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GP STRATEGIES CORP
Form 10-Q
October 29, 2015
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 September 30, 2015
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	52-0845774
(State of Incorporation)	(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 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 x 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 ✓

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The number of shares outstanding of the registrant's common stock as of October 23, 2015 was as follows:

Class	Outstanding
Common Stock, par value \$.01 per share	17,028,338 shares

GP STRATEGIES CORPORATION AND SUBSIDIARIES

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Part I. Financial Information

Item 1. Financial Statements

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$13,631	\$14,541
Accounts and other receivables, less allowance for doubtful accounts of \$1,897 in 2015 and \$1,947 in 2014	99,516	99,638
Costs and estimated earnings in excess of billings on uncompleted contracts	39,301	30,211
Prepaid expenses and other current assets	16,308	15,967
Total current assets	168,756	160,357
Property, plant and equipment	21,142	20,837
Accumulated depreciation	(14,391)	(12,973)
Property, plant and equipment, net	6,751	7,864
Goodwill	123,129	125,757
Intangible assets, net	7,246	10,535
Other assets	1,039	939
	\$306,921	\$305,452
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	\$32,907	\$20,799
Current portion of long-term debt	13,333	13,333
Accounts payable and accrued expenses	60,746	59,018
Billings in excess of costs and estimated earnings on uncompleted contracts	16,476	23,670
Total current liabilities	123,462	116,820
Long-term debt	14,444	24,444
Other noncurrent liabilities	10,778	12,463
Total liabilities	148,684	153,727
Stockholders' equity:		
Common stock, par value \$0.01 per share	172	171
Additional paid-in capital	106,914	104,523
Retained earnings	67,346	54,809
Treasury stock at cost	(5,004)	(381)
Accumulated other comprehensive loss	(11,191)	(7,397)
Total stockholders' equity	158,237	151,725
	\$306,921	\$305,452

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$122,931	\$123,869	\$363,849	\$376,667
Cost of revenue	102,562	101,351	304,269	311,027
Gross profit	20,369	22,518	59,580	65,640
Selling, general and administrative expenses	12,253	11,863	35,859	34,914
Restructuring charges	1,195	—	1,195	—
Gain (loss) on change in fair value of contingent consideration, net	(56	) 655	(314	) 1,513
Operating income	6,865	11,310	22,212	32,239
Interest expense	340	117	1,011	399
Other income (expense)	(606	) (72	) (1,141	) 185
Income before income tax expense	5,919	11,121	20,060	32,025
Income tax expense	2,203	3,877	7,523	12,351
Net income	\$3,716	\$7,244	\$12,537	\$19,674
Basic weighted average shares outstanding	17,117	19,131	17,151	19,138
Diluted weighted average shares outstanding	17,272	19,391	17,313	19,409
Per common share data:				
Basic earnings per share	\$0.22	\$0.38	\$0.73	\$1.03
Diluted earnings per share	\$0.22	\$0.37	\$0.72	\$1.01

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$3,716	\$7,244	\$12,537	\$19,674
Foreign currency translation adjustments	(2,696	) (3,674	) (3,794	) (2,446
Comprehensive income	\$1,020	\$3,570	\$8,743	\$17,228

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2015 and 2014

(Unaudited, in thousands)

	2015	2014	
Cash flows from operating activities:			
Net income	\$ 12,537	\$ 19,674	
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (gain) on change in fair value of contingent consideration, net	314	(1,513))
Depreciation and amortization	6,014	7,477	
Deferred income taxes	—	366	
Non-cash compensation expense	4,473	3,510	
Changes in other operating items:			
Accounts and other receivables	(1,418)	) 6,164	
Costs and estimated earnings in excess of billings on uncompleted contracts	(9,914)	) (15,937))
Prepaid expenses and other current assets	220	(2,725))
Accounts payable and accrued expenses	5,275	6,129	
Billings in excess of costs and estimated earnings on uncompleted contracts	(6,695)	) (3,778))
Income tax benefit of stock-based compensation	(435)	) (1,539))
Contingent consideration payments in excess of fair value on acquisition date	(325)	) (1,043))
Other	(518)	) (121))
Net cash provided by operating activities	9,528	16,664	
Cash flows from investing activities:			
Additions to property, plant and equipment	(1,831)	) (2,315))
Acquisitions, net of cash acquired	—	(8,666))
Other investing activities	85	246	
Net cash used in investing activities	(1,746)	) (10,735))
Cash flows from financing activities:			
Proceeds from short-term borrowings	12,108	4,473	
Repayment of long-term debt	(10,000)) —	
Contingent consideration payments	(2,284)	) (977))
Change in negative cash book balance	(1,865)	) (2,576))
Tax withholding payments for employee stock-based compensation in exchange for shares surrendered	(650)	) (1,978))
Income tax benefit of stock-based compensation	435	1,539	
Repurchases of common stock in the open market	(6,535)	) (3,051))
Proceeds from stock option exercises	115	81	
Other financing activities	(10)	) (4))
Net cash used in financing activities	(8,686)	) (2,493))
Effect of exchange rate changes on cash and cash equivalents	(6)	) 35	
Net decrease in cash and cash equivalents	(910)	) 3,471	
Cash and cash equivalents at beginning of period	14,541	5,647	
Cash and cash equivalents at end of period	\$ 13,631	\$ 9,118	
Supplemental disclosures of cash flow information:			
Cash paid during the period for income taxes	\$ 5,655	\$ 14,502	
See accompanying notes to condensed consolidated financial statements.			

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015
(Unaudited)

(1) Basis of Presentation

GP Strategies Corporation is a global performance improvement solutions provider of training, e-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 September 30, 2015 and the condensed consolidated statements of operations, comprehensive income and cash flows for the nine months ended September 30, 2015 and 2014 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, 2014, as presented in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014. 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 2015 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) Accounting Standard Issued

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede 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. ASU 2014-9 was originally effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 and early adoption was not permitted. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-9. We are still in the process of evaluating the impact of adoption of this ASU on our consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited)

(3) Significant Customers & Concentration of Credit Risk

We have a market concentration of revenue in both the automotive sector and financial services & insurance sector. Revenue from the automotive industry accounted for approximately 18% and 14% of our consolidated revenue for the nine months ended September 30, 2015 and 2014, respectively. In addition, we have a concentration of revenue from a single automotive customer, which accounted for approximately 12% of our consolidated revenue for the nine months ended September 30, 2015. As of September 30, 2015, accounts receivable from a single automotive customer totaled \$9.7 million, or 10%, of our consolidated accounts receivable balance.

Revenue from the financial services & insurance industry accounted for approximately 21% and 16% of our consolidated revenue for the nine months ended September 30, 2015 and 2014, respectively. Beginning in 2015, we have a concentration of revenue from a single financial services customer, which accounted for approximately 14% of our consolidated revenue for the nine months ended September 30, 2015. As of September 30, 2015, billed and unbilled accounts receivable from a single financial services customer totaled \$35.8 million, or 26%, of our consolidated accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts balances.

No other single customer accounted for more than 10% of our consolidated revenue for the nine months ended September 30, 2015 and 2014 or consolidated accounts receivable balance as of September 30, 2015.

(4) 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. 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,	
	2015	2014	2015	2014
	(In thousands)			
Non-dilutive instruments	29	—	20	—
Dilutive common stock equivalents	155	260	162	271

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015