

GP STRATEGIES CORP
Form 10-Q
November 03, 2011
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number 1-7234

GP STRATEGIES CORPORATION

(Exact name of Registrant as specified in its charter)

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Delaware
(State of Incorporation)

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

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

21075
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of October 28, 2011 was as follows:

Class	Outstanding
Common Stock, par value \$.01 per share	18,743,886 shares

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

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Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,447	\$ 28,902
Accounts and other receivables, less allowance for doubtful accounts of \$960 in 2011 and \$701 in 2010	58,497	47,874
Inventories, net	223	305
Costs and estimated earnings in excess of billings on uncompleted contracts	20,332	12,929
Prepaid expenses and other current assets	8,087	5,813
Total current assets	92,586	95,823
Property, plant and equipment	15,316	12,349
Accumulated depreciation	(10,656)	(9,384)
Property, plant and equipment, net	4,660	2,965
Goodwill	92,802	72,996
Intangible assets, net	16,994	9,795
Other assets	1,736	1,617
	\$ 208,778	\$ 183,196
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	\$ 6,154	\$
Accounts payable and accrued expenses	41,631	32,694
Billings in excess of costs and estimated earnings on uncompleted contracts	15,058	15,807
Total current liabilities	62,843	48,501
Other noncurrent liabilities	8,422	9,908
Total liabilities	71,265	58,409
Stockholders' equity:		
Common stock, par value \$0.01 per share	188	187
Additional paid-in capital	165,604	163,422
Accumulated deficit	(24,673)	(36,593)
Treasury stock at cost	(776)	(2)
Accumulated other comprehensive loss	(2,830)	(2,227)
Total stockholders' equity	137,513	124,787
	\$ 208,778	\$ 183,196

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue	\$ 88,948	\$ 66,078	\$ 239,275	\$ 189,107
Cost of revenue	74,083	54,851	198,907	158,986
Gross profit	14,865	11,227	40,368	30,121
Selling, general and administrative expenses	7,601	5,776	22,212	17,215
Gain on reversal of deferred rent liability			1,041	
Gain (loss) on change in fair value of contingent consideration, net	303	(55)	506	1,478
Operating income	7,567	5,396	19,703	14,384
Interest expense	51	47	149	147
Other income	157	143	498	437
Income before income tax expense	7,673	5,492	20,052	14,674
Income tax expense	3,054	2,349	8,132	6,217
Net income	\$ 4,619	\$ 3,143	\$ 11,920	\$ 8,457
Basic weighted average shares outstanding	18,784	18,610	18,761	18,607
Diluted weighted average shares outstanding	19,048	18,725	18,996	18,713
Per common share data:				
Basic earnings per share	\$ 0.25	\$ 0.17	\$ 0.64	\$ 0.45
Diluted earnings per share	\$ 0.24	\$ 0.17	\$ 0.63	\$ 0.45

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, 2011 and 2010

(Unaudited, in thousands)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 11,920	\$ 8,457
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on reversal of deferred rent liability	(1,041)	
Gain on change in fair value of contingent consideration, net	(506)	(1,478)
Depreciation and amortization	4,329	3,305
Deferred income taxes	(897)	253
Non-cash compensation expense	2,188	1,265
Changes in other operating items:		
Accounts and other receivables	3,667	4,059
Costs and estimated earnings in excess of billings on uncompleted contracts	(5,380)	(1,903)
Prepaid expenses and other current assets	(1,398)	2,169
Accounts payable and accrued expenses	882	4,624
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,040)	2,435
Contingent consideration payments in excess of fair value on acquisition date	(721)	
Other	(442)	(101)
Net cash provided by operating activities	10,561	23,085
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,397)	(576)
Acquisitions, net of cash acquired	(35,785)	(2,767)
Net cash used in investing activities	(38,182)	(3,343)
Cash flows from financing activities:		
Proceeds from short-term borrowings	6,154	
Contingent consideration payments	(1,238)	
Repurchases of common stock in the open market	(956)	(266)
Other	234	(211)
Net cash provided by (used in) financing activities	4,194	(477)
Effect of exchange rate changes on cash and cash equivalents	(28)	4
Net increase (decrease) in cash and cash equivalents	(23,455)	19,269
Cash and cash equivalents at beginning of period	28,902	10,803
Cash and cash equivalents at end of period	\$ 5,447	\$ 30,072

See accompanying notes to condensed consolidated financial statements.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2011
(Unaudited)

(1) Basis of Presentation

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

The accompanying condensed consolidated balance sheet as of September 30, 2011, the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010 have not been audited, but have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, as presented in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. In the opinion of management, this interim information includes all material adjustments, which are of a normal and recurring nature, necessary for a fair presentation. The results for the 2011 interim period are not necessarily indicative of results to be expected for the entire year. Certain prior year amounts have been reclassified to conform to current year presentation.

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

(2) Significant Customers & Concentration of Credit Risk

The Company has a concentration of revenue from General Motors and its affiliates (General Motors) as well as a market concentration in the automotive sector. For the nine months ended September 30, 2011 and 2010, revenue from General Motors accounted for approximately 9% and 12%, respectively, of the Company's consolidated revenue, and revenue from the automotive industry accounted for approximately 17% and 18%, respectively, of the Company's consolidated revenue. No single customer accounted for more than 10% of the Company's revenue during the nine months ended September 30, 2011 or accounts receivable as of September 30, 2011.

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The Company also has a concentration of revenue from the United States government. For the nine months ended September 30, 2011 and 2010, sales to the United States government and its agencies represented approximately 15% and 23%, respectively, of the Company's consolidated revenue. Revenue was derived from many separate contracts with a variety of government agencies that are regarded by the Company as separate customers.

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Notes to Condensed Consolidated Financial Statements

September 30, 2011
(Unaudited)**(3) Earnings Per Share**

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Non-dilutive instruments	155	1,286	102	1,132
Dilutive common stock equivalents	264	115	235	106

(4) AcquisitionsBeneast Training Ltd

On August 1, 2011, General Physics through its wholly-owned subsidiary, General Physics (UK) Ltd. (GPUK), acquired the share capital of TK Holdings Ltd and its subsidiary Beneast Training Ltd (collectively, Beneast). Beneast is an independent skills training provider located in the United Kingdom. General Physics paid approximately \$6,815,000 in cash at closing. The purchase price is subject to adjustment based on final determination of the net assets of the acquired business on the closing date in accordance with the Purchase Agreement. Beneast is included in the Company's Manufacturing & BPO segment and its results of operations have been included in the Company's consolidated financial statements since August 1, 2011. The pro-forma impact of the acquisition is not material to the Company's results of operations.

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

Cash purchase price	\$	6,815
Less: estimated payment due from seller for net asset adjustment		(22)
Total estimated purchase price	\$	6,793

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2011
(Unaudited)

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

Cash	\$	2,236
Accounts receivable		382
Prepaid expenses and other assets		101
Property and equipment		192
Amortizable intangible assets		2,706
Goodwill		3,758
Total assets acquired		9,375
Accounts payable, accrued expenses and other liabilities		1,878
Deferred tax liability		