

GP STRATEGIES CORP
Form 10-Q
October 31, 2013

**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, 2013

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

(Address of principal executive offices)

21044
(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 Non-accelerated filer Smaller reporting company

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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 October 25, 2013 was as follows:

Class	Outstanding
Common Stock, par value \$.01 per share	19,145,578 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, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,373	\$ 7,761
Accounts and other receivables, less allowance for doubtful accounts of \$1,246 in 2013 and \$1,756 in 2012	84,101	83,597
Costs and estimated earnings in excess of billings on uncompleted contracts	26,916	16,979
Prepaid expenses and other current assets	13,385	10,143
Total current assets	128,775	118,480
Property, plant and equipment	22,531	18,771
Accumulated depreciation	(14,312)	(13,260)
Property, plant and equipment, net	8,219	5,511
Goodwill	116,707	102,821
Intangible assets, net	16,487	15,872
Other assets	1,548	1,750
	\$ 271,736	\$ 244,434
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	\$ 4,820	\$
Accounts payable and accrued expenses	51,499	47,457
Billings in excess of costs and estimated earnings on uncompleted contracts	21,282	21,877
Total current liabilities	77,601	69,334
Other noncurrent liabilities	8,817	7,763
Total liabilities	86,418	77,097
Stockholders' equity:		
Common stock, par value \$0.01 per share	192	192
Additional paid-in capital	167,638	167,495
Retained earnings	20,270	3,955
Treasury stock at cost	(909)	(2,494)
Accumulated other comprehensive loss	(1,873)	(1,811)
Total stockholders' equity	185,318	167,337
	\$ 271,736	\$ 244,434

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		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenue	\$ 113,197	\$ 99,671	\$ 319,469	\$ 295,587
Cost of revenue	93,136	81,742	264,832	243,041
Gross profit	20,061	17,929	54,637	52,546
Selling, general and administrative expenses	9,856	8,890	28,825	26,220
Gain (loss) on change in fair value of contingent consideration, net	135	(792)	427	(863)
Operating income	10,340	8,247	26,239	25,463
Interest expense	90	75	256	175
Other income	4	72	326	262
Income before income tax expense	10,254	8,244	26,309	25,550
Income tax expense	4,111	2,061	9,994	8,999
Net income	\$ 6,143	\$ 6,183	\$ 16,315	\$ 16,551
Basic weighted average shares outstanding	19,125	19,009	19,089	18,912
Diluted weighted average shares outstanding	19,404	19,328	19,344	19,255
Per common share data:				
Basic earnings per share	\$ 0.32	\$ 0.33	\$ 0.85	\$ 0.88
Diluted earnings per share	\$ 0.32	\$ 0.32	\$ 0.84	\$ 0.86

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,	
	2013	2012	2013	2012
Net income	\$ 6,143	\$ 6,183	\$ 16,315	\$ 16,551
Foreign currency translation adjustments	2,525	1,226	(62)	1,415
Comprehensive income	\$ 8,668	\$ 7,409	\$ 16,253	\$ 17,966

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, 2013 and 2012

(Unaudited, in thousands)

	2013	2012
Cash flows from operating activities:		
Net income	\$ 16,315	\$ 16,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on change in fair value of contingent consideration, net	(427)	863
Depreciation and amortization	6,255	5,920
Deferred income taxes	(216)	(381)
Non-cash compensation expense	2,867	2,779
Changes in other operating items:		
Accounts and other receivables	917	(268)
Costs and estimated earnings in excess of billings on uncompleted contracts	(9,269)	(6,330)
Prepaid expenses and other current assets	(2,586)	(16)
Accounts payable and accrued expenses	(71)	384
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,110)	(502)
Income tax benefit of stock-based compensation	(249)	(1,358)
Contingent consideration payments in excess of fair value on acquisition date	(708)	(602)
Other	(469)	(40)
Net cash provided by operating activities	10,249	17,000
Cash flows from investing activities:		
Additions to property, plant and equipment	(4,608)	(2,155)
Acquisitions, net of cash acquired	(13,524)	(1,935)
Net cash used in investing activities	(18,132)	(4,090)
Cash flows from financing activities:		
Proceeds from short-term borrowings	4,820	
Contingent consideration payments	(1,026)	(1,263)
Change in negative cash book balance	1,829	(1,888)
Tax withholding payments for employee stock-based compensation in exchange for shares surrendered	(523)	(1,982)
Income tax benefit of stock-based compensation	249	1,358
Repurchases of common stock in the open market	(935)	(914)
Proceeds from stock option exercises	62	209
Other	(3)	(126)
Net cash provided by (used in) financing activities	4,473	(4,606)
Effect of exchange rate changes on cash and cash equivalents	22	144
Net increase (decrease) in cash and cash equivalents	(3,388)	8,448
Cash and cash equivalents at beginning of period	7,761	4,151
Cash and cash equivalents at end of period	\$ 4,373	\$ 12,599
Supplemental disclosures of cash flow information:		

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Cash paid during the year for income taxes	\$	10,765	\$	11,340
Cash paid during the year for interest	\$	118	\$	50

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)

(1) Basis of Presentation

GP Strategies Corporation is a global performance improvement solutions provider of sales and technical 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.

The accompanying condensed consolidated balance sheet as of September 30, 2013 and the condensed consolidated statements of operations, comprehensive income and cash flows for the nine months ended September 30, 2013 and 2012 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, 2012, as presented in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. 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 2013 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

We have a market concentration of revenue in the automotive sector. Revenue from the automotive industry accounted for approximately 16% and 17% of our consolidated revenue for the nine months ended September 30, 2013 and 2012, respectively. We also have a concentration of revenue from the United States government. For the nine months ended September 30, 2013 and 2012, sales to the United States government and its agencies represented approximately 10% and 13%, respectively, of our consolidated revenue. Revenue was derived from many separate contracts with a variety of government agencies that are regarded by us as separate customers. No single customer accounted for more than 10% of our revenue for the nine months ended September 30, 2013 or accounts receivable as of September 30, 2013.

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Notes to Condensed Consolidated Financial Statements

September 30, 2013

(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.

Our 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,	
	2013	2012	2013	2012
	(In thousands)			
Non-dilutive instruments		48	20	74
Dilutive common stock equivalents	279	319	255	343

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Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)

(4) AcquisitionsLorien

On June 12, 2013, we completed the acquisition of Lorien Engineering Solutions (“Lorien”), a United Kingdom-based provider of engineering design and project management services with specific expertise in the food and beverage, manufacturing and life sciences industries. The upfront purchase price for Lorien was \$6,734,000 which was paid in cash at closing. In addition, the purchase agreement requires up to an additional \$913,000 of consideration, contingent upon the achievement of certain earnings targets during the first twelve months following completion of the acquisition, as defined in the purchase agreement. The purchase price allocation consisted of \$1,715,000 of customer-related intangible assets to be amortized over five years subsequent to the acquisition date. None of the goodwill recorded for financial statement purposes is deductible for tax purposes. The acquired Lorien business is included in the Learning Solutions segment and the results of its operations have been included in the consolidated financial statements since June 12, 2013. The pro-forma impact of the acquisition is not material to our results of operations. The acquired Lorien business is included in our United Kingdom subsidiary and its local currency is the British Pound Sterling. The purchase price allocation below was translated into U.S. dollars based on the exchange rate in effect on the date of acquisition.

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

Cash purchase price paid at closing	\$6,734
Fair value of contingent consideration	573
Total estimated purchase price	\$7,307

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

Cash	\$23
Accounts receivable	1,856
Prepaid expenses and other assets	1,553
Property and equipment	116
Amortizable intangible assets	1,715
Goodwill	5,443
Total assets acquired	10,706
Accounts payable, accrued expenses and other liabilities	3,004
Deferred tax liability	395
Total liabilities assumed	3,399
Net assets acquired	\$7,307

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Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)

Prospero

On May 31, 2013, we completed the acquisition of Prospero Learning Solutions (“Prospero”), a Canada-based provider of custom learning and content development solutions. The upfront purchase price for Prospero was \$7,046,000 which was paid in cash at closing and is subject to the finalization of a working capital adjustment as defined in the purchase agreement. In addition, the purchase agreement requires up to an additional \$4,755,000 of consideration, contingent upon the achievement of certain earnings targets during the two twelve-month periods following completion of the acquisition, as defined in the purchase agreement. The total estimated fair value of the purchase consideration as of the acquisition date was \$10,716,000 and consisted of the upfront cash payment of \$7,046,000 and estimated contingent consideration of \$3,670,000. The purchase price allocation consisted of \$2,801,000 of customer-related intangible assets to be amortized over five years subsequent to the acquisition date. The acquired Prospero business is included in the Learning Solutions segment and the results of its operations have been included in the consolidated financial statements since June 1, 2013. The pro-forma impact of the acquisition is not material to our results of operations. The acquired Prospero business is included in our Canadian subsidiary and its local currency is the Canadian Dollar. The purchase price allocation below was translated into U.S. dollars based on the exchange rate in effect on the date of acquisition.

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

Cash purchase price paid at closing	\$7,046
Fair value of contingent consideration	3,670
Total estimated purchase price	\$10,716

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

Prepaid expenses and other assets	\$29
Property and equipment	51
Amortizable intangible assets	2,801
Goodwill	8,115
Total assets acquired	10,996
Accounts payable, accrued expenses and other liabilities	280
Total liabilities assumed	280
Net assets acquired	\$10,716

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Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)

BlessingWhite

On October 1, 2012, we completed the acquisition of BlessingWhite, a provider of leadership development and employee engagement solutions. The total purchase price was \$10,762,000 in cash at closing which was subsequently reduced by a working capital adjustment as defined in the purchase agreement. We finalized the working capital adjustment during the second quarter of 2013 and received \$233,000 from the sellers for the amount of actual working capital below the target level defined in the agreement. The purchase price allocation for the acquisition included \$3,280,000 of amortizable intangible assets, which includes \$1,761,000 of customer-related intangible assets which are being amortized over five years, \$1,238,000 of intellectual property related to training course content which is being amortized over five years, \$191,000 related to the acquired tradename which is being amortized over two years, and \$90,000 related to acquired technology which is being amortized over three years from the acquisition date. None of the goodwill recorded for financial statement purposes is deductible for tax purposes. BlessingWhite is included in the Learning Solutions segment and the results of its operations have been included in the consolidated financial statements since October 1, 2012. The pro-forma impact of the acquisition is not material to our results of operations.

Contingent Consideration

Accounting Standards Codification (“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 consolidated statement of operations. We estimate the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement and discount the liabilities to present value using a weighted-average cost of capital. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. 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 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, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

Below is a summary of the potential contingent consideration we may be required to pay in connection with completed acquisitions as of September 30, 2013 (dollars in thousands):

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Notes to Condensed Consolidated Financial Statements

September 30, 2013

(Unaudited)

Acquisition:	Original range of potential undiscounted payments	As of September 30, 2013		Total
		Maximum contingent consideration due in 2014	2015	
Bath Consulting	\$0 - \$2,376	\$ 1,098	\$	\$ 1,098
Asentus	\$0 - \$3,700	1,600		1,600
Prospero	\$0 - \$4,855	2,913	1,942	4,855
Lorien	\$0 - \$969	969		969
Total		\$ 6,580	\$ 1,942	\$ 8,522

Below is a summary of the changes in the recorded amount of contingent consideration liabilities from December 31, 2012 to September 30, 2013 for each acquisition (dollars in thousands):

Acquisition:	Liability as of December 31, 2012	2013 Additions (Payments)	Change in Fair Value of Contingent Consideration	Foreign Currency Translation	Liability as of September 30, 2013
Milsom	\$ 302	(299)		(3)	\$
Marton House	774	(759)	32	(47)	
Bath Consulting	1,464	(676)	232	(40)	980
Asentus	544		(533)	(11)	
Prospero		3,670	(436)	11	3,245
Lorien		573	278	42	893
Total	\$ 3,084	2,509	(427)	(48)	\$ 5,118

As of September 30, 2013 and December 31, 2012, contingent consideration included in accounts payable and accrued expenses on the consolidated balance sheet totaled \$3,707,000 and \$2,540,000, respectively. As of September 30, 2013 and December 31, 2012, we also had accrued contingent consideration totaling \$1,411,000 and \$544,000, respectively, included in other noncurrent liabilities on the consolidated balance sheet, representing the portion of contingent consideration estimated to be payable greater than twelve months from the balance sheet date.

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Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)**(5) Intangible Assets**Goodwill

Changes in the carrying amount of goodwill by reportable business segment for the nine months ended September 30, 2013 were as follows (in thousands):

	Learning Solutions	Professional & Technical Services	Sandy	Performance Readiness Solutions	Energy Services	Total
Balance as of December 31, 2012	\$ 46,161	\$ 37,690	\$ 653	\$ 9,795	\$ 8,522	\$ 102,821
Acquisitions	13,558					13,558
Purchase accounting adjustments	(195)				117	(78)
Foreign currency translation	391				15	406
Balance as of September 30, 2013	\$ 59,915	\$ 37,690	\$ 653	\$ 9,795	\$ 8,654	\$ 116,707

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
September 30, 2013			
Customer relationships	\$ 26,825	\$ (12,254)	\$ 14,571
Tradenames	982	(887)	95
Intellectual property and other	3,709	(1,888)	1,821
	\$ 31,516	\$ (15,029)	\$ 16,487
December 31, 2012			
Customer relationships	\$ 22,193	\$ (9,064)	\$ 13,129
Tradenames	982	(700)	282
Intellectual property and other	3,686	(1,225)	2,461
	\$ 26,861	\$ (10,989)	\$ 15,872

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Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)

(6) Stock-Based Compensation

We recognize compensation expense for stock-based compensation awards issued to employees that are expected to vest. Compensation cost is based on the fair value of awards as of the grant date.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Non-qualified stock options	\$ 125	\$ 105	\$ 370	\$ 587
Restricted stock units	189	224	568	482
Board of Directors stock grants	79	75	246	287
Total stock-based compensation	\$ 393	\$ 404	\$ 1,184	\$ 1,356

Pursuant to our 2011 Stock Incentive 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 September 30, 2013, we had non-qualified stock options and restricted stock units outstanding under these plans as discussed below.

Non-Qualified Stock Options

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

Stock Options	Number of options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2012	624,700	\$ 9.54		
Granted				
Exercised	(41,000)	11.03		
Forfeited	(3,400)	15.00		
Expired	(900)	13.17		
Outstanding at September 30, 2013	579,400	\$ 9.39	2.70	\$ 9,749,000
Stock options expected to vest	567,600	\$ 9.43	2.70	\$ 9,533,000
Exercisable at September 30, 2013	276,400	\$ 8.51	2.51	\$ 4,894,000

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Notes to Condensed Consolidated Financial Statements

September 30, 2013

(Unaudited)

Restricted Stock Units

In addition to stock options, we issue restricted stock units to key employees and members of the Board of Directors based on meeting certain service goals. The stock units vest to the recipients at various dates, up to five years, based on fulfilling service requirements. We recognize the value of the market price of the underlying stock on the date of grant as compensation expense over the requisite service period. Upon vesting, the stock units are settled in shares of our common stock. Summarized share information for our restricted stock units is as follows:

	Nine months ended September 30, 2013 (In shares)	Weighted average grant date fair value (In dollars)
Outstanding and unvested, beginning of period	210,992	\$ 18.40
Granted	1,000	21.98
Vested	(42,580)	18.17
Forfeited	(1,500)	19.38
Outstanding and unvested, end of period	167,912	\$ 18.47
Restricted stock units expected to vest	157,088	\$ 18.61

(7) Short-Term Borrowings

We have a \$50,000,000 Financing and Security Agreement (the "Credit Agreement") with a bank that expires on October 31, 2015 and is secured by certain of our assets. The Credit Agreement contains a provision to increase the maximum principal amount to \$75,000,000 upon lender approval. The maximum interest rate on borrowings under the Credit Agreement is the daily LIBOR market index rate plus 2.25%. Based upon our financial performance, the interest rate can be reduced to a minimum of LIBOR plus 1.0%. The Credit Agreement contains covenants with respect to our minimum tangible net worth, total liabilities to tangible net worth ratio and cash flow to debt service ratio, all of which were in compliance with the Credit Agreement as of September 30, 2013. As of September 30, 2013, there were \$4,820,000 of borrowings outstanding and \$45,180,000 of available borrowings under the Credit Agreement.

gp strategies corporation AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)

(8) Income Taxes

Income tax expense was \$9,994,000, or an effective income tax rate of 38.0%, for the nine months ended September 30, 2013 compared to \$8,999,000, or an effective income tax rate of 35.2%, for the nine months ended September 30, 2012. During the three months ended March 31, 2013, we recorded one-time income tax benefits totaling \$373,000 for a foreign subsidiary. During the third quarter of 2012, we recognized an income tax benefit of \$1,602,000 on the reduction of an uncertain tax position liability. Excluding these discrete items recorded in both years, the effective income tax rate was 39.4% and 41.5% for the nine months ended September 30, 2013 and 2012, respectively. The decrease in the effective income tax rate compared to 2012 is due to a larger portion of our 2013 income being derived from foreign jurisdictions which are taxed at lower rates. Income tax expense for the quarterly periods is based on an estimated annual effective tax rate which includes the federal, state and foreign statutory rates, permanent differences, and other items that may have an impact on income tax expense.

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 September 30, 2013, we had no uncertain tax positions reflected on our consolidated balance sheet. We and our subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. We are no longer subject to U.S. federal, state and local, or non-U.S. income tax examination by tax authorities for years prior to 2009.

(9) Stockholders' Equity

Changes in stockholders' equity during the nine months ended September 30, 2013 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, 2012	\$ 192	\$ 167,495	\$ 3,955	\$ (2,494)	\$ (1,811)	\$ 167,337
Net income	-	-	16,315	-	-	16,315
Foreign currency translation adjustment	-	-	-	-	(62)	(62)
Repurchases of common stock	-	-	-	(935)	-	(935)
Stock-based compensation expense	-	986	-	198	-	1,184
Issuance of stock for employer contributions to retirement plan	-	262	-	1,421	-	1,683

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Other	-	(1,105)	-	901	-	(204)
Balance at September 30, 2013	\$ 192	\$ 167,638	\$ 20,270	\$ (909)	\$ (1,873)	\$ 185,318

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Notes to Condensed Consolidated Financial Statements

September 30, 2013
(Unaudited)

(10) Business Segments

As of September 30, 2013, we operated through five reportable business segments: (i) Learning Solutions, (ii) Professional & Technical Services, (iii) Sandy Training & Marketing, (iv) Performance Readiness Solutions (formerly RWD), and (v) Energy Services. Our Learning Solutions segment represents an aggregation of two operating groups in accordance with the aggregation criteria in U.S. GAAP, while all of the other reportable segments each represent one operating group. We are organized by operating group primarily based upon the markets served by each group and/or the services performed. Each operating group consists of business units which are focused on providing specific products and services to certain classes of customers or within targeted markets. Marketing and communications, accounting, finance, legal, human resources, information systems and other administrative services are organized at the corporate level. Business development and sales resources are aligned with operating groups to support existing customer accounts and new customer development.

Effective January 1, 2013, we made changes to our organizational structure to transfer the management responsibility of certain business units between segments, which resulted in a change in the composition of certain of our operating segments. The changes primarily consisted of: (i) the alternative fuels business unit transferred from Professional & Technical Services to Energy Services; (ii) a business unit which predominantly provides content development services to U.S. government and commercial clients transferred from Learning Solutions to Professional & Technical Services; and (iii) our foreign operations in India and China and a portion of our Canadian operations transferred from Professional & Technical Services to Learning Solutions. We have reclassified the segment financial information herein for the prior year to reflect these changes and conform to the current year's presentation.

Further information regarding our business segments is discussed below.

Learning Solutions. The Learning Solutions segment delivers training, curriculum design and development, e-Learning services, system hosting, training business process outsourcing and consulting services globally through our offices in the U.S., Europe, Asia and Canada. This segment serves large companies in the electronics and semiconductors, healthcare, software, financial and other industries as well as to government agencies. The ability to deliver a wide range of training services on a global basis allows this segment to take over the entire learning function for the client, including their training personnel. The October 2012 acquisition of Blessing White added proprietary leadership training content and employee engagement tools and services to this segment's offerings.

Professional & Technical Services. This segment has over four decades of experience providing training, consulting, engineering and technical services, including lean consulting, emergency preparedness, safety and regulatory compliance, chemical demilitarization and environmental services primarily to large companies in the manufacturing, steel, pharmaceutical and petrochemical industries, federal and state government agencies and large government contractors.

Sandy Training & Marketing. The Sandy segment provides custom product sales training and has been a leader in serving manufacturing customers in the U.S. automotive industry for over 30 years. Sandy provides custom product sales training designed to better educate customer sales forces with respect to new vehicle features and designs, in effect rapidly increasing the sales force knowledge base and enabling them to address detailed customer queries. Furthermore, Sandy helps our clients assess their customer relationship marketing strategy, measure performance

against competitors and connect with their customers on a one-to-one basis. This segment also provides technical training services to automotive manufacturers as well as customers in other industries.

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(Unaudited)

Performance Readiness Solutions. Formerly named RWD, this segment represents a portion of the consulting business acquired from RWD Technologies, LLC in April 2011. Certain of the other acquired RWD business units are managed within the Professional & Technical Services and Sandy segments discussed above. Performance Readiness Solutions provides human capital management and IT consulting services, end-user training, change management, knowledge management and operator effectiveness management solutions in industries such as manufacturing, aerospace, healthcare, life sciences, consumer products, financial, telecommunications, services and higher education as well as the public sector.

Energy Services. The Energy Services segment provides engineering services, products and training primarily to electric power utilities. Our proprietary EtaPro™ Performance Monitoring and Optimization System provides a suite of performance solutions for power generation plants and is installed at over 1,000 power generating units in 34 countries. In addition to providing custom training solutions, this segment provides web-based training through our GPiLearn™ portal, which offers over 1,300 courses to over 30,000 power plant personnel in the U.S. and in over 40 countries. This segment also provides services to users of alternative fuels, including designing and constructing liquefied natural gas (LNG), liquid to compressed natural gas (LCNG) and hydrogen fueling stations, as well as supplying fuel and equipment.

We do not allocate the following corporate items to the segments: other income, interest expense, gain (loss) on change in fair value of contingent consideration and income tax expense. Inter-segment revenue is eliminated in consolidation and is not significant.

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(Unaudited)

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

	Three months ended September 30, 2013		2012		Nine months ended September 30, 2013		2012	
Revenue:								
Learning Solutions	\$	49,304	\$	40,596	\$	137,223	\$	112,448
Professional & Technical Services		19,157		20,337		54,220		63,613
Sandy Training & Marketing		16,929		16,878		52,061		51,083
Performance Readiness Solutions		13,037		13,682		41,491		42,810
Energy Services		14,770		8,178		34,474		25,633
	\$	113,197	\$	99,671	\$	319,469	\$	295,587
Operating income:								
Learning Solutions	\$	4,120	\$	4,255	\$	10,886	\$	11,341
Professional & Technical Services		1,530		1,874		4,335		5,209
Sandy Training & Marketing		975		1,078		2,797		3,286
Performance Readiness Solutions		907		556		1,802		2,007
Energy Services		2,673		1,276		5,992		4,483
Gain (loss) on change in fair value of contingent consideration, net		135		(792)		427		(863)
Operating income		10,340		8,247		26,239		25,463
Interest expense		90		75		256		175
Other income		4		72		326		262
Income before income tax expense	\$	10,254	\$	8,244	\$	26,309	\$	25,550

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September 30, 2013

(Unaudited)

(11) Lease Commitment

On February 28, 2013, we entered into a lease agreement for approximately 63,985 square feet of office space in Columbia, Maryland for our corporate headquarters, replacing our former headquarters location in Elkridge, Maryland. The lease term is twelve years and encompasses three floors of an approximately 170,000 square foot existing office building. Occupancy and rent payments commenced on approximately August 1, 2013. Future minimum rental payments under the lease are as follows (in thousands):

Years ended December 31,	
2013	\$453
2014	1,104
2015	1,385
2016	1,773
2017	1,835
Thereafter	16,168
Total	\$22,718

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, e-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 four decades of experience in providing solutions to optimize workforce performance.

As of September 30, 2013, we operated through five reportable business segments: (i) Learning Solutions, (ii) Professional & Technical Services, (iii) Sandy Training & Marketing, (iv) Performance Readiness Solutions (formerly RWD), and (v) Energy Services. Our Learning Solutions segment represents an aggregation of two operating groups in accordance with the aggregation criteria in U.S. GAAP, while all of the other reportable segments each represent one operating group. We are organized by operating group, primarily based upon the markets served by each group and/or the services performed. Each operating group consists of business units which are focused on providing specific products and services to certain classes of customers or within targeted markets. Marketing and communications, accounting, finance, legal, human resources, information systems and other administrative services are organized at the corporate level. Business development and sales resources are aligned with operating groups to support existing customer accounts and new customer development.

Effective January 1, 2013, we made changes to our organizational structure to transfer the management responsibility of certain business units between segments, which resulted in a change in the composition of certain of our operating segments. The changes primarily consisted of: (i) the alternative fuels business unit transferred from Professional & Technical Services to Energy Services; (ii) a business unit which predominantly provides content development services to U.S. government and commercial clients transferred from Learning Solutions to Professional & Technical Services; and (iii) our foreign operations in India and China and a portion of our Canadian operations transferred from Professional & Technical Services to Learning Solutions. We have reclassified the segment financial information herein for the prior year to reflect these changes and conform to the current year's presentation.

Further information regarding each business segment is discussed below.

Learning Solutions. The Learning Solutions segment delivers training, curriculum design and development, e-Learning services, system hosting, training business process outsourcing and consulting services globally through our offices in the U.S., Europe, Asia, and Canada. This segment serves large companies in the electronics and semiconductors, healthcare, software, financial and other industries as well as to government agencies. The ability to deliver a wide range of training services on a global basis allows this segment to take over the entire learning function for the client, including their training personnel. The October 2012 acquisition of Blessing White added proprietary leadership training content and employee engagement tools and services to this segment's offerings.

Professional & Technical Services. This segment has over four decades of experience providing training, consulting, engineering and technical services, including lean consulting, emergency preparedness, safety and regulatory compliance, chemical demilitarization and environmental services primarily to large companies in the manufacturing, steel, pharmaceutical and petrochemical industries, federal and state government agencies and large government contractors.

Sandy Training & Marketing. The Sandy segment provides custom product sales training and has been a leader in serving manufacturing customers in the U.S. automotive industry for over 30 years. Sandy provides custom product sales training designed to better educate customer sales forces with respect to new vehicle features and designs, in effect rapidly increasing the sales force knowledge base and enabling them to address detailed customer queries. Furthermore, Sandy helps our clients assess their customer relationship marketing strategy, measure performance against competitors and connect with their customers on a one-to-one basis. This segment also provides technical training services to automotive manufacturers as well as customers in other industries.

Performance Readiness Solutions. Formerly named RWD, this segment represents a portion of the consulting business acquired from RWD Technologies, LLC in April 2011. Certain of the other acquired RWD business units are managed within the Professional & Technical Services and Sandy segments discussed above. Performance Readiness Solutions provides human capital management and IT consulting services, end-user training, change management, knowledge management and operator effectiveness management solutions in industries such as manufacturing, aerospace, healthcare, life sciences, consumer products, financial, telecommunications, services and higher education as well as the public sector.

Energy Services. The Energy Services segment provides engineering services, products and training primarily to electric power utilities. Our proprietary EtaPro™ Performance Monitoring and Optimization System provides a suite of performance solutions for power generation plants and is installed at over 1,000 power generating units in 34 countries. In addition to providing custom training solutions, this segment provides web-based training through our GPiLearn™ portal, which offers over 1,300 courses to over 30,000 power plant personnel in the U.S. and in over 40 countries. This segment also provides services to users of alternative fuels, including designing and constructing liquefied natural gas (LNG), liquid to compressed natural gas (LCNG) and hydrogen fueling stations, as well as supplying fuel and equipment.

Acquisitions

Lorien

On June 12, 2013, we completed the acquisition of Lorien Engineering Solutions (“Lorien”), a United Kingdom-based provider of engineering design and project management services with specific expertise in the food and beverage, manufacturing and life sciences industries. The upfront purchase price for Lorien was \$6.7 million which was paid in cash at closing. In addition, the purchase agreement requires up to an additional \$0.9 million of consideration, contingent upon the achievement of certain earnings targets during the first twelve months following completion of the acquisition, as defined in the purchase agreement. The purchase price allocation consisted of \$1.7 million of customer-related intangible assets to be amortized over five years subsequent to the acquisition date. None of the goodwill recorded for financial statement purposes is deductible for tax purposes. The acquired Lorien business is included in the Learning Solutions segment and the results of its operations have been included in the consolidated financial statements since June 12, 2013. The pro-forma impact of the acquisition is not material to our results of operations. The acquired Lorien business is included in our United Kingdom subsidiary and its local currency is the British Pound Sterling. The purchase price allocation below was translated into U.S. dollars based on the exchange rate in effect on the date of acquisition.

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

Cash purchase price paid at closing	\$6,734
Fair value of contingent consideration	573
Total estimated purchase price	\$7,307

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

Cash	\$23
Accounts receivable	1,856
Prepaid expenses and other assets	1,553
Property and equipment	116
Amortizable intangible assets	1,715
Goodwill	5,443
Total assets acquired	10,706
Accounts payable, accrued expenses and other liabilities	3,004
Deferred tax liability	395
Total liabilities assumed	3,399
Net assets acquired	\$7,307

Prospero

On May 31, 2013, we completed the acquisition of Prospero Learning Solutions (“Prospero”), a Canada-based provider of custom learning and content development solutions. The upfront purchase price for Prospero was \$7.0 million which was paid in cash at closing and is subject to the finalization of a working capital adjustment as defined in the purchase agreement. In addition, the purchase agreement requires up to an additional \$4.8 million of consideration, contingent upon the achievement of certain earnings targets during the two twelve-month periods following completion of the acquisition, as defined in the purchase agreement. The total estimated fair value of the purchase consideration as of the acquisition date was \$10.7 million and consisted of the upfront cash payment of \$7.0 million and estimated contingent consideration of \$3.7 million. The purchase price allocation consisted of \$2.8 million of customer-related intangible assets to be amortized over five years subsequent to the acquisition date. The acquired Prospero business is included in the Learning Solutions segment and the results of its operations have been included in the consolidated financial statements since June 1, 2013. The pro-forma impact of the acquisition is not material to our results of operations. The acquired Prospero business is included in our Canadian subsidiary and its local currency is the Canadian Dollar. The purchase price allocation below was translated into U.S. dollars based on the exchange rate in effect on the date of acquisition.

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

Cash purchase price paid at closing	\$7,046
Fair value of contingent consideration	3,670
Total estimated purchase price	\$10,716

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

Prepaid expenses and other assets	\$29
Property and equipment	51
Amortizable intangible assets	2,801
Goodwill	8,115
Total assets acquired	10,996
Accounts payable, accrued expenses and other liabilities	280
Total liabilities assumed	280
Net assets acquired	\$10,716

BlessingWhite

On October 1, 2012, we completed the acquisition of BlessingWhite, a provider of leadership development and employee engagement solutions. The total purchase price was \$10.8 million in cash at closing and is subject to a working capital adjustment as defined in the purchase agreement. We finalized the working capital adjustment during the second quarter of 2013 and received \$0.2 million from the sellers for the amount of actual working capital below the target level defined in the agreement. The purchase price allocation for the acquisition included \$3.3 million of amortizable intangible assets, which includes \$1.8 million of customer-related intangible assets which are being amortized over five years, \$1.2 million of intellectual property related to training course content which is being amortized over five years, \$0.2 million related to the acquired tradename which is being amortized over two years, and \$0.1 million related to acquired technology which is being amortized over three years from the acquisition date. None of the goodwill recorded for financial statement purposes is deductible for tax purposes. BlessingWhite is included in the Learning Solutions segment and the results of its operations have been included in the consolidated financial statements since October 1, 2012. The pro-forma impact of the acquisition is not material to our results of operations.

Operating Highlights

On July 2, 2013, we entered into an agreement (the “Global Master Agreement”) with HSBC Holdings plc (“HSBC”) to provide global learning services. The Global Master Agreement establishes a contractual framework pursuant to which we and certain of our wholly owned subsidiaries will enter into local services agreements with certain members of HSBC’s group of companies in respect of each country in which the learning services are to be provided by us. Prior to the end of the third quarter of 2013, we entered into local services agreements relating to the provision of services in the U.S., Canada, the U.K. and Hong Kong. We anticipate entering into additional local services agreements with HSBC group members in other countries through September 30, 2014. The initial term of the Global Master Agreement is three years. HSBC has the right to extend the Global Master Agreement for one additional two-year term. We anticipate that HSBC will be our largest customer when the Global Master Agreement and additional local services agreements are fully implemented. As a result, we anticipate that this new contract award could materially impact our future results of operations when compared to corresponding prior year periods. See Part II, Item 1A for a discussion of certain risks related to our performance of the Global Master Agreement.

Three Months ended September 30, 2013 Compared to the Three Months ended September 30, 2012

For the three months ended September 30, 2013, we had income before income tax expense of \$10.3 million compared to \$8.2 million for the three months ended September 30, 2012. The increase in income was primarily due to an increase in operating income, the components of which are discussed below. Included in operating income for the third quarter of 2013 is a \$0.1 million net gain on the change in estimated fair value of contingent consideration relating to acquisitions previously completed, compared to a net loss of \$0.8 million in the third quarter of 2012. Net income was \$6.1 million, or \$0.32 per diluted share, for the three months ended September 30, 2013, compared to net income of \$6.2 million, or \$0.32 per diluted share, for the three months ended September 30, 2012. During the third quarter of 2012, we recognized an income tax benefit of \$1.6 million on the reduction of an uncertain tax position liability. During the three months ended September 30, 2013, diluted weighted average shares outstanding increased by 76,000 to 19,404,000 shares outstanding compared to 19,328,000 shares for the same period in 2012, primarily due to the issuance of shares for stock-based compensation and the effect of the increase in our stock price compared to the prior year on the results of the calculation of diluted weighted average shares outstanding.

Revenue

(Dollars in thousands)	Three months ended	
	September 30, 2013	2012
Learning Solutions	\$ 49,304	\$ 40,596
Professional & Technical Services	19,157	20,337
Sandy Training & Marketing	16,929	16,878
Performance Readiness Solutions	13,037	13,682
Energy Services	14,770	8,178
	\$ 113,197	\$ 99,671

Learning Solutions revenue increased \$8.7 million or 21.5% during the third quarter of 2013 compared to the third quarter of 2012. The increase in revenue is due to the following:

- A \$3.8 million increase attributable to the BlessingWhite acquisition completed in October 2012;
- A \$3.3 million increase attributable to the Lorien acquisition completed on June 12, 2013;
- A \$1.4 million increase attributable to the Prospero acquisition completed on May 31, 2013; and
- A net \$1.8 million increase in our U.S. Learning Solutions organization due to increased e-Learning content development and training business process outsourcing (BPO) services from contracts with new clients and expansion of work with existing clients.

These increases were offset by a \$1.6 million decrease in revenue from our Europe operations, excluding the effect of acquisitions, primarily due to a decrease in e-Learning content development services.

Professional & Technical Services revenue decreased \$1.2 million or 5.8% during the third quarter of 2013 compared to the third quarter of 2012. The net decrease in revenue is primarily due to a \$1.8 million decrease in e-Learning content development for government clients and a \$1.5 million decrease in homeland security and environmental remediation services for U.S. government clients due to contracts concluding. These decreases were partially offset by a \$2.3 million increase in training content development and delivery for a state government client during the third quarter of 2013 compared to the third quarter of 2012.

Sandy Training & Marketing revenue was flat at \$16.9 million for the third quarters of both 2013 and 2012. Despite revenue being flat quarter over quarter, this segment experienced a \$0.6 million increase in automotive sales training revenue offset by a corresponding decrease in revenue from non-recurring 2012 vehicle launch events for a large west coast automotive customer.

Performance Readiness Solutions revenue decreased \$0.6 million or 4.7% during the third quarter of 2013 compared to the third quarter of 2012 primarily due to a net decrease in sales enablement, training development and system implementation training services due to various project completions.

Energy Services revenue increased \$6.6 million or 80.6% during the third quarter of 2013 compared to the third quarter of 2012. The revenue increase was primarily due to the following:

- a \$5.6 million increase in the alternative fuels business unit due to a large new contract to design and build several LNG stations for a new customer;
- a \$0.6 million net increase in training development and EtaPro™ software sales and related services; and
- \$0.4 million of revenue attributable to the Rovsing acquisition which was completed in September 2012.

Gross Profit

(Dollars in thousands)

	Three months ended September 30, 2013		2012	
		% Revenue		% Revenue
Learning Solutions	\$ 8,629	17.5 %	\$ 7,806	19.2 %
Professional & Technical Services	3,229	16.9 %	3,723	18.3 %
Sandy Training & Marketing	2,433	14.4 %	2,588	15.3 %
Performance Readiness Solutions	2,031	15.6 %	1,871	13.7 %
Energy Services	3,739	25.3 %	1,941	23.7 %
	\$ 20,061	17.7 %	\$ 17,929	18.0 %

Learning Solutions gross profit of \$8.6 million or 17.5% of revenue for the third quarter of 2013 increased by \$0.8 million or 10.5% when compared to gross profit of \$7.8 million or 19.2% of revenue for the third quarter of 2012. Approximately \$1.4 million of the increase in gross profit is attributable to the acquisitions we completed in 2012 and 2013. Excluding the increase in gross profit from the acquisitions, we experienced a net \$0.6 million decrease in gross profit primarily due to a decline in profitability in our UK government training business due to an increase in cost of sales in this business and work performed in excess of our contract funding limit for which a portion of funding is expected to be received in the fourth quarter of 2013.

Professional & Technical Services gross profit of \$3.2 million or 16.9% of revenue for the third quarter of 2013 decreased by \$0.5 million or 13.3% when compared to gross profit of \$3.7 million or 18.3% of revenue for the third quarter of 2012. The decrease in gross profit is primarily due to the revenue decreases noted above.

Sandy Training & Marketing gross profit of \$2.4 million or 14.4% of revenue for the third quarter of 2013 decreased by \$0.2 million or 6.0% when compared to gross profit of \$2.6 million or 15.3% of revenue for the third quarter of 2012 primarily due a decrease in profitability on automotive sales training services.

Performance Readiness Solutions gross profit of \$2.0 million or 15.6% of revenue for the third quarter of 2013 increased by \$0.2 million or 8.6% when compared to gross profit of \$1.9 million or 13.7% of revenue for the third quarter of 2012 primarily due to an improvement in profit on a large training outsourcing contract and cost reduction initiatives implemented throughout the segment.

Energy Services gross profit of \$3.7 million or 25.3% of revenue for the third quarter of 2013 increased by \$1.8 million or 92.6% when compared to gross profit of \$1.9 million or 23.7% of revenue for the third quarter of 2012, primarily due to the revenue increases noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$1.0 million or 10.9% from \$8.9 million for the third quarter of 2012 to \$9.9 million for the third quarter of 2013. The increase is primarily due to the acquisitions we completed in 2012 and 2013 and international expansion which resulted in a \$0.7 million increase in labor and benefits expense and a \$0.3 million increase in intangible asset amortization expense during the third quarter of 2013 compared to the third quarter of 2012.

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 \$0.1 million for the three months ended September 30, 2013 compared to a net loss of \$0.8 million for the same period in 2012. Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations* (“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 consolidated statement of operations. We estimate the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. We believe our estimates and assumptions are reasonable; however, there is significant judgment involved. At each reporting date, the contingent consideration obligation will be revalued to estimated fair value and changes in fair value subsequent to the acquisitions will be reflected in income or expense in the 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, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. See Note 4 to the Condensed Consolidated Financial Statements for further details regarding the potential contingent consideration payments and the changes in fair value of the related liabilities during the nine months ended September 30, 2013 for each acquisition.

Interest Expense

Interest expense was consistent at approximately \$0.1 million for the third quarters of both 2013 and 2012.

Other Income

Other income was less than \$0.1 million for the third quarters of both 2013 and 2012 and consisted primarily of income from a joint venture and foreign currency gains and losses in both years.

Income Tax Expense

Income tax expense was \$4.1 million for the third quarter of 2013 compared to \$2.1 million for the third quarter of 2012. During the third quarter of 2012, we recognized an income tax benefit of \$1.6 million on the reduction of an uncertain tax position liability. In addition, we recognized a net loss of \$0.8 million on the change in estimated fair value of contingent consideration during the third quarter of 2012 for which we received no income tax benefit. Excluding the impact of these items, the effective income tax rate was 40.1% and 40.5% for the three months ended September 30, 2013 and 2012, respectively. Income tax expense for the quarterly periods is based on an estimated annual effective tax rate which includes the federal, state and foreign statutory rates, permanent differences, and other items that may have an impact on income tax expense.

Nine Months ended September 30, 2013 Compared to the Nine Months ended September 30, 2012

For the nine months ended September 30, 2013, we had income before income tax expense of \$26.3 million compared to \$25.6 million for the nine months ended September 30, 2012. The increase in income was primarily due to an increase in operating income, the components of which are discussed below. Included in operating income for the nine months ended September 30, 2013 is a \$0.4 million net gain on the change in estimated fair value of contingent consideration, compared to a net loss of \$0.9 million in the same period in 2012. Net income was \$16.3 million, or \$0.84 per diluted share, for the nine months ended September 30, 2013, compared to net income of \$16.6 million, or \$0.86 per diluted share, for the nine months ended September 30, 2012. During the third quarter of 2012, we recognized an income tax benefit of \$1.6 million on the reduction of an uncertain tax position liability. During the three months ended September 30, 2013, diluted weighted average shares outstanding increased by 89,000 to 19,344,000 shares outstanding compared to 19,255,000 shares for the same period in 2012, primarily due to the issuance of shares for stock-based compensation and the effect of the increase in our stock price compared to the prior year on the results of the calculation of diluted weighted average shares outstanding.

Revenue

(Dollars in thousands)	Nine months ended	
	September 30, 2013	2012
Learning Solutions	\$ 137,223	\$ 112,448
Professional & Technical Services	54,220	63,613
Sandy Training & Marketing	52,061	51,083
Performance Readiness Solutions	41,491	42,810
Energy Services	34,474	25,633
	\$ 319,469	\$ 295,587

Learning Solutions revenue increased \$24.8 million or 22.0% during the nine months ended September 30, 2013 compared to the same period in 2012. The increase in revenue is due to the following:

A \$4.5 million increase attributable to the Asentus acquisition completed in June 2012;

A \$10.5 million increase attributable to the BlessingWhite acquisition completed in October 2012;

A \$4.3 million increase attributable to the Lorien acquisition completed on June 12, 2013;

A \$1.8 million increase attributable to the Prospero acquisition completed on May 31, 2013; and

A \$5.7 million increase in our U.S. Learning Solutions organization due to increased e-Learning content development and training business process outsourcing (BPO) services from contracts with new clients and expansion of work with existing clients.

These increases were offset by a \$2.0 million decrease in revenue from our Europe operations, excluding the effect of acquisitions, primarily due to a \$1.5 million decrease in technical services for an aerospace customer and a \$0.8 million decrease in e-Learning content development services, partially offset by various other net increases.

Professional & Technical Services revenue decreased \$9.4 million or 14.8% during the nine months ended September 30, 2013 compared to the same period in 2012. The decrease in revenue is due to the following:

A \$4.0 million decrease in homeland security and chemical demilitarization services for U.S. government clients due to contracts concluding;

A \$2.3 million decrease in technical services for a pharmaceutical customer due to project completions;

A \$1.3 million decrease in e-Learning services due to the completion of projects for U.S. government clients;

A \$0.7 million decrease in lean consulting services due to project completions; and

\$1.1 million of various other net decreases in revenue in this segment during the nine months ended September 30, 2013 compared to the same period in 2012.

Sandy Training & Marketing revenue increased \$1.0 million or 1.9% during the nine months ended September 30, 2013 compared to the same period in 2012. The revenue increase is due to the following:

A \$2.8 million increase in training services for existing U.S. automotive customers due to new vehicle training programs and an increase in dealership sales trainers; and

A \$1.3 million increase in publications and glovebox portfolio revenues; partially offset by

A \$3.1 million decrease in automotive sales training primarily due to decrease in non-recurring vehicle launch events for a large west coast automotive customer.

Performance Readiness Solutions revenue decreased \$1.3 million or 3.1% during the nine months ended September 30, 2013 compared to the same period in 2012 due to a net decrease in sales enablement, training development and system implementation training services due to various project completions.

Energy Services revenue increased \$8.8 million or 34.5% during the nine months ended September 30, 2013 compared to the same period in 2012. The revenue increase was primarily due to the following:

a \$5.9 million increase in the alternative fuels business unit due to a large new contract to design and build several LNG stations for a new customer;

a \$0.9 million net increase in training development and EtaPro™ software sales and related services; and

\$2.0 million of revenue attributable to the Roving acquisition which was completed in September 2012.

Gross Profit

(Dollars in thousands)	Nine months ended			
	September 30, 2013		2012	
		% Revenue		% Revenue
Learning Solutions	\$ 23,998	17.5 %	\$ 21,278	18.9 %
Professional & Technical Services	9,194	17.0 %	10,976	17.3 %
Sandy Training & Marketing	7,295	14.0 %	7,782	15.2 %
Performance Readiness Solutions	5,521	13.3 %	6,038	14.1 %
Energy Services	8,629	25.0 %	6,472	25.2 %
	\$ 54,637	17.1 %	\$ 52,546	17.8 %

Learning Solutions gross profit of \$24.0 million or 17.5% of revenue for the nine months ended September 30, 2013 increased by \$2.7 million or 12.8% when compared to gross profit of \$21.3 million or 18.9% of revenue for the same period in 2012. Approximately \$2.4 million of the increase in gross profit is attributable to the acquisitions we completed in 2012 and 2013. The remainder of the increase in gross profit is due to the revenue increases noted above. In addition, gross profit as a percentage of revenue declined due to certain of the acquired businesses being less profitable than the existing businesses in this segment during the first nine months of 2013.

Professional & Technical Services gross profit of \$9.2 million or 17.0% of revenue for the nine months ended September 30, 2013 decreased by \$1.8 million or 16.2% when compared to gross profit of \$11.0 million or 17.3% of revenue for the same period in 2012. The decrease in gross profit is primarily due to the revenue decreases noted above.

Sandy Training & Marketing gross profit of \$7.3 million or 14.0% of revenue for the nine months ended September 30, 2013 decreased by \$0.5 million or 6.3% when compared to gross profit of \$7.8 million or 15.2% of revenue for the same period in 2012 primarily due to the decrease in higher margin non-recurring vehicle launch events in 2012.

Performance Readiness Solutions gross profit of \$5.5 million, or 13.3% of revenue for the nine months ended September 30, 2013 decreased by \$0.5 million or 8.6% when compared to gross profit of \$6.0 million or 14.1% of revenue for the same period in 2012 primarily due to the revenue decreases noted above.

Energy Services gross profit was \$8.6 million or 25.0% of revenue for the nine months ended September 30, 2013 increased \$2.2 million or 33.3% compared to gross profit of \$6.5 million or 25.2% of revenue for the same period in 2012 primarily due to the revenue increases noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$2.6 million or 9.9% from \$26.2 million for the nine months ended September 30, 2012 to \$28.8 million for the same period in 2013. The increase is primarily due to the acquisitions we completed in 2012 and 2013 and international expansion which resulted in a \$1.5 million increase in labor and benefits expense, a \$0.7 million increase in intangible asset amortization expense and increases in other various costs during the nine months ended September 30, 2013 compared to the same period in 2012.

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 \$0.4 million for the nine months ended September 30, 2013, compared to a net loss of \$0.9 million for the nine months ended September 30, 2012. 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 consolidated statement of operations. We estimate the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. We believe our estimates and assumptions are reasonable; however, there is significant judgment involved. At each reporting date, the contingent consideration obligation will be revalued to estimated fair value and changes in fair value subsequent to the acquisitions will be reflected in income or expense in the 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, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. See Note 4 to the Condensed Consolidated Financial Statements for further details regarding the potential contingent consideration payments and the changes in fair value of the related liabilities during nine months ended September 30, 2013 for each acquisition.

Interest Expense

Interest expense was \$0.3 million for the nine months ended September 30, 2013 and \$0.2 million for the same period in 2012.

Other Income

Other income was \$0.3 million for both the nine-month periods ended September 30, 2013 and 2012 and consisted primarily of income from a joint venture and foreign currency gains and losses in both years.

Income Tax Expense

Income tax expense was \$10.0 million for the nine months ended September 30, 2013 compared to \$9.0 million for the same period in 2012. During the first quarter of 2013, we recorded one-time income tax benefits totaling \$0.4 million for a foreign subsidiary. During the third quarter of 2012, we recognized an income tax benefit of \$1.6 million on the reduction of an uncertain tax position liability. In addition, we recognized a net loss of \$0.9 million on the change in estimated fair value of contingent consideration during the nine months ended September 30, 2012 for which we received no income tax benefit. Excluding the impact of these items, our effective income tax rate was 39.4% for the nine months ended September 30, 2013 compared to 40.1% for the same period in 2012. The decrease in the effective income tax rate compared to 2012 is due to a larger portion of our 2013 income being derived from foreign jurisdictions which are taxed at lower rates. Income tax expense for the quarterly periods is based on an estimated annual effective tax rate which includes the federal, state and foreign statutory rates, permanent differences, and other items that may have an impact on income tax expense.

Liquidity and Capital Resources

Working Capital

For the nine months ended September 30, 2013, our working capital increased \$2.1 million from \$49.1 million at December 31, 2012 to \$51.2 million at September 30, 2013. As of September 30, 2013 we had no long-term debt and \$4.8 million of short-term borrowings outstanding. We believe that cash generated from operations and borrowings available under our Credit Agreement (\$45.2 million of available borrowings as of September 30, 2013) will be sufficient to fund our working capital and other requirements for at least the next twelve months.

As of September 30, 2013, the amount of cash and cash equivalents held outside of the U.S. by foreign subsidiaries was \$4.4 million. At the present time, we do not anticipate repatriating these balances to fund domestic operations. We would be required to accrue for and pay taxes in the U.S. on the majority of this cash in the event we decided to repatriate these funds.

Acquisition-Related Payments

We may be required to pay the following additional contingent consideration in connection with acquisitions we previously completed (dollars in thousands):

Acquisition:	As of September 30, 2013			Recorded Liability as of Sept. 30, 2013
	Maximum potential contingent consideration due in 2014	2015	Total	
Bath Consulting	\$ 1,098	\$	\$ 1,098	\$ 980
Asentus	1,600		1,600	
Prospero	2,913	1,942	4,855	3,245
Lorien	969		969	893
Total	\$ 6,580	\$ 1,942	\$ 8,522	\$ 5,118

Significant Customers & Concentration of Credit Risk

We have a market concentration of revenue in the automotive sector. Revenue from the automotive industry accounted for approximately 16% and 17% of our consolidated revenue for the nine months ended September 30, 2013 and 2012, respectively. We also have a concentration of revenue from the United States government. For the nine months ended September 30, 2013 and 2012, sales to the United States government and its agencies represented approximately 10% and 13%, respectively, of our consolidated revenue. Revenue was derived from many separate contracts with a variety of government agencies that are regarded by us as separate customers. No single customer accounted for more than 10% of our revenue during the nine months ended September 30, 2013 or accounts receivable as of September 30, 2013.

New Lease Commitment

On February 28, 2013, we entered into a lease agreement for approximately 63,985 square feet of office space in Columbia, Maryland for our corporate headquarters, replacing our former headquarters location in Elkridge, Maryland. The lease term is twelve years and encompasses three floors of an approximately 170,000 square foot existing office building. Occupancy and rent payments commenced on approximately August 1, 2013. Future minimum rental payments under the lease are as follows (in thousands):

Years ended December 31,	
2013	\$453
2014	1,104
2015	1,385
2016	1,773
2017	1,835
Thereafter	16,168
Total	\$22,718

Cash Flows

Nine Months ended September 30, 2013 Compared to the Nine Months ended September 30, 2012

Our cash balance decreased \$3.4 million from \$7.8 million as of December 31, 2012 to \$4.4 million as of September 30, 2013. The decrease in cash and cash equivalents during the nine months ended September 30, 2013 resulted from cash provided by operating activities of \$10.2 million, cash used in investing activities of \$18.1 million and cash provided by financing activities of \$4.5 million.

Cash provided by operating activities was \$10.2 million for the nine months ended September 30, 2013 compared to \$17.0 million for the same period in 2012. The decrease in cash provided by operating activities is primarily due to unfavorable changes in working capital items, primarily due to increases in costs and estimated earnings in excess of billings on uncompleted contracts and prepaid expenses and other current assets during the nine months ended September 30, 2013 compared to the same period in 2012.

Cash used in investing activities was \$18.1 million for the nine months ended September 30, 2013 compared to \$4.1 million for the same period in 2012. The increase in cash used in investing activities is primarily due to \$13.5 million of cash used for acquisitions, net of cash acquired, during the nine months ended September 30, 2013 compared to \$1.9 million of cash used for acquisitions during the same period in 2012. In addition, fixed asset additions increased by \$2.5 million during the nine months ended September 30, 2013 compared to the same period in 2012 primarily due to asset purchases in connection with the relocation of our headquarters office during the third quarter of 2013, an increase in software licenses for our financial system and an increase in computer equipment purchases by our foreign operations.

Cash provided by financing activities was \$4.5 million for the nine months ended September 30, 2013 compared to cash used in financing activities of \$4.6 million for the same period in 2012. The increase in cash provided by financing activities is primarily due to an increase in short-term borrowings of \$4.8 million and a \$3.7 million increase in the change in negative cash book balance during the nine months ended September 30, 2013 compared to the same period in 2012.

Short-term Borrowings

We have a \$50 million Financing and Security Agreement (the “Credit Agreement”) with a bank that expires on October 31, 2015 and is secured by certain of our assets. The Credit Agreement contains a provision to increase the maximum principal amount to \$75 million upon lender approval. The maximum interest rate on borrowings under the Credit Agreement is the daily LIBOR market index rate plus 2.25%. Based upon our financial performance, the interest rate can be reduced to a minimum of LIBOR plus 1.0%. The Credit Agreement contains covenants which require us to maintain a minimum tangible net worth of no less than \$35.0 million, a total liabilities to tangible net worth ratio of no more than 3.0 to 1.0, and a cash flow to debt service ratio of no less than 3.0 to 1.0. As of September 30, 2013, our tangible net worth was \$52.1 million, our total liabilities to tangible net worth ratio was 1.7 to 1.0 and our cash flow to debt services ratio was 74.5 to 1.0, all of which were in compliance with the Credit Agreement. As of September 30, 2013, there were \$4.8 million of borrowings outstanding and \$45.2 million of available borrowings under the Credit Agreement.

Off-Balance Sheet Commitments

As of September 30, 2013, we do not have any off-balance sheet commitments except for operating leases and letters of credit entered into in the normal course of business.

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, 2012 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

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, 2012.

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 September 30, 2013, 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

We have updated the disclosure on this matter made in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 to add the following risk factor:

Our successful performance of learning services under the Global Master Agreement we entered into with HSBC in July 2013 is subject to many risks.

On July 2, 2013, we entered into the Global Master Agreement with HSBC.

The Global Master Agreement requires us and our subsidiaries that are parties to local services agreements to identify over \$10 million in total global savings on HSBC's learning expenses, ranging from \$1 million to \$4 million per calendar year over the initial three year term. This obligation is applicable only if we and our subsidiaries receive, globally, revenue of at least \$30 million per year for each of the first three contract years. We are required to pay HSBC the shortfall, for any calendar year, between the savings realized and the savings guaranteed for that year.

The Global Master Agreement includes certain transition milestones and minimum service level requirements that we must meet or exceed. If we fail to achieve a key transition milestone, then we may be subject to liquidated damages determined on a per diem basis up to a certain amount for each milestone. If we fail to meet a given performance standard, HSBC will, in certain circumstances, receive a credit against the charges otherwise due.

Additionally, HSBC has the right to periodically engage a third party to perform benchmark studies to determine whether our services, the level and quality to which our services are being provided and the applicable charges under the Global Master Agreement are within the top quartile for best-value-for-money for comparable services provided by our competitors. If the benchmark report states that any benchmarked service is not within the top quartile for best-value-for-money for services comparable to our benchmarked services etc., then we must implement changes as soon as reasonably practicable. HSBC has the right to conduct such benchmark studies no sooner than 12 months after the effective date of the Global Master Agreement (being July 2, 2013) and then no more than once every 12 months thereafter as to any previously benchmarked service in a particular country.

HSBC has the right to terminate the Master Global Agreement and the relevant HSBC contracting party has the right to terminate any local services agreement to which it is a party, in whole or in part, for, among other things, convenience on three months' written notice.

Our successful performance of the Global Master Agreement and the associated local services agreements, is subject to many risks, including the effect(s) that fixed prices for four years, the guaranteed savings provision, the key milestone penalties and service level credits and the benchmarking requirements may have on our ability to perform services in a profitable manner; additional currency exchange rate exposure; local tax requirements and our need to concurrently establish reliable payroll, accounting, purchasing, tax management, employment practices, project management, asset management and information technology infrastructure in many countries where we do not currently have those capabilities.

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 September 30, 2013:

Month	Issuer Purchases of Equity Securities			Total number of shares purchased as part of publicly announced program	Approximate dollar value of shares that may yet be purchased under the program ⁽²⁾
	Total number of shares purchased	Average price paid per share			
July 1-31, 2013	-	-		-	\$ 608,000
August 1-31, 2013	16,182 (1)	\$ 24.61		-	\$ 5,608,000
September 1-30, 2013	23,485 (1)	\$ 26.07		18,485 (2)	\$ 5,125,000

(1) Includes shares surrendered by employees to satisfy minimum tax withholding obligations on restricted stock units which vested and shares surrendered to exercise stock options and satisfy the related tax withholding obligations during the third quarter of 2013.

(2) 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. In August 2013, the Company's Board of Directors authorized an additional \$5 million share repurchase program to be added to the existing authorization which had approximately \$0.6 million remaining at the time of approval.

Item 6. Exhibits

- 10.1 Global Outsourcing Services Agreement dated July 2, 2013 between HSBC Holdings plc and GP Strategies Managed Services Limited relating to the Provision of Global Learning Services.* ⁽¹⁾
- 31.1 Certification of Chief Executive Officer of the Company dated October 31, 2013 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.*
- 31.2 Certification of Executive Vice President and Chief Financial Officer of the Company dated October 31, 2013 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 October 31, 2013 pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 101 The following materials from GP Strategies Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, 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.

(1) Confidential treatment has been requested for the redacted portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

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

October 31, 2013

/s/ Scott N. Greenberg
Scott N. Greenberg
Chief Executive Officer

October 31, 2013

/s/ Sharon Esposito-Mayer
Sharon Esposito-Mayer
Executive Vice President and Chief Financial Officer