thousands)

	2018	2017
Cash flows from operating activities:		
Net income	\$6,207	\$9,949
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on change in fair value of contingent consideration, net	(3,446)	(101)
Depreciation and amortization	3,761	3,206
Deferred income taxes	(169)	(433)
Non-cash compensation expense	2,534	3,192
Changes in other operating items:		
Accounts and other receivables	10,568	7,435
Unbilled revenue	(2,753)	(5,153)
Prepaid expenses and other current assets	(1,755)	(1,815)
Accounts payable and accrued expenses	(1,775)	4,732
Deferred revenue	(7,067)	(1,092)
Other	1,020	(162)
Net cash provided by operating activities	7,125	19,758
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,514)	(1,769)
Acquisitions, net of cash acquired	(39,957)	(6,384)
Other investing activities	(2,051)	(844)
Net cash used in investing activities	(43,522)	(8,997)
Cash flows from financing activities:		
Proceeds from short-term borrowings	24,197	6,727
Proceeds from long-term debt	18,000	—
Repayment of long-term debt	(6,000)	(6,000)
Change in negative cash book balance	(695)	(2,232)
Repurchases of common stock in the open market	(7,823)	(2,419)
Premium paid for interest rate cap	—	(474)
Other financing activities	(80)	(131)
Net cash provided by (used in) financing activities	27,599	(4,529)
Effect of exchange rate changes on cash and cash equivalents	(680)	1,136
Net increase (decrease) in cash	(9,478)	7,368
Cash at beginning of period	23,612	16,346
Cash at end of period	\$14,134	\$23,714
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$1,388	\$906
Cash paid during the period for income taxes	3,371	2,806
Accrued contingent consideration	905	4,725
See accompanying notes to condensed consolidated financial statements.		

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2018
(Unaudited)

(1) Basis of Presentation

GP Strategies Corporation is a global performance improvement solutions provider of training, digital learning solutions, management consulting and engineering services. References in this report to “GP Strategies,” the “Company,” “we” and “our” are to GP Strategies Corporation and its subsidiaries, collectively.

The accompanying condensed consolidated balance sheet as of June 30, 2018 and the condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the six months ended June 30, 2018 and 2017 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, 2017, as presented in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017. 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 2018 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.

Certain prior year amounts have been reclassified to conform with the current year presentation. Beginning in the second quarter of 2018, sales and marketing expenses have been presented separately from general administrative expenses on the condensed consolidated statements of operations, whereas in prior period these amounts were included in one caption titled "selling, general and administrative expenses."

(2) Recent Accounting Standards

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases. This standard will require all leases with durations greater than twelve months to be recognized on the balance sheet as a right-of-use asset and a lease liability. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. We plan to adopt the standard effective January 1, 2019. We expect the adoption of this standard to increase the assets and liabilities recorded on our condensed consolidated balance sheet and increase the level of disclosures related to leases. We also expect that adoption of the new standard will require changes to our internal controls to support recognition and disclosure requirements under the new standard. We are currently evaluating ASU No. 2016-02 and the impact of its adoption on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. The standard will remove step 2 from the goodwill impairment test. Under the ASU, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective

for public companies for annual reporting periods beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating ASU 2017-04 and the impact of its adoption on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities. The standard will ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. ASU 2017-12 is effective for public companies for annual reporting periods beginning after December 15, 2018 but early adoption is permitted. We are currently evaluating ASU 2017-12 and the impact of its adoption on our consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2018
(Unaudited)

Accounting Standard Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Accounting Standards Codification (ASC) Topic 606), which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted ASC Topic 606 on January 1, 2018 using the modified retrospective method. Under this transition method, we applied the new standard to contracts that were not completed as of the adoption date and recognized a cumulative effect adjustment which reduced retained earnings by \$0.4 million on January 1, 2018. The comparative prior period information has not been restated and continues to be presented according to accounting standards in effect for those periods. The primary impact of ASU No. 2014-09 on our financial statements is a change in revenue recognition on a small portion of our contracts from a proportional performance method, where revenue was previously recognized over contract performance, to a point in time method, where revenue is now recognized upon completion of our performance obligations. While we don't believe the adoption of ASU 2014-09 will materially impact our overall financial statements, the change in timing of revenue recognition on certain contracts could result in quarter to quarter fluctuations in revenue. See Note 3 for further details regarding our revenue recognition accounting policies and other required disclosures.

The cumulative effect of the changes made to our January 1, 2018 balance sheet for the adoption of the new revenue standard was as follows (in thousands):

	Balance at December 31, 2017	Adjustments due to ASC Topic 606	Balance at January 1, 2018
Assets:			
Prepaid expenses and other current assets	\$ 14,212	\$ 2,059	\$ 16,271
Other assets	6,569	132	6,701
Liabilities and Stockholders' Equity:			
Deferred revenue	22,356	2,587	24,943
Retained earnings	106,599	(396)	) 106,203

The following tables summarize the current period impacts of adopting ASC Topic 606 on our unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2018.

Selected condensed consolidated statement of operations line items, which were impacted by the adoption of the new standard, are as follows for the three months ended June 30, 2018 (in thousands):

	As reported	Balances without Adoption of Topic 606	Effect of Adoption - Higher (Lower)
Revenue	\$ 133,691	\$ 132,359	\$ 1,332

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Cost of revenue	111,118	110,063	1,055
Gross profit	22,573	22,296	277
Income tax expense	1,332	1,257	75
Net income	3,575	3,373	202

Per common share data:

Basic earnings per share	\$0.22	\$0.20	\$ 0.02
Diluted earnings per share	\$0.22	\$0.20	\$ 0.02

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2018
(Unaudited)

Selected condensed consolidated statement of operations line items, which were impacted by the adoption of the new standard, are as follows for the six months ended June 30, 2018 (in thousands):

	As reported	Balances without Adoption of Topic 606	Effect of Adoption - Higher (Lower)
Revenue	\$258,723	\$257,408	\$ 1,315
Cost of revenue	218,471	217,617	854
Gross profit	40,252	39,791	461
Income tax expense	3,062	2,941	121
Net income	6,207	5,867	340

Per common share data:

Basic earnings per share	\$0.37	\$0.35	\$ 0.02
Diluted earnings per share	\$0.37	\$0.35	\$ 0.02

The adoption of ASC Topic 606 did not have a significant impact on our condensed consolidated statement of comprehensive income for the three or six months ended June 30, 2018.

Selected condensed consolidated balance sheet line items, which were impacted by the adoption of the new standard, are as follows as of June 30, 2018 (in thousands):

	As reported	Balances without adoption of ASC Topic 606	Effect of Adoption - Higher (Lower)
Assets:			
Prepaid expenses and other current assets	\$ 14,664	\$ 13,461	\$ 1,203
Other assets	8,250	8,239	11
Total assets	389,095	387,881	1,214
Liabilities and Stockholders' Equity:			
Accounts payable and accrued expenses	72,893	72,039	854
Deferred revenue	18,694	18,278	416
Retained earnings	112,410	112,466	(56)
Total liabilities and stockholders' equity	389,095	387,881	1,214

The adoption of ASC Topic 606 did not impact our total cash flows from operating, investing or financing activities. In addition, the impact to the individual line items within the operating activities section of our condensed consolidated statement of cash flows was not significant for the six months ended June 30, 2018.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2018

(Unaudited)

(3) Revenue

Significant Accounting Policy

We account for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers (ASC Topic 606), which we adopted on January 1, 2018, using the modified retrospective method. Revenue is measured based on the consideration specified in a contract with a customer. Most of our contracts with customers contain transaction prices with fixed consideration, however, some contracts may contain variable consideration in the form of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and other similar items. When a contract includes variable consideration, we evaluate the estimate of variable consideration to determine whether the estimate needs to be constrained; therefore, we include the variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer. This can result in recognition of revenue over time as we perform services or at a point in time when the deliverable is transferred to the customer, depending on an evaluation of the criteria for over time recognition in ASC Topic 606. Further details regarding our revenue recognition for various revenue streams are discussed below.

Nature of goods and services

Over 90% of our revenue is derived from services provided to our customers for training, consulting, technical, engineering and other services. Less than 10% of our revenue is derived from various other offerings including custom magazine publications and assembly of glovebox portfolios for automotive manufacturers, licenses of software and other intellectual property, and software as a service (SaaS) arrangements.

Our primary contract vehicles are time-and-materials, fixed price (including fixed-fee per transaction) and cost-reimbursable contracts. Each contract has different terms based on the scope, deliverables and complexity of the engagement, requiring us to make judgments and estimates about recognizing revenue.

Under time-and-materials and cost-reimbursable contracts, the contractual billing schedules are based on the specified level of resources we are obligated to provide. Revenue under these contract types are recognized over time as services are performed as the client simultaneously receives and consumes the benefits provided by our performance throughout the engagement. The time and materials incurred for the period is the measure of performance and, therefore, revenue is recognized in that amount.

For fixed price contracts which typically involve a discrete project, such as development of training content and materials, design of training processes, software implementation, or engineering projects, the contractual billing schedules are not necessarily based on the specified level of resources we are obligated to provide. These discrete projects generally do not contain milestones or other measures of performance. The majority of our fixed price contracts meet the criteria in ASC Topic 606 for over time revenue recognition. For these contracts, revenue is recognized using a percentage-of-completion method based on the relationship of costs incurred to total estimated costs expected to be incurred over the term of the contract. We believe this methodology is a reasonable measure of proportional performance since performance primarily involves personnel costs and services provided to the customer throughout the course of the projects through regular communications of progress toward completion and other project deliverables. In addition, the customer is required to pay us for the proportionate amount of our fees in the event of

contract termination. A small portion of our fixed price contracts do not meet the criteria in ASC Topic 606 for over time revenue recognition. For these projects, we defer revenue recognition until the performance obligation is satisfied, which is generally when the final deliverable is provided to the client. The direct costs related to these projects are capitalized and then recognized as cost of revenue when the performance obligation is satisfied.

For fixed price contracts, when total direct cost estimates exceed revenues, the estimated losses are recognized immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in estimated salaries and other costs. Estimates of total contract costs are continuously monitored during the term of the contract, and recorded revenues and costs are subject to revision as the contract progresses.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2018
(Unaudited)

When revisions in estimated contract revenues and costs are determined, such adjustments are recorded in the period in which they are first identified. Adjustments to our contracts were not material, individually or in the aggregate, to our unaudited condensed consolidated financial statements for the three or six-month periods ended June 30, 2018 and 2017.

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

For certain fixed-fee per transaction and fixed price contracts in which the output of the arrangement is measurable, such as for the shipping of publications and print materials, revenue is recognized at the point in time at which control is transferred which is upon delivery.

Taxes assessed by a government authority that are both imposed on and concurrent with a specific revenue-producing transaction, that we collect from a customer, are excluded from revenue.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. As of June 30, 2018, we had \$268.8 million of remaining performance obligations, which we also refer to as total backlog. We expect to recognize over 95 percent of our remaining performance obligations as revenue within the next twelve months. We did not apply any of the practical expedients permitted by ASC Topic 606 in determining the amount of our performance obligations as of June 30, 2018.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2018

(Unaudited)

Revenue by Category

The following series of tables presents our revenue disaggregated by various categories (dollars in thousands).

	Three Months Ended June 30,					
	Workforce Excellence		Business Transformation Services		Consolidated	
	2018	2017	2018	2017	2018	2017
Revenue by type of service:						
Managed learning services	\$50,418	\$49,213	\$—	\$—	\$50,418	\$49,213
Engineering & technical services	29,838	26,819	—	—	29,838	26,819
Sales enablement	—	—	27,799	28,371	27,799	28,371
Organizational development	—	—	25,636	26,758	25,636	26,758
	\$80,256	\$76,032	\$53,435	\$55,129	\$133,691	\$131,161

Revenue by geographic region:

Americas	\$51,509	\$47,718	\$47,174	\$50,911	\$98,683	\$98,629
Europe Middle East Africa	24,605	26,019	8,538	5,846	33,143	31,865
Asia Pacific	8,489	6,943	117	145	8,606	7,088
Eliminations	(4,347)	(4,648)	(2,394)	(1,773)	(6,741)	(6,421)
	\$80,256	\$76,032	\$53,435	\$55,129	\$133,691	\$131,161

Revenue by client market sector:

Automotive	\$2,818	\$2,411	\$28,476	\$28,440	\$31,294	\$30,851
Financial & Insurance	22,010	20,017	4,292	4,920	26,302	24,937
Manufacturing	8,662	8,978	3,978	4,917	12,640	13,895
Energy / Oil & Gas	10,701	8,657	953	555	11,654	9,212
U.S. Government	6,468	5,802	2,361	2,368	8,829	8,170
U.K. Government	4,947	8,202	—	—	4,947	8,202
Information & Communication	3,811	4,033	2,850	3,706	6,661	7,739
Aerospace	6,834	5,307	970	1,657	7,804	6,964
Electronics Semiconductor	3,822	3,961	234	95	4,056	4,056
Life Sciences	2,903	2,273	2,602	2,497	5,505	4,770
Other	7,280	6,391	6,719	5,974	13,999	12,365
	\$80,256	\$76,032	\$53,435	\$55,129	\$133,691	\$131,161

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2018

(Unaudited)

	Six Months Ended June 30,					
	Workforce Excellence		Business Transformation Services		Consolidated	
	2018	2017	2018	2017	2018	2017
Revenue by type of service:						
Managed learning services	\$99,320	\$94,542	\$—	\$—	\$99,320	\$94,542
Engineering & technical services	55,367	53,033	—	—	55,367	53,033
Sales enablement	—	—	51,649	52,988	51,649	52,988
Organizational development	—	—	52,387	53,045	52,387	53,045
	\$154,687	\$147,575	\$104,036	\$106,033	\$258,723	\$253,608
Revenue by geographic region:						
Americas	\$96,949	\$92,658	\$91,356	\$97,309	\$188,305	\$189,967
Europe Middle East Africa	49,562	49,610	17,035	11,599	66,597	61,209
Asia Pacific	16,200	14,073	189	257	16,389	14,330
Eliminations	(8,024)	(8,766)	(4,544)	(3,132)	(12,568)	(11,898)
	\$154,687	\$147,575	\$104,036	\$106,033	\$258,723	\$253,608
Revenue by client market sector:						
Automotive	\$5,656	\$4,669	\$52,822	\$53,297	\$58,478	\$57,966
Financial & Insurance	43,113	38,603	8,362	10,379	51,475	48,982
Manufacturing	17,341	17,253	8,587	9,178	25,928	26,431
Energy / Oil & Gas	18,343	17,707	2,428	1,542	20,771	19,249
U.S. Government	12,922	11,955	4,747	4,911	17,669	16,866
U.K. Government	10,433	14,932	—	—	10,433	14,932
Information & Communication	7,110	8,013	5,225	6,428	12,335	14,441
Aerospace	14,432	10,346	1,731	3,170	16,163	13,516
Electronics Semiconductor	7,505	8,324	285	490	7,790	8,814
Life Sciences	4,752	3,997	5,310	4,992	10,062	8,989
Other	13,080	11,776	14,539	11,646	27,619	23,422
	\$154,687	\$147,575	\$104,036	\$106,033	\$258,723	\$253,608

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled revenue (contract assets), and deferred revenue (contract liabilities) on the condensed consolidated balance sheet. Amounts charged to our clients become billable according to the contract terms, which usually consider the passage of time, achievement of milestones or completion of the project. When billings occur after the work has been performed, such unbilled amounts will generally be billed and collected within 60 to 120 days but typically no longer than over the next twelve months. When we advance bill clients prior to the work being performed, generally, such amounts will be earned and recognized in revenue within the next twelve months. These assets and liabilities are reported on the condensed consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. Changes in the contract asset and liability balances during the six-month period ended June 30, 2018 were not materially impacted by any other factors.

Revenue recognized for the six months ended June 30, 2018, that was included in the contract liability balance at the beginning of the year was \$16.3 million, and primarily represented revenue from services performed during the current period for which we received advance payment from clients in a prior period.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

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(Unaudited)

Contract Costs

Costs to fulfill contracts which do not meet the over time revenue recognition criteria are capitalized and recognized to cost of revenue when the performance obligation is satisfied and revenue is recognized. Such costs are included in prepaid expenses and other current assets on the condensed consolidated balance sheet and totaled \$1.2 million as of June 30, 2018. Recognition of such contract costs totaled \$4.1 million for the six months ended June 30, 2018 and is included in cost of revenue on the condensed consolidated statements of operations.

Applying the practical expedient in ASC Topic 606, we recognize the incremental costs of obtaining contracts (i.e. sales commissions) as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. Substantially all of our sales commission arrangements have an amortization period of one year or less. As of June 30, 2018, we did not have any capitalized sales commissions.

(4) Significant Customers & Concentration of Credit Risk

We have a market concentration of revenue in both the automotive sector and financial & insurance sector. Revenue from the automotive sector accounted for approximately 23% of our consolidated revenue for both of the six-month periods ended June 30, 2018 and 2017. In addition, we have a concentration of revenue from a single automotive customer, which accounted for approximately 15% and 14% of our consolidated revenue for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, accounts receivable from a single automotive customer totaled \$18.4 million, or 17%, of our consolidated accounts receivable balance.

Revenue from the financial & insurance sector accounted for approximately 20% and 19% of our consolidated revenue for the six months ended June 30, 2018 and 2017, respectively. In addition, we have a concentration of revenue from a single financial services customer, which accounted for approximately 14% and 13% of our consolidated revenue for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, billed and unbilled accounts receivable from a single financial services customer totaled \$23.1 million, or 15%, of our consolidated accounts receivable and unbilled revenue balances.

No other single customer accounted for more than 10% of our consolidated revenue for the six months ended June 30, 2018 or 2017 or consolidated accounts receivable balance as of June 30, 2018.

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(5) 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.

Our dilutive common stock equivalent shares consist of stock options and restricted stock units computed under the treasury stock method, using the average market price during the period. Performance-based restricted stock unit awards are included in the computation of diluted shares based on the probable outcome of the underlying performance conditions being achieved. 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, 2018	Six Months Ended June 30, 2017	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Non-dilutive instruments	140	17	73	26
Dilutive common stock equivalents	91	116	92	108

(In thousands)

(6) Acquisitions

IC Axon

On May 1, 2018, we acquired the entire share capital of IC Acquisition Corporation, a Delaware corporation, and its subsidiary, IC Axon Inc., a Canadian corporation (IC Axon). IC Axon develops science-driven custom learning solutions for pharmaceutical and life science customers. The upfront purchase price was \$30.5 million in cash, subject to a working capital adjustment to be calculated within 90 days following the closing of the acquisition. In addition, the purchase agreement requires up to an additional \$3.5 million of consideration, contingent upon the achievement of an earnings target during a twelve-month period subsequent to the closing of the acquisition. The preliminary purchase price allocation is subject to change and is expected to be finalized in the third quarter of 2018. The goodwill recognized is due to the expected synergies from combining the operations of the acquiree with the company. None of the goodwill recorded for financial statement purposes is deductible for tax purposes. The acquired IC Axon business is included in the Workforce Excellence segment and the results of its operations have been included in the condensed consolidated financial statements beginning May 1, 2018. The pro-forma impact of the acquisition is not material to our results of operations.

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The following table summarizes the purchase price allocation for the acquisition (dollars in thousands).

Cash purchase price	\$30,493		
Fair value of contingent consideration	905		
Total purchase price	\$31,398		
		Amortization	
Purchase price allocation:		Period	
Cash	\$536		
Accounts receivable and other current assets	3,104		
Fixed assets	368		
Customer-related intangible assets	10,365	8 years	
Marketing-related intangible assets	239	3 years	
Goodwill	21,494		
Total assets	36,106		
Accounts payable and accrued expenses	898		
Deferred revenue	979		
Deferred tax liability	2,831		
Total liabilities	4,708		
Net assets acquired	\$31,398		

Hula Partners

On January 2, 2018 we acquired the business and certain assets of Hula Partners, a provider of SAP Success Factors Human Capital Management (HCM) implementation services. The purchase price was \$10.0 million which was paid in cash at closing. The goodwill recognized is due to the expected synergies from combining the operations of the acquiree with the Company. All of the goodwill recorded for financial statement purposes is deductible for tax purposes. The acquired Hula Partners business is included in the Business Transformation Services segment and the results of its operations have been included in the condensed consolidated financial statements beginning January 2, 2018. The pro-forma impact of the acquisition is not material to our results of operations.

The following table summarizes the purchase price allocation for the acquisition (dollars in thousands).

		Amortization	
Purchase price allocation:		Period	
Customer-related intangible assets	1,367	4 years	
Marketing-related intangible assets	106	2 years	
Goodwill	8,527		
Total assets	10,000		

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Contingent Consideration

ASC Topic 805 requires that contingent consideration be recognized at fair value on the acquisition date and be re-measured each reporting period with subsequent adjustments recognized in the condensed consolidated statement of operations. We estimate the fair value of contingent consideration liabilities using an appropriate valuation methodology, typically either an income-based approach or a simulation model, such as the Monte Carlo model, depending on the structure of the contingent consideration arrangement. 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. We believe our 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 condensed consolidated statements of operations, and could cause a material impact to, and volatility in, our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates and changes in the timing and amount of revenue and/or earnings projections.

Below is a summary of the potential maximum contingent consideration we may be required to pay in connection with completed acquisitions as of June 30, 2018 (dollars in thousands):

Acquisition:	Original range of potential undiscounted payments	As of June 30, 2018			
		Maximum contingent consideration due in			
		2018	2019	2020	Total
IC Axon	\$0 - \$3,500	\$—	\$3,500	\$—	\$3,500
Maverick	\$0 - \$10,000	5,902	—	—	5,902
McKinney Rogers	\$0 - \$18,000	—	4,000	4,000	8,000
CLS	\$0 - \$2,179	2,179	—	—	2,179
		\$8,081	\$7,500	\$4,000	\$19,581

Below is a summary of the changes in the recorded amount of contingent consideration liabilities from December 31, 2017 to June 30, 2018 (dollars in thousands):

Acquisition:	Liability as of December 31,			Change in Fair Value of Contingent Consideration	Foreign Currency Translation	Liability as of June 30, 2018
	2017	Additions	Payments			
IC Axon	\$ —	\$ 905	—	\$ —	\$ —	\$ 905
Maverick	1,979	—	—	(1,704)	—	275
McKinney Rogers	1,501	—	—	(1,244)	—	257
Emantras	76	—	—	(76)	—	—
CLS	669	—	—	(422)	(12)	235
Total	\$ 4,225	\$ 905	\$ —	—\$ (3,446)	\$ (12)	\$ 1,672

As of June 30, 2018 and December 31, 2017, contingent consideration considered a current liability and included in accounts payable totaled \$1.5 million and \$2.7 million, respectively. As of June 30, 2018 and December 31, 2017 we also had accrued contingent consideration totaling \$0.2 million and \$1.5 million respectively, related to acquisitions which are included in other long-term liabilities on the condensed consolidated balance sheets and represent the

portion of contingent consideration estimated to be payable greater than twelve months from the balance sheet date.

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(7) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill by reportable business segment for the six months ended June 30, 2018 were as follows (in thousands):

	Workforce Excellence	Business Transformation Services	Total
Balance as of December 31, 2017	\$ 96,330	\$ 48,505	\$ 144,835
Acquisitions	21,494	8,527	30,021
Foreign currency translation	(1,503)	(378)	(1,881)
Balance as of June 30, 2018	\$ 116,321	\$ 56,654	\$ 172,975

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):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30, 2018			
Customer relationships	\$ 22,491	\$ (7,551)	\$ 14,940
Intellectual property and other	4,638	(1,656)	2,982
	\$ 27,129	\$ (9,207)	\$ 17,922
December 31, 2017			
Customer relationships	\$ 16,330	\$ (11,140)	\$ 5,190
Intellectual property and other	4,298	(1,125)	3,173
	\$ 20,628	\$ (12,265)	\$ 8,363

(8) Stock-Based Compensation

We recognize compensation expense for stock-based compensation awards issued to employees on a straight-line basis over the requisite service period. 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, 2018	2017	Six months ended June 30, 2018	2017

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Non-qualified stock options	\$—	\$1	\$—	\$5
Restricted stock units	346	962	976	1,678
Board of Directors stock grants	53	79	121	155
Total stock-based compensation expense	\$399	\$1,042	\$1,097	\$1,838

Pursuant to our 2011 Stock Incentive Plan (the “2011 Plan”), we 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 our common stock to officers, employees or members of the Board of Directors. As of June 30, 2018, we had non-qualified stock options and restricted and performance stock units outstanding under these plans.

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(9) Debt and Financial Instruments

On June 29, 2018 we entered into a Second Amendment to Fifth Amended and Restated Financing and Security Agreement (the "Credit Agreement"). The Credit Agreement provides for an extension of the expiration date of the existing revolving credit facility in the maximum principal amount of \$100 million, from December 31, 2021 to June 1, 2023, and a new term loan in the principal amount of \$40 million maturing on October 1, 2021. The Credit Agreement is secured by substantially all of our assets.

The maximum interest rate on the Credit Agreement is the daily one-month LIBOR market index rate (for borrowings in Dollars and Sterling) or the daily one month EURIBOR (for borrowings in Euros) plus 2.50%. Based on our financial performance, the interest rate can be reduced to a minimum rate of the daily one-month LIBOR market index rate plus 1.25%, with the rate being determined based on our maximum leverage ratio for the preceding four quarters. Each unpaid advance on the revolving loan will bear interest until repaid. The term loan is payable in monthly installments of principal in the amount of \$1.0 million plus applicable interest, beginning on July 1, 2018. We may prepay the term loan or the revolving loan, in whole or in part, at any time without premium or penalty, subject to certain conditions. Amounts repaid or prepaid on the term loan may not be reborrowed.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our and our subsidiaries' (subject to certain exceptions) ability to, among other things, grant liens, make investments, incur indebtedness, merge or consolidate, dispose of assets or make acquisitions. We are also required to maintain compliance with a minimum fixed charge coverage ratio and a maximum leverage ratio. We were in compliance with all of the financial covenants under the Credit Agreement as of June 30, 2018. As of June 30, 2018, our total long-term debt outstanding under the term loan was \$40.0 million. In addition, there were \$61.8 million of borrowings outstanding and \$33.0 million of available borrowings under the Credit Agreement. For the six months ended June 30, 2018, the weighted average interest rate on our borrowings was 3.7%.

In March 2017, we entered into an interest rate swap agreement which effectively fixed our interest rate on the remaining \$37 million outstanding on our term loan to a fixed LIBOR of 1.59% plus the applicable margin under the Credit Agreement. We have designated the interest rate swap, which expires on April 1, 2020, as a cash flow hedge and have applied hedge accounting. The fair value of the derivative asset associated with the interest rate swap was \$0.2 million and \$0.1 million as of June 30, 2018 and December 31, 2017, respectively, and is included in other assets on the condensed consolidated balance sheet. The derivative asset is classified within Level 2 of the fair value hierarchy in which fair value is measured using quoted prices in active markets for similar assets and liabilities.

In April 2017, we entered into an interest rate cap agreement and paid a premium of \$0.5 million which caps the daily one-month LIBOR at 2.0% for an aggregate notional amount of \$20.0 million of our variable rate debt under our credit facility. The interest rate cap agreement matures on December 31, 2021. We have designated the interest rate cap as a cash flow hedge and have applied hedge accounting. The fair value of the derivative asset associated with the interest rate cap was \$0.6 million and \$0.3 million as of June 30, 2018 and December 31, 2017, respectively, and is included in other assets on the condensed consolidated balance sheet. The derivative asset is classified within Level 2 of the fair value hierarchy in which fair value is measured using quoted prices in active markets for similar assets and liabilities.

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(10) Income Taxes

Income tax expense was \$3.1 million, or an effective income tax rate of 33.0%, for the six months ended June 30, 2018 compared to \$4.6 million, or an effective income tax rate of 31.6%, for the six months ended June 30, 2017. The increase in the effective income tax rate in 2018 compared to 2017 is primarily due to a \$0.9 million increase to the provisional estimate recorded in the fourth quarter of 2017 relating to the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings, imposed by the Tax Cuts and Jobs Act (the "Tax Act") that was enacted on December 22, 2017. The increase is partially offset by a decrease in the U.S. statutory tax rate from 35% to 21% and other discrete items. Income tax expense for the interim quarterly periods is based on an estimated annual effective tax rate which includes the U.S. federal, state and local, and non-U.S. statutory rates, permanent differences, and other items that may have an impact on income tax expense.

The increase to the provisional estimate of the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings during the first quarter of 2018 is the result of further analysis of earnings and profits related to the calculation of the transition tax. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts.

The Tax Act creates a new requirement that Global Intangible Low-Taxed Income ("GILTI") earned by a controlled foreign corporation ("CFC") must be included in the gross income of the U.S. shareholder. Because of the complexity of the new GILTI tax rules, we are continuing to evaluate these provisions of the Tax Act and whether taxes due on future U.S. inclusions related to GILTI should be recorded as a current-period expense when incurred, or factored into the company's measurement of its deferred taxes. At June 30, 2018, because the Company is still evaluating the GILTI provisions, the Company has included tax expense related to GILTI for the current year in its estimated annual effective tax rate and has not provided additional GILTI on deferred items.

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, 2018, we had no uncertain tax positions reflected on our condensed consolidated balance sheet. The Company files income tax returns in U.S. federal, state and local jurisdictions, and various non-U.S. jurisdictions, and is subject to audit by tax authorities in those jurisdictions. Tax years 2014 through 2017 remain open to examination by these tax jurisdictions, and earlier years remain open to examination in certain of these jurisdictions which have longer statutes of limitations.

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(11) Stockholders' Equity

Changes in stockholders' equity during the six months ended June 30, 2018 were as follows (in thousands):

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost	Accumulated other comprehensive loss	Total stockholders' equity
Balance at December 31, 2017	\$ 172	\$107,256	\$106,599	\$(11,118)	\$(14,855)	\$ 188,054
Cumulative effect adjustment of adopting ASU 2014-09	—	—	(396)	—	—	(396)
Adjusted balance at December 31, 2017	172	107,256	106,203	(11,118)	(14,855)	187,658
Net income	—	—	6,207	—	—	6,207
Foreign currency translation adjustment	—	—	—	—	(3,205)	(3,205)
Change in fair value of interest rate cap, net of tax	—	—	—	—	205	205
Change in fair value of interest rate swap, net of tax	—	—	—	—	59	59
Repurchases of common stock	—	—	—	(7,294)	—	(7,294)
Stock-based compensation expense	—	1,097	—	—	—	1,097
Issuance of stock for employer contributions to retirement plan	—	(88)	—	1,525	—	1,437
Net issuances of stock pursuant to stock compensation plans and other	—	(893)	—	813	—	(80)
Balance at June 30, 2018	\$ 172	\$107,372	\$112,410	\$(16,074)	\$(17,796)	\$ 186,084

Stock Repurchase Program

We have a share repurchase program under which we may repurchase shares of our common stock from time to time in the open market, subject to prevailing business and market conditions and other factors. During the six months ended June 30, 2018 and 2017, we repurchased approximately 313,000 and 101,000 shares, respectively, of our common stock in the open market for a total cost of approximately \$7.3 million and \$2.4 million, respectively. As of June 30, 2018, there was approximately \$4.5 million available for future repurchases under the buyback program.

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(12) Restructuring

The following table shows the balances and activity for our restructuring liability (in thousands):

	Employee Severance and Related Benefits	Excess Facilities and Other Costs	Total
Liability as of December 31, 2017	\$ 2,840	\$ —	\$ 2,840
Additional restructuring charges	1,678	1,252	2,930
Payments	(1,759)	(302)	(2,061)
Liability as of June 30, 2018	\$ 2,759	\$ 950	\$ 3,709

In December 2017, we announced a new organizational structure and plan to improve operating results by increasing organic growth and reducing operating costs. During the fourth quarter of 2017, we initiated restructuring and transition activities to improve operational efficiency, reduce costs and better position the company to drive future revenue growth and we recorded restructuring charges, consisting primarily of severance expense of \$3.3 million for the fourth quarter ended December 31, 2017. During the second quarter of 2018, the Company downsized its headquarters office from three floors to two floors, vacated certain other under-utilized field offices and incurred additional severance expense.

For the six months ended June 30, 2018, we recorded an additional \$2.9 million of restructuring charges which is included in restructuring charges on the condensed consolidated statements of operations. The total remaining liability under these restructuring activities was \$3.7 million as of June 30, 2018, of which \$2.8 million is included in accounts payable and accrued expenses and \$0.9 million is included in other noncurrent liabilities on the condensed consolidated balance sheet. These restructuring activities are substantially complete as of June 30, 2018.

(13) Business Segments

As of June 30, 2018, we operated through two reportable business segments: (i) Workforce Excellence and (ii) Business Transformation Services. In December 2017, we announced a new organizational structure and plan to improve operating results by increasing organic growth and reducing operating costs. Effective January 1, 2018, we re-organized into two operating segments aligned by complementary service lines and supported by a new business development organization aligned by industry sector. The Workforce Excellence segment includes the majority of the former Learning Solutions and Professional & Technical Services segments. The Business Transformation Services segment includes the majority of the former Performance Readiness Solutions and Sandy Training & Marketing segments. Certain business units transferred between the former operating segments to better align with the service offerings of the two new segments. Each of our two reportable segments represents an operating segment under ASC Topic 280, Segment Reporting. We test our goodwill

at the reporting unit level, or one level below an operating segment, under ASC Topic 350, Intangibles - Goodwill and Other. In connection with the new organizational structure that went into effect on January 1, 2018, we determined that we have four reporting units for purposes of goodwill impairment testing, which represent our four practices which are one level below the operating segments, as discussed below.

Our two segments each consist of two global practice areas which are focused on providing similar and/or complementary products and services across our diverse customer base and within targeted markets. Within each practice are various service lines having specific areas of expertise. Marketing and communications, sales, accounting, finance, legal, human resources, information systems and other administrative services are organized at the corporate level. Business development and sales resources are aligned by industry sector to support existing customer accounts and new customer development across both segments. We have reclassified the segment financial information herein for the prior year periods to reflect the changes in our segments and conform to the current year's presentation. Further information regarding our business segments is discussed below.

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Workforce Excellence. The Workforce Excellence segment advises and partners with leading organizations in designing, implementing, operating and supporting their talent management and workforce strategies, enabling them to gain greater competitive edge in their markets. This segment consists of two practices:

Managed Learning Services - this practice focuses on creating value for our customers by delivering a suite of talent management and learning design, development, operational and support services that can be delivered as large scale outsourcing arrangements, managed services contracts and project-based service engagements. The Managed Learning Services offerings include strategic learning and development consulting services, digital learning content design and development solutions and a suite of managed learning operations services, including: managed facilitation and delivery, managed training administration and logistics, help desk support, tuition reimbursement management services, event management and vendor management.

Engineering & Technical Services - this practice focuses on capital intensive, inherently hazardous and/or highly complex technical services in support of both U.S. government and global commercial industries. Our products and services include design, development and delivery of technical work-based learning, CapEx (plant launch) initiatives, engineering design and construction management, fabrication, and management services, operational excellence consulting, chemical demilitarization services, homeland security services, emergency management support services along with all forms of technical documentation. We deliver world-class asset management and performance improvement consulting to a host of industries. Our proprietary EtaPRO® Performance and Condition Monitoring System provides a suite of real-time digital solutions for hundreds of facilities and is installed in power-generating units around the world. We also provide thousands of technical courses in a web-based off the shelf delivery format through our GPiLEARN+™ portal.

Business Transformation Services. The Business Transformation Services segment works with organizations to execute complex business strategies by linking business systems, process and people's performance to clear and measurable results. We have a holistic methodology to establishing direction and closing the gap between strategy and execution. Our approach equips business leaders and teams with the tools and capability to deliver high-performance results. This segment consists of two practices:

Sales Enablement - this practice provides custom product sales training and service technical training, primarily to automotive manufacturers, designed to better educate the customer salesforces as well as the service technicians with respect to new product features and designs, in effect rapidly increasing the salesforce and technicians knowledge base and enabling them to address retail customer needs. Furthermore, this segment helps our clients assess their customer relationship marketing strategy and connect with their customers on a one-to-one basis, including custom print and digital publications. We have been a custom product sales and service technical training provider and leader in serving manufacturing customers in the U.S. automotive industry for over 40 years.

Organizational Development - this practice works with organizations to design and execute an integrated people performance system. This translates to helping organizations set strategy, carry that strategy through every level of the organization and ensure that their people have the right skills, knowledge, tools, processes and technology to enable the transformation and achieve business results. Solutions include strategy, leadership, employee engagement and culture consulting, enterprise technology implementation and adoption solutions, learner experience design and development, and organization design and business performance consulting.

We do not allocate the following items to the segments: general & administrative expenses, sales & marketing expenses, restructuring charges, other expense, interest expense, gain on change in fair value of contingent consideration and income tax expense.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenue:				
Workforce Excellence	\$80,256	\$76,032	\$154,687	\$147,575
Business Transformation Services	53,435	55,129	104,036	106,033
	\$133,691	\$131,161	\$258,723	\$253,608
Gross profit:				
Workforce Excellence	\$15,009	\$14,035	\$26,118	\$27,042
Business Transformation Services	7,564	8,400	14,134	14,781
Total gross profit	22,573	22,435	40,252	41,823
General and administrative expenses	14,121	12,777	27,980	25,376
Sales and marketing expenses	1,106	461	1,831	856
Restructuring charges	2,495	—	2,930	—
Gain (loss) on change in fair value of contingent consideration, net	894	(96)	) 3,446	101
Operating income	5,745	9,101	10,957	15,692
Interest expense	(150)	) 534	536	972
Other expense	988	107	1,152	182
Income before income tax expense	\$4,907	\$8,460	\$9,269	\$14,538

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

Results of Operations

General Overview

We are a global performance improvement solutions provider of training, digital learning solutions, management consulting and engineering services that seeks to improve the effectiveness of organizations by providing services and products that are customized to meet the specific needs of clients. Clients include Fortune 500 companies and governmental and other commercial customers in a variety of industries. We believe we are a global leader in performance improvement, with over five decades of experience in providing solutions to optimize workforce performance.

As of June 30, 2018, we operated through two reportable business segments: (i) Workforce Excellence and (ii) Business Transformation Services. In December 2017, we announced a new organizational structure and plan to improve operating results by increasing organic growth and reducing operating costs. Effective January 1, 2018, we re-organized into two operating segments aligned by complementary service lines and supported by a new business development organization aligned by industry sector. The Workforce Excellence segment includes the majority of the former Learning Solutions and Professional & Technical Services segments. The Business Transformation Services segment includes the majority of the former Performance Readiness Solutions and Sandy Training & Marketing segments. Certain business units transferred between the former operating segments to better align with the service offerings of the two new segments. Each of our two reportable segments represents an operating segment under ASC Topic 280, Segment Reporting. We test our goodwill at the reporting unit level, or one level below an operating segment, under ASC Topic 350, Intangibles - Goodwill and Other. In connection with the new organizational structure that went into effect on January 1, 2018, we determined that we have four reporting units for purposes of goodwill impairment testing, which represent our four practices which are one level below the operating segments, as discussed below.

Our two segments each consist of two global practice areas which are focused on providing similar and/or complementary products and services across our diverse customer base and within targeted markets. Within each practice are various service lines having specific areas of expertise. Marketing and communications, sales, accounting, finance, legal, human resources, information systems and other administrative services are organized at the corporate level. Business development and sales resources are aligned by industry sector to support existing customer accounts and new customer development across both segments. We have reclassified the segment financial information herein for the prior year periods to reflect the changes in our segments and conform to the current year's presentation. Further information regarding our business segments is discussed below.

Workforce Excellence. The Workforce Excellence segment advises and partners with leading organizations in designing, implementing, operating and supporting their talent management and workforce strategies, enabling them to gain greater competitive edge in their markets. This segment consists of two practices:

Managed Learning Services - this practice focuses on creating value for our customers by delivering a suite of talent management and learning design, development, operational and support services that can be delivered as large scale outsourcing arrangements, managed services contracts and project-based service engagements. The Managed Learning Services offerings include strategic learning and development consulting services, digital learning content design and development solutions and a suite of managed learning operations services, including: managed facilitation and delivery, managed training administration and logistics, help desk support, tuition reimbursement management services, event management and vendor management.

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Engineering & Technical Services - this practice focuses on capital intensive, inherently hazardous and/or highly complex technical services in support of both U.S. government and global commercial industries. Our products and services include design, development and delivery of technical work-based learning, CapEx (plant launch) initiatives, engineering design and construction management, fabrication, and management services, operational excellence consulting, chemical demilitarization services, homeland security services, emergency management support services along with all forms of technical documentation. We deliver world-class asset management and performance improvement consulting to a host of industries. Our proprietary EtaPRO® Performance and Condition Monitoring System provides a suite of real-time digital solutions for hundreds of facilities and is installed in power-generating units around the world. We also provide thousands of technical courses in a web-based off the shelf delivery format through our GPiLEARN+™ portal.

Business Transformation Services. The Business Transformation Services segment works with organizations to execute complex business strategies by linking business systems, process and people's performance to clear and measurable results. We have a holistic methodology to establishing direction and closing the gap between strategy and execution. Our approach equips business leaders and teams with the tools and capability to deliver high-performance results. This segment consists of two practices:

Sales Enablement - this practice provides custom product sales training and service technical training, primarily to automotive manufacturers, designed to better educate the customer salesforces as well as the service technicians with respect to new product features and designs, in effect rapidly increasing the salesforce and technicians knowledge base and enabling them to address retail customer needs. Furthermore, this segment helps our clients assess their customer relationship marketing strategy and connect with their customers on a one-to-one basis, including custom print and digital publications. We have been a custom product sales and service technical training provider and leader in serving manufacturing customers in the U.S. automotive industry for over 40 years.

Organizational Development - this practice works with organizations to design and execute an integrated people performance system. This translates to helping organizations set strategy, carry that strategy through every level of the organization and ensure that their people have the right skills, knowledge, tools, processes and technology to enable the transformation and achieve business results. Solutions include strategy, leadership, employee engagement and culture consulting, enterprise technology implementation and adoption solutions, learner experience design and development, and organization design and business performance consulting.

Acquisitions

ICAxon

On May 1, 2018, we acquired the entire share capital of IC Acquisition Corporation, a Delaware corporation, and its subsidiary, IC Axon Inc., a Canadian corporation (IC Axon). IC Axon develops science-driven custom learning solutions for pharmaceutical and life science customers. The upfront purchase price was \$30.5 million in cash, subject to a working capital adjustment to be calculated within 90 days following the closing of the acquisition. In addition, the purchase agreement requires up to an additional \$3.5 million of consideration, contingent upon the achievement of an earnings target during a twelve-month period subsequent to the closing of the acquisition. The preliminary purchase price allocation is subject to change and is expected to be finalized in the third quarter of 2018. The goodwill recognized is due to the expected synergies from combining the operations of the acquiree with the company. None of the goodwill recorded for financial statement purposes is deductible for tax purposes. The acquired IC Axon business is included in the Workforce Excellence segment and the results of its operations have been included in the condensed consolidated financial statements beginning May 1, 2018. The pro-forma impact of the acquisition is not material to our results of operations.

Hula Partners

On January 2, 2018, we acquired the business and certain assets of Hula Partners, a provider of SAP Success Factors Human Capital Management (HCM) implementation services. The purchase price was \$10.0 million which was paid in cash at closing. The goodwill recognized is due to the expected synergies from combining operations of the acquiree with the Company. All of the goodwill recorded for financial statement purposes is deductible for tax purposes. The acquired Hula Partners business is included in the Business Transformation Services segment and the results of its operations have been included in the consolidated financial statements beginning January 2, 2018. The pro-forma impact of the acquisition is not material to our results of operations.

YouTrain

On August 31, 2017, we acquired the entire share capital of YouTrain Limited ("YouTrain"), an independent training company

delivering IT, digital and life sciences skills training in Scotland and North West England. The upfront purchase price was \$4.9 million which was paid in cash at closing and a completion accounts payment of \$0.2 million which was paid to the sellers during the fourth quarter of 2017. The acquired YouTrain business is included in the Workforce Excellence segment and the results of its operations have been included in the consolidated financial statements beginning September 1, 2017. The pro-forma impact of the acquisition is not material to our results of operations.

CLS Performance Solutions Limited

On August 31, 2017, we acquired the business and certain assets of CLS Performance Solutions Limited ("CLS"), an independent provider of Enterprise Resource Planning (ERP) end user adoption and training services in the United Kingdom. The upfront purchase price was \$0.4 million which was paid in cash at closing. In addition, the purchase agreement requires up to an additional \$2.2 million of consideration contingent upon the achievement of certain earnings targets during the twelve-month period following the completion of the acquisition. The acquired CLS business is included in the Business Transformation Services segment, and the results of its operations have been included in the consolidated financial statements beginning September 1, 2017. The pro-forma impact of the acquisition is not material to our results of operations.

Emantras

Effective April 1, 2017, we acquired the business and certain assets of Emantras, a digital education company that provides engaging learning experiences and effective knowledge delivery through award-winning digital and mobile solutions with offices in Fremont, California and Chennai, India. This acquisition strengthens our eLearning development capabilities, allowing us to better serve our customer base with the latest digital learning solutions. The upfront purchase price was \$3.2 million in cash. In addition, the purchase agreement requires up to an additional \$0.3 million of consideration, contingent upon the achievement of an earnings target during the twelve-month period ending June 30, 2018, plus a percentage of any earnings in excess of the specified earnings target. The acquired Emantras business is included in the Workforce Excellence segment, and the results of its operations have been included in the consolidated financial statements beginning April 1, 2017. The pro-forma impact of the acquisition is not material to our results of operations.

McKinney Rogers

On February 1, 2017, we acquired the business and certain assets of McKinney Rogers, a provider of strategic consulting services with offices in New York and London. This acquisition expands our solutions offerings, giving us the ability to leverage McKinney Rogers' intellectual property and consulting methodologies to help our global client base meet strategic business goals. The upfront purchase price was \$3.3 million in cash. In addition, the purchase agreement requires up to an additional \$18.0 million of consideration, \$6.0 million of which was contingent upon the achievement of certain earnings targets during the five-month period ended April 30, 2017 and \$12.0 million of which is contingent upon the achievement of certain earnings targets during the three twelve-month periods following completion of the acquisition. In July 2017, we paid the seller \$1.0 million in respect of the contingent consideration for the five-month period ended April 30, 2017. For the twelve-month period ended January 31, 2018, McKinney Rogers did not achieve the minimum earnings target and therefore, there was zero contingent consideration payable in respect of the first twelve-month period following completion of the acquisition. The acquired McKinney Rogers business is included in the Business Transformation Services segment and the results of its operations have been included in the consolidated financial statements beginning February 1, 2017. The pro-forma impact of the acquisition is not material to our results of operations.

Operating Highlights

Three Months ended June 30, 2018 Compared to the Three Months ended June 30, 2017

Our revenue increased \$2.5 million or 1.9% during the second quarter of 2018 compared to the second quarter of 2017. The net increase is due to a \$4.2 million increase in our Workforce Excellence segment offset by a \$1.7 million decline in our Business Transformation Services segment. Foreign currency exchange rate changes resulted in a total \$2.3 million increase in U.S. dollar reported revenue during the second quarter of 2018. The changes in revenue and gross profit are discussed in further detail below by segment.

Operating income, the components of which are discussed below, decreased \$3.4 million or 36.9% to \$5.7 million for the second quarter of 2018 compared to \$9.1 million for the second quarter of 2017. The net decrease in operating income is primarily due to a \$1.3 million increase in general and administrative expenses, a \$0.6 million increase in sales and marketing expenses and \$2.5 million of restructuring charges, offset by a \$0.1 million increase in gross profit and a \$1.0 million increase in the gain on change in fair value of contingent consideration during the second quarter of 2018.

For the three months ended June 30, 2018, we had income before income tax expense of \$4.9 million compared to \$8.5 million for the three months ended June 30, 2017. Net income was \$3.6 million, or \$0.22 per diluted share, for the three months ended June 30, 2018, compared to net income of \$5.9 million, or \$0.35 per diluted share, for the three months ended June 30, 2017. Diluted weighted average shares outstanding were 16.6 million for the second quarter of 2018 compared to 16.8 million for the second quarter of 2017.

Revenue (Dollars in thousands)	Three months ended June 30,	
	2018	2017
Workforce Excellence	\$80,256	\$76,032
Business Transformation Services	53,435	55,129
	\$133,691	\$131,161

Workforce Excellence revenue increased \$4.2 million or 5.6% during the second quarter of 2018 compared to the second quarter of 2017. The revenue increase is due to the following:

- a \$1.8 million net increase in revenue due to favorable changes in foreign currency exchange rates;
- a \$2.3 million increase in revenue contributed by the acquisitions completed in this segment within the last twelve months (consisting of \$0.6 million of revenue from the YouTrain acquisition completed on August 31, 2017 and \$1.7 million of revenue from the IC Axon acquisition completed on May 1, 2018); and
- a \$2.6 million net increase in revenue in our Engineering & Technical Services practice primarily due to an increase in engineering and technical training services with new and existing clients as well as an increase in software sales in our Energy business; offset by
 - a \$2.5 million net decrease in revenue in our Managed Learning Services practice (we experienced a \$1.5 million net increase in revenue in the U.S. for digital learning and training content development services which was more than offset by a \$4.0 million decrease in vocational skills training services provided to the UK government).

Business Transformation Services revenue decreased \$1.7 million or 3.1% during the second quarter of 2018 compared to the second quarter of 2017. The revenue decrease is due to the following:

- a \$3.6 million net decrease in our Organizational Development practice due to a decline in platform adoption, strategic consulting and leadership development services; and
- a \$0.6 million net decrease in our Sales Enablement practice primarily due to the completion of non-recurring vehicle launch events in 2017; offset by
 - a \$2.1 million increase in revenue contributed by the acquisitions completed in this segment within the last twelve months (consisting of \$1.0 million of revenue from the Hula Partners acquisition completed on January 2, 2018 and \$1.1 million from the CLS acquisition completed on August 31, 2017); and
 - a \$0.4 million net increase in revenue due to favorable changes in foreign currency exchange rates.

Gross Profit

(Dollars in thousands)	Three months ended			
	June 30, 2018		2017	
		%		%
	Revenue	Revenue	Revenue	Revenue
Workforce Excellence	\$15,009	18.7 %	\$14,035	18.5 %
Business Transformation Services	7,564	14.2 %	8,400	15.2 %
	\$22,573	16.9 %	\$22,435	17.1 %

Workforce Excellence gross profit of \$15.0 million or 18.7% of revenue for the second quarter of 2018 increased by \$1.0 million or 6.9% compared to gross profit of \$14.0 million or 18.5% of revenue for the second quarter of 2017 primarily due to the following:

- a \$1.5 million increase in gross profit in our Engineering & Technical Services practice due to the revenue increases noted above; and
- a \$0.4 million increase to gross profit due to favorable changes in foreign currency exchange rates; offset by
 - a \$0.9 million net decrease in gross profit in our Managed Learning Services practice (consisting of a \$2.6 million decline in gross profit on vocational skill training services provided to the UK government as a result of the lower revenue noted above, partially offset by a net \$1.7 million increase in the other business units within this practice primarily due to cost cutting initiatives).

Business Transformation Services gross profit of \$7.6 million or 14.2% of revenue for the second quarter of 2018 decreased by \$0.8 million or 10.0% compared to gross profit of \$8.4 million or 15.2% of revenue for the second quarter 2017. The gross profit decrease is primarily due to the revenue decline in platform adoption, strategic consulting and leadership development services noted above.

General and Administrative Expenses

General and administrative expenses increased \$1.3 million or 10.5% from \$12.8 million in the second quarter of 2017 to \$14.1 million in the second quarter of 2018. The increase in general and administrative expenses is primarily due to a \$0.6 million increase in bad debt expense, \$0.4 million of increased legal expenses relating to acquisitions and \$0.3 million in increased accounting fees.

Sales and Marketing Expenses

Sales and marketing expenses increased \$0.6 million or 139.9% from \$0.5 million for the second quarter of 2017 to \$1.1 million for the second quarter of 2018 primarily due to labor and benefits expense relating to the hiring of a Chief Sales Officer and other new business development personnel as well as marketing personnel, some of which represents new investments and some of which results from centralizing marketing resources that were previously recorded in cost of revenue.

Restructuring charges

During the fourth quarter of 2017, we initiated restructuring and transition activities to improve operational efficiency, reduce costs and better position the company to drive future revenue growth and we recorded restructuring charges, consisting primarily of severance expense, of \$3.3 million for the year ended December 31, 2017. During the second quarter of 2018, the Company downsized its headquarters office from three floors to two floors, vacated certain other under-utilized field offices and incurred additional severance expense. During the second quarter of 2018, we incurred an additional \$2.5 million of restructuring charges, which consisted of \$1.3 million of facility related charges and \$1.2 million of severance expense. The total remaining liability under these restructuring activities was \$3.7 million as of June 30, 2018, of which \$2.8 million is included in accounts payable and accrued expenses and \$0.9 million is included in other noncurrent liabilities on the condensed consolidated balance sheet. These restructuring activities are substantially complete as of June 30, 2018.

Change in Fair Value of Contingent Consideration

We recognized a \$0.9 million net gain on the change in fair value of contingent consideration related to acquisitions during the second quarter of 2018 compared to a net loss of \$0.1 million in the second quarter of 2017. The increase in the gain is primarily due to a \$0.4 million gain related to the earnout for the Maverick acquisition, a \$0.1 million gain related to the earnout for the McKinney Rogers acquisition and a \$0.4 million gain related to the earnout for the CLS acquisition due to a decrease in projected earnings for these acquired businesses compared to our prior forecasts, resulting in a lower fair value of the liabilities as of June 30, 2018. See Note 6 for further details regarding our accounting for contingent consideration.

Interest Expense

Interest expense was negative \$0.2 million for the second quarter of 2018 compared to \$0.5 million for the second quarter of 2017. The decrease in interest expense is primarily due to a \$1.1 million reversal of an interest accrual related to contingent interest associated with unremitted value-added tax (VAT) related to undercharged VAT from prior year client billings which was favorably settled during the second quarter of 2018. This decrease was offset by an increase in interest expense due to both an increase in interest rates and higher borrowings under the Credit Agreement.

Other Expense

Other expense increased \$0.9 million during the second quarter of 2018 primarily due to an increase in foreign currency losses. Other expense consists primarily of income from a joint venture and foreign currency gains and losses. Foreign currency gains and losses primarily relate to the effect of exchange rates on intercompany receivables and payables and third party receivables and payables that are denominated in currencies other than the functional currency of our foreign subsidiaries.

Income Tax Expense

Income tax expense was \$1.3 million for the second quarter of 2018 compared to \$2.6 million for the second quarter of 2017. The effective income tax rate was 27.1% and 30.7% for the three months ended June 30, 2018 and 2017, respectively. The decrease in the effective income tax rate in 2018 compared to 2017 is primarily due a decrease in the U.S. statutory tax rate from 35% to 21% and other discrete items. Income tax expense for the interim quarterly periods is based on an estimated annual effective tax rate which includes the U.S. federal, state and local, and non-U.S. statutory rates, permanent differences, and other items that may have an impact on income tax expense.

Six Months ended June 30, 2018 Compared to the Six Months ended June 30, 2017

Our revenue increased \$5.1 million or 2.0% during the six months ended June 30, 2018 compared to six months ended June 30, 2017. The net increase in revenue is due to a \$7.1 million increase in our Workforce Excellence segment, partially offset by a \$2.0 million decrease in our Business Transformation Services segment. Foreign currency exchange rate declines resulted in a total \$6.3 million increase in U.S. dollar reported revenue during the six months ended June 30, 2018. The changes in revenue and gross profit are discussed in further detail below by segment.

Operating income, the components of which are discussed in detail below, decreased \$4.7 million or 30.2% to \$11.0 million for the six months ended June 30, 2018 compared to \$15.7 million for the same period in 2017. The net decrease in operating income is primarily due to a \$1.6 million net decrease in gross profit, a \$2.6 million increase in general and administrative expenses and a \$1.0 million increase in sales and marketing expenses, partially offset by a \$3.3 million increase in the gain on change in fair value of contingent consideration.

For the six months ended June 30, 2018, we had income before income tax expense of \$9.3 million compared to \$14.5 million for the six months ended June 30, 2017. Net income was \$6.2 million, or \$0.37 per diluted share, for the six months ended June 30, 2018, compared to net income of \$9.9 million, or \$0.59 per diluted share, for the six months ended June 30, 2017. Diluted weighted average shares outstanding were 16.7 million for the six months ended June 30, 2018 compared to 16.8 million for the same period in 2017.

Revenue

(Dollars in thousands)	Six months ended	
	June 30, 2018	June 30, 2017
Workforce Excellence	\$154,687	\$147,575
Business Transformation Services	104,036	106,033
	\$258,723	\$253,608

Workforce Excellence revenue increased \$7.1 million or 4.8% during the six months ended June 30, 2018 compared to the same period in 2017. The revenue increase is due to the following:

- a \$5.1 million net increase in revenue due to favorable changes in foreign currency exchange rates;
- a \$3.6 million increase in revenue contributed by the acquisitions completed in this segment within the last twelve months (consisting of \$1.6 million of revenue from the YouTrain acquisition completed on August 31, 2017, \$1.7 million of revenue from the IC Axon acquisition completed on May 1, 2018 and \$0.3 million from the Emantras acquisition completed on April 1, 2017); and
- a \$1.2 million net increase in revenue in our Engineering & Technical Services practice primarily due to an increase in engineering and technical training services with new and existing clients as well as an increase in software sales in our Energy business; offset by
 - a \$2.8 million net decrease in revenue in our Managed Learning Services practice (we experienced a \$3.8 million net increase in revenue in the U.S. for digital learning and training content development services which was more than offset by a \$6.6 million decrease in vocational skills training services provided to the UK government).

Business Transformation Services revenue decreased \$2.0 million or 1.9% during the six months ended June 30, 2018 compared to the same period in 2017. The net decrease in revenue is due to the following:

- a \$6.6 million net decrease in our Organizational Development practice due to a decline in platform adoption, strategic consulting and leadership development services; and
- a \$1.3 million net decrease in our Sales Enablement practice primarily due to the completion of non-recurring vehicle launch events in 2017; offset by

a \$4.7 million increase in revenue contributed by the acquisitions completed in this segment within the last twelve months (consisting of \$1.8 million of revenue from the Hula Partners acquisition completed on January 2, 2018, \$2.4 million from the CLS acquisition completed on August 31, 2017 and \$0.5 million from the McKinney Rogers acquisition completed on February 1, 2017); and

▪ \$1.2 million net increase in revenue due to favorable changes in foreign currency exchange rates.

Gross Profit

(Dollars in thousands)

	Six months ended June 30,			
	2018		2017	
		%		%
	Revenue		Revenue	
Workforce Excellence	\$26,118	16.9 %	\$27,042	18.3 %
Business Transformation Services	14,134	13.6 %	14,781	13.9 %
	\$40,252	15.6 %	\$41,823	16.5 %

Workforce Excellence gross profit of \$26.1 million or 16.9% of revenue for the six months ended June 30, 2018 decreased by \$0.9 million or 3.4% when compared to gross profit of \$27.0 million or 18.3% of revenue for the same period in 2017 primarily due to the following:

a net \$1.8 million net decrease in gross profit in our Managed Learning Services practice (consisting primarily of a \$3.9 million decline in gross profit on vocational skill training services provided to the UK government as a result of the lower revenue noted above, partially offset by a net \$2.1 million increase in the other business units within this practice due to cost cutting initiatives); offset by

▪ \$0.9 million increase in gross profit due to favorable changes in foreign currency exchange rates.

Business Transformation Services gross profit of \$14.1 million or 13.6% of revenue for the six months ended June 30, 2018 decreased by \$0.6 million or 4.4% when compared to gross profit of \$14.8 million or 13.9% of revenue for the same period in 2017. The gross profit decrease is primarily due to the revenue decline in platform adoption, strategic consulting and leadership development services noted above.

General and Administrative Expenses

General and administrative expenses increased \$2.6 million or 10.3% from \$25.4 million for the six months ended June 30, 2017 to \$28.0 million for the same period in 2018. The increase in general and administrative expenses is primarily due to the following:

a \$0.9 million increase in costs relating to our new financial system implementation which we anticipate will go live in 2018;

a \$0.3 million increase in labor and benefits expense for internal resources working in support of the ERP implementation;

▪ \$0.4 million increase due to increases in foreign currency exchange rates compared to the prior year;

▪ \$0.4 million increase in legal expenses relating to acquisitions;

▪ \$0.3 million increase in accounting fees; and

▪ \$0.3 million increase in amortization expense.

Sales and Marketing Expenses

Sales and marketing expenses increased \$1.0 million or 113.9% from \$0.9 million for the six months ended June 30, 2017 to \$1.8 million for the same period in 2018. The increase in sales and marketing expenses is primarily due to labor and benefits expense relating to the hiring of a Chief Sales Officer and other new business development personnel as well as marketing personnel, some of which represents new investments and some of which results from centralizing marketing resources that were previously recorded in cost of revenue.

Restructuring charges

During the fourth quarter of 2017, we initiated restructuring and transition activities to improve operational efficiency, reduce costs and better position the company to drive future revenue growth and we recorded restructuring charges, consisting primarily of severance expense, of \$3.3 million for the year ended December 31, 2017. For the six months ended June 30, 2018, we incurred an additional \$2.9 million of restructuring charges which consisted of \$1.3 million of facility related charges and \$1.6 million of severance expense. The total remaining liability under these restructuring activities was \$3.7 million as of June 30, 2018, of which \$2.8 million is included in accounts payable and accrued expenses and \$0.9 million is included in other noncurrent liabilities on the condensed consolidated balance sheet. These restructuring activities are substantially complete as of June 30, 2018.

Change in Fair Value of Contingent Consideration

We recognized a net gain on the change in fair value of contingent consideration related to acquisitions of \$3.4 million and \$0.1 million for the six months ended June 30, 2018 and 2017, respectively. The increase in the gain is primarily due to a \$1.7 million gain related to the earnout for the Maverick acquisition, a \$1.2 million gain related to the earnout for the McKinney Rogers acquisition and a \$0.4 million gain related to the earnout for the CLS acquisition due to a decrease in projected earnings for these acquired businesses compared to our prior forecasts, resulting in a lower fair value of the liabilities as of June 30, 2018. See Note 6 for further details regarding our accounting for contingent consideration.

Interest Expense

Interest expense decreased \$0.4 million from \$1.0 million for the six months ended June 30, 2017 to \$0.5 million for the same period in 2018. The net decrease in interest expense is primarily due to a \$1.1 million reversal of an interest accrual related to contingent interest associated with unremitted value-added tax (VAT) related to undercharged VAT from prior year client billings which was favorably settled during the second quarter of 2018. This decrease was offset by an increase in interest expense due to both an increase in interest rates and higher borrowings under the Credit Agreement.

Other Expense

Other expense was \$1.2 million for the six months ended June 30, 2018 compared to \$0.2 million for the same period in 2017 and consisted primarily of foreign currency gains and losses and income from a joint venture. During the six months ended June 30, 2018, we had a \$1.4 million net foreign currency loss compared to a \$0.2 million net foreign currency loss during the same period in 2017. Foreign currency gains and losses primarily relate to the effect of exchange rates on intercompany receivables and payables and third party receivables and payables that are denominated in currencies other than the functional currency of our foreign subsidiaries. The increase in other expense was offset by a \$0.2 million increase in income from a joint venture during the six months ended June 30, 2018 compared to the corresponding period in 2017.

Income Tax Expense

Income tax expense was \$3.1 million for the six months ended June 30, 2018 compared to \$4.6 million for the same period in 2017. The decrease in income tax expense is due to a decline in income before income taxes during the first half of 2018 compared to the same period in 2017. The effective income tax rate was 33.0% and 31.6% for the six months ended June 30, 2018 and 2017, respectively. The increase in the effective income tax rate in 2018 compared to 2017 is primarily due to a \$0.9 million increase to the provisional estimate recorded in the fourth quarter of 2017 relating to the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings, imposed by the Tax Cuts and Jobs Act (the "Tax Act") that was enacted on December 22, 2017. The increase is partially offset by a decrease in the U.S. statutory tax rate from 35% to 21% and other discrete items. Income tax expense for the interim quarterly periods is based on an estimated annual effective tax rate which includes the U.S. federal, state and local, and non-U.S. statutory rates, permanent differences, and other items that may have an impact on income tax expense.

The increase to the provisional estimate of the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings during the first quarter of 2018 is the result of further analysis of earnings and profits related to the calculation of the transition tax. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts.

Liquidity and Capital Resources

Working Capital

Our working capital was \$19.0 million at June 30, 2018 compared to \$49.8 million at December 31, 2017. As of June 30, 2018 we had \$61.8 million of short-term borrowings and \$40.0 million of long-term debt outstanding. We believe that cash generated from operations and borrowings available under our Credit Agreement (\$33.0 million of available borrowings as of June 30, 2018) will be sufficient to fund our working capital and other requirements for at least the next twelve months.

As of June 30, 2018, the amount of cash and cash equivalents held outside of the U.S. by foreign subsidiaries was \$14.1 million. The 2017 Tax Act includes a mandatory one-time tax on accumulated earnings of foreign subsidiaries, and as a result, all previously unremitted earnings for which no U.S. deferred tax liability had been accrued have now been subject to U.S. tax. Notwithstanding the U.S. taxation of these amounts, we intend to continue to invest these earnings, as well as our capital in these subsidiaries, indefinitely outside of the U.S. and do not expect to incur any significant, additional taxes related to such amounts.

Stock Repurchase Program

We have a share repurchase program under which we may repurchase shares of our common stock from time to time in the open market, subject to prevailing business and market conditions and other factors. During the six months ended June 30, 2018 and 2017, we repurchased approximately 313,000 and 101,000 shares, respectively, of our common stock in the open market for a total cost of approximately \$7.3 million and \$2.4 million, respectively. As of June 30, 2018, there was approximately \$4.5 million available for future repurchases under the buyback program.

Acquisition-Related Payments

Below is a summary of the potential maximum contingent consideration we may be required to pay in connection with completed acquisitions as of June 30, 2018 (dollars in thousands):

Acquisition:	Original range of potential undiscounted payments	As of June 30, 2018			
		Maximum contingent consideration due in			
		2018	2019	2020	Total
IC Axon	\$0 - \$3,500	\$—	\$3,500	\$—	\$3,500
Maverick	\$0 - \$10,000	5,902	—	—	5,902
McKinney Rogers	\$0 - \$18,000	—	4,000	4,000	8,000
CLS	\$0 - \$2,179	2,179	—	—	2,179
		\$8,081	\$7,500	\$4,000	\$19,581

Significant Customers & Concentration of Credit Risk

We have a market concentration of revenue in both the automotive sector and financial & insurance sector. Revenue from the automotive sector accounted for approximately 23% of our consolidated revenue for both of the six-month periods ended June 30, 2018 and 2017. In addition, we have a concentration of revenue from a single automotive customer, which accounted for approximately 15% and 14% of our consolidated revenue for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, accounts receivable from a single automotive customer totaled \$18.4 million, or 17%, of our consolidated accounts receivable balance.

Revenue from the financial & insurance sector accounted for approximately 20% and 19% of our consolidated revenue for the six months ended June 30, 2018 and 2017, respectively. In addition, we have a concentration of revenue from a single financial services customer, which accounted for approximately 14% and 13% of our consolidated revenue for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, billed and unbilled accounts receivable from a single financial services customer totaled \$23.1 million, or 15%, of our consolidated accounts receivable and unbilled revenue balances. No other single customer accounted for more than 10% of our consolidated revenue for the six months ended June 30, 2018 or 2017 or consolidated accounts receivable balance as of June 30, 2018.

Cash Flows

Six Months ended June 30, 2018 Compared to the Six Months ended June 30, 2017

Our cash and cash equivalents balance decreased \$9.5 million from \$23.6 million as of December 31, 2017 to \$14.1 million as of June 30, 2018. The decrease in cash and cash equivalents during the six months ended June 30, 2018 resulted from cash provided by operating activities of \$7.1 million, cash used in investing activities of \$43.5 million, cash provided by financing activities of \$27.6 million and a negative effect of exchange rate changes on cash of \$0.7 million.

Cash provided by operating activities was \$7.1 million for the six months ended June 30, 2018 compared to \$19.8 million for the same period in 2017. The decrease in cash from operations is primarily due to a decrease in net income and a net decrease in working capital balances during the six months ended June 30, 2018 compared to the same period in 2017.

Cash used in investing activities was \$43.5 million for the six months ended June 30, 2018 compared to \$9.0 million for the same period in 2017. The increase in cash used in investing activities is primarily due to a \$33.6 million increase in cash paid to complete acquisitions and a \$1.2 million increase in other investing activities primarily for capitalized software development costs.

Cash provided by financing activities was \$27.6 million for the six months ended June 30, 2018 compared to cash used of \$4.5 million for the same period in 2017. The increase in cash in financing activities is primarily due to an increase in borrowings under our credit agreement to fund acquisitions, partially offset by a \$5.4 million increase in cash used for share repurchases.

Debt

On June 29, 2018 we entered into a Second Amendment to Fifth Amended and Restated Financing and Security Agreement (the "Credit Agreement"). The Credit Agreement provides for an extension of the expiration date of the existing revolving credit facility in the maximum principal amount of \$100 million, from December 31, 2021 to June 1, 2023, and a new term loan in the principal amount of \$40 million maturing on October 1, 2021. The Credit Agreement is secured by substantially all of our assets.

The maximum interest rate on the Credit Agreement is the daily one-month LIBOR market index rate (for borrowings in Dollars and Sterling) or the daily one month EURIBOR (for borrowings in Euros) plus 2.50%. Based on our financial performance, the interest rate can be reduced to a minimum rate of the daily one-month LIBOR market index rate plus 1.25%, with the rate being determined based on our maximum leverage ratio for the preceding four quarters. Each unpaid advance on the revolving loan will bear interest until repaid. The term loan is payable in monthly installments equal to \$1.0 million plus applicable interest, beginning on July 1, 2018. We may prepay the term loan or the revolving loan, in whole or in part, at any time without premium or penalty, subject to certain conditions. Amounts repaid or prepaid on the term loan may not be reborrowed.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our and our subsidiaries' (subject to certain exceptions) ability to, among other things, grant liens, make investments, incur indebtedness, merge or consolidate, dispose of assets, make acquisitions. We are also required to maintain compliance with a minimum fixed charge coverage ratio of 1.5 to 1.0 and a maximum leverage ratio of 3.0 to 1.0. As of June 30, 2018, our fixed coverage charge ratio was 1.8 to 1.0 and our leverage ratio was 2.4 to 1.0, all of which were in compliance with the Credit Agreement.

As of June 30, 2018, our total long-term debt outstanding under the term loan was \$40.0 million. In addition, there were \$61.8 million of borrowings outstanding and \$33.0 million of available borrowings under the Credit Agreement. For the six months ended June 30, 2018, the weighted average interest rate on our borrowings was 3.7%.

In March 2017, we entered into an interest rate swap agreement which effectively fixed our interest rate on the remaining \$37 million outstanding on our term loan to a fixed LIBOR of 1.59% plus the applicable margin under the Credit Agreement. We have designated the interest rate swap, which expires on April 1, 2020, as a cash flow hedge and have applied hedge accounting. The fair value of the derivative asset associated with the interest rate swap was \$0.2 million and \$0.1 million as of June 30, 2018 and December 31, 2017, respectively, and is included in other assets on the condensed consolidated balance sheet.

In April 2017, we entered into an interest rate cap agreement and paid a premium of \$0.5 million which caps the daily one-month LIBOR at 2.0% for an aggregate notional amount of \$20.0 million of our variable rate debt under our credit facility. The interest rate cap agreement matures on December 31, 2021. We have designated the interest rate cap as a cash flow hedge and have applied hedge accounting. The fair value of the derivative asset associated with the interest rate cap was \$0.6 million and \$0.3 million as of June 30, 2018 and December 31, 2017, respectively, and is included in other assets on the condensed consolidated balance sheet.

Off-Balance Sheet Commitments

As of June 30, 2018, we did not have any off-balance sheet commitments except for operating leases and letters of credit entered into in the normal course of business.

Accounting Standards Issued

We discuss recently issued accounting standards in Note 2 to the accompanying condensed consolidated financial statements.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward looking statements. Forward-looking statements are not statements of historical facts, but rather reflect our current expectations concerning future events and results. We use words such as “expects,” “intends,” “believes,” “may,” “will,” “should,” “could,” “anticipates,” “estimates,” “plans” and similar to indicate forward-looking statements, but their absence does not mean a statement is not forward-looking. Because these forward-looking statements are based upon management’s expectations and assumptions and are subject to risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including, but not limited to, those factors set forth in Item 1A - Risk Factors of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and those other risks and uncertainties detailed in our periodic reports and registration statements filed with the Securities and Exchange Commission. We caution that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. We cannot predict these new risk factors, nor can we assess the effect, if any, of the new risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ from those expressed or implied by these forward-looking statements.

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk

We are exposed to interest rate risk related to our outstanding debt obligations. Borrowings under our Credit Agreement bear interest based on a variable rate. The maximum interest rate on our borrowings under the Credit Agreement is the daily one-month LIBOR market index rate (for borrowings in Dollars and Sterling) or the daily one month EURIBOR (for borrowings in Euros) plus 2.50%. Based on our financial performance, the interest rate can be reduced to a minimum rate of the daily one-month LIBOR market index rate plus 1.25%, with the rate being determined based on our maximum leverage ratio for the preceding four quarters. As such, we are exposed to interest rate risk relating to the fluctuations in the LIBOR rate. In an effort to manage our exposure to this risk, we entered into interest rate derivative contracts discussed in further detail below.

In March 2017, we entered into an interest rate swap agreement which effectively fixed our interest rate on the remaining \$37 million outstanding on our term loan to a fixed LIBOR of 1.59% plus the applicable margin under the Credit Agreement. We have designated the interest rate swap, which expires on April 1, 2020, as a cash flow hedge and have applied hedge accounting. The fair value of the derivative asset associated with the interest rate swap was less than \$0.2 million and \$0.1 million as of June 30, 2018 and December 31, 2017, respectively, and is included in other assets on the condensed consolidated balance sheet.

In April 2017, we entered into an interest rate cap agreement and paid a premium of \$0.5 million which caps the daily one-month LIBOR at 2.0% for an aggregate notional amount of \$20.0 million of our variable rate debt under our credit facility. The interest rate cap agreement matures on December 31, 2021. We have designated the interest rate cap as a cash flow hedge and have applied hedge accounting. The fair value of the derivative asset associated with the interest rate cap was \$0.6 million and \$0.3 million as of June 30, 2018 and December 31, 2017, respectively, and is included in other assets on the condensed consolidated balance sheet.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

During the quarter ended June 30, 2018, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d—15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The Company has no material changes to the disclosure on this matter made in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

The following table provides information about the Company's share repurchase activity for the three months ended June 30, 2018:

Month	Issuer Purchases of Equity Securities			
	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Approximate dollar value of shares that may yet be purchased under the program (1)
April 1 - 30, 2018	—	\$ —	—	\$ 4,487,000
May 1 - 31, 2018	3,561(2)	\$ 19.56	1,703	\$ 4,454,000
June 1 - 30, 2018	112 (2)	\$ 19.75	—	\$ 4,454,000

We have a share repurchase program under which we may repurchase shares of our common stock from time to time in the open market subject to prevailing business and market conditions and other factors. There is no expiration date for the repurchase program.

(1) Includes shares surrendered by employees to satisfy minimum tax withholding obligations on restricted stock units which vested during the second quarter of 2018.

Item 6. Exhibits

10.1 Long Term Incentive Plan adopted on April 20, 2018.*

Certification of Chief Executive Officer of the Company dated August 1, 2018 pursuant to Securities and

31.1 Exchange Act Rule 13d-14(a)/15(d-14(a), as adopted pursuant to Section 302 and 404 of the Sarbanes-Oxley Act of 2002.*

Certification of Executive Vice President and Chief Financial Officer of the Company dated August 1, 2018

31.2 pursuant to Securities and Exchange Act Rule 13d-14(a)/15(d-14(a), as adopted pursuant to Section 302 and 404 of the Sarbanes-Oxley Act of 2002.*

32.1 Certification of Chief Executive Officer and Chief Financial Officer of the Company dated August 1, 2018

pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

The following materials from GP Strategies Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements.*

*Filed herewith.

SIGNATURES

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

GP STRATEGIES CORPORATION

August 1, 2018 /s/ Scott N. Greenberg
Scott N. Greenberg
Chief Executive Officer

August 1, 2018 /s/ Michael R. Dugan
Michael R. Dugan
Executive Vice President and Chief Financial Officer