GP STRATEGIES CORP
Form 10-Q
July 27, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017
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 ý 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 ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares outstanding of the registrant's common stock as of July 20, 2017 was as follows:

Class	Outstanding
Common Stock, par value $.01 per share	16,725,655 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)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash	$ 23,714	$ 16,346
Accounts and other receivables, less allowance for doubtful accounts of $819 in 2017 and $1,091 in 2016	99,588	105,549
Costs and estimated earnings in excess of billings on uncompleted contracts	45,513	39,318
Prepaid expenses and other current assets	13,325	11,481
Total current assets	182,140	172,694
Property, plant and equipment	22,021	20,053
Accumulated depreciation	(16,667)	(15,506)
Property, plant and equipment, net	5,354	4,547
Goodwill	138,393	127,772
Intangible assets, net	8,697	5,825
Other assets	6,905	4,763
	$ 341,489	$ 315,601
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	$ 24,483	$ 17,694
Current portion of long-term debt	12,000	12,000
Accounts payable and accrued expenses	72,260	64,596
Billings in excess of costs and estimated earnings on uncompleted contracts	18,605	18,545
Total current liabilities	127,348	112,835
Long-term debt	22,000	28,000
Other noncurrent liabilities	9,614	7,270
Total liabilities	158,962	148,105
Stockholders' equity:		
Common stock, par value $0.01 per share	172	172
Additional paid-in capital	107,613	106,569
Retained earnings	103,657	93,845
Treasury stock at cost	(11,797)	(11,628)
Accumulated other comprehensive loss	(17,118)	(21,462)
Total stockholders' equity	182,527	167,496
	$ 341,489	$ 315,601

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$131,161	$125,542	$253,608	$241,298
Cost of revenue	108,726	105,198	211,785	203,027
Gross profit	22,435	20,344	41,823	38,271
Selling, general and administrative expenses	13,238	12,279	26,232	24,249
(Loss) gain on change in fair value of contingent consideration, net	(96)	88	101	(71)
Operating income	9,101	8,153	15,692	13,951
Interest expense	534	359	972	604
Other (expense) income	(107)	175	(182)	629
Income before income tax expense	8,460	7,969	14,538	13,976
Income tax expense	2,597	3,056	4,589	5,263
Net income	$5,863	$4,913	$9,949	$8,713
Basic weighted average shares outstanding	16,717	16,677	16,729	16,718
Diluted weighted average shares outstanding	16,833	16,768	16,837	16,799
Per common share data:				
Basic earnings per share	$0.35	$0.29	$0.59	$0.52
Diluted earnings per share	$0.35	$0.29	$0.59	$0.52

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$5,863	$4,913	$9,949	$8,713
Foreign currency translation adjustments	3,465	(3,716)	4,476	(4,112)
Change in fair value of interest rate cap, net of tax	(109)	—	(109)	—
Change in fair value of interest rate swap, net of tax	$32	$—	$(23)	$—
Comprehensive income	$9,251	$1,197	$14,293	$4,601

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Six Months Ended June 30, 2017 and 2016
(Unaudited, in thousands)

	2017	2016
Cash flows from operating activities:		
Net income	$9,949	$8,713
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on change in fair value of contingent consideration, net	(101)	71
Depreciation and amortization	3,206	3,475
Deferred income taxes	(433)	—
Non-cash compensation expense	3,192	2,888
Changes in other operating items:		
Accounts and other receivables	7,435	805
Costs and estimated earnings in excess of billings on uncompleted contracts	(5,153)	(557)
Prepaid expenses and other current assets	(1,815)	(1,484)
Accounts payable and accrued expenses	4,732	(431)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,092)	(2,242)
Contingent consideration payments in excess of fair value on acquisition date	—	(540)
Other	(162)	(716)
Net cash provided by operating activities	19,758	9,982
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,769)	(922)
Acquisitions, net of cash acquired	(6,384)	(2,330)
Other investing activities	(844)	(1,587)
Net cash used in investing activities	(8,997)	(4,839)
Cash flows from financing activities:		
Proceeds from short-term borrowings	6,727	8,585
Repayment of long-term debt	(6,000)	(6,666)
Contingent consideration payments	—	(2,085)
Change in negative cash book balance	(2,232)	(2,734)
Repurchases of common stock in the open market	(2,419)	(7,876)
Premium paid for interest rate cap	(474)	—
Other financing activities	(131)	26
Net cash used in financing activities	(4,529)	(10,750)
Effect of exchange rate changes on cash and cash equivalents	1,136	(563)
Net increase (decrease) in cash	7,368	(6,170)
Cash at beginning of period	16,346	21,030
Cash at end of period	$23,714	$14,860
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$906	$600
Cash paid during the period for income taxes	2,806	3,910
Accrued contingent consideration	4,725	294

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2017
(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 June 30, 2017 and the condensed consolidated statements of operations, comprehensive income and cash flows for the three and six months ended June 30, 2017 and 2016 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, 2016, as presented in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016. 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 2017 interim period are not necessarily indicative of results to be expected for the entire year.

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

(2) Recent Accounting Standards

Accounting Standard Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation—Stock Compensation (Topic 718) ("ASU 2016-09"), which simplifies several areas of accounting for share-based compensation arrangements. Upon adoption, ASU 2016-09 requires that excess tax benefits or deficiencies for share-based payments be recorded as income tax expense or benefit and reflected within operating cash flows rather than being recorded within equity and reflected within financing cash flows. The standard also requires companies to make an accounting policy election on whether to account for forfeitures on share-based payments by 1) recognizing forfeitures as they occur; or 2) estimating the number of awards expected to be forfeited and periodically adjusting the estimate, as was previously required. The standard is effective for annual and interim reporting periods of public companies beginning after December 15, 2016, although early adoption was permitted. We adopted ASU 2016-09 on January 1, 2017 and elected to make an accounting policy change to recognize forfeitures as they occur. The impact of adoption on the condensed consolidated balance sheet was a cumulative-effect adjustment of $0.1 million, decreasing opening retained earnings. We recognized an income tax benefit of $0.1 million relating to excess tax benefits on stock-based compensation awards during the six months ended June 30, 2017 and could experience volatility in our effective income tax rate in the future as a result of this accounting change. We also elected to prospectively apply the change in presentation on the statement of cash flows and did not reclassify excess tax benefits on stock-based compensation from financing to operating cash flows for the prior period presented.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU No. 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 ASU'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 2014-09 is effective for public companies for annual and interim periods beginning after December 15, 2017, which requires us to adopt the standard in the first quarter of 2018. Companies can elect to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with a cumulative effect adjustment recognized at the date of adoption. We plan to adopt the standard effective January 1, 2018 using the modified retrospective approach with a cumulative effect adjustment at the date of adoption. Based on our assessment to date, we believe the new standard could result in a change in revenue recognition on certain fixed price projects from a proportional performance method, where revenue is currently recognized over contract performance, to a completed contract method, where revenue would be recognized upon completion of our performance obligations. This change could result in a shift in the timing of revenue recognition, causing quarter to quarter revenue fluctuations. We are continuing to evaluate ASU 2014-09 and the impact of its adoption on our consolidated financial statements and plan to provide additional information at a future date.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This standard will require all leases with durations greater than twelve months to be recognized on the balance sheet as a right-of-use asset and a lease liability. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. We believe adoption of this standard will have a significant impact on our consolidated balance sheets because we will need to recognize substantially all of our operating leases as right-of-use assets and lease liabilities on our balance sheet. Although we have not completed our assessment, we do not expect the adoption of ASU 2016-02 to materially change the recognition and measurement of lease expense within the consolidated statements of operations.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. The standard will remove step 2 from the goodwill impairment test. Under the ASU, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for public companies for annual reporting periods beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating ASU 2017-04 and the impact of its adoption on our consolidated financial statements.

(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 23% and 22% of our consolidated revenue for the six months ended June 30, 2017 and 2016, respectively. In addition, we have a concentration of revenue from a single automotive customer, which accounted for approximately 14% of our consolidated revenue for both of the six-month

periods ended June 30, 2017 and 2016. As of June 30, 2017, accounts receivable from a single automotive customer totaled $16.4 million, or 16%, of our consolidated accounts receivable balance.

Revenue from the financial services & insurance industry accounted for approximately 19% and 21% of our consolidated revenue for the six months ended June 30, 2017 and 2016, respectively. In addition, we have a concentration of revenue from a single financial services customer, which accounted for approximately 13% and 15% of our consolidated revenue for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017, billed and unbilled accounts receivable from a single financial services customer totaled $24.9 million, or 17%, 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 six months ended June 30, 2017 or 2016 or consolidated accounts receivable balance as of June 30, 2017.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

(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. Performance-based restricted stock unit awards are included in the computation of diluted shares based on the probable outcome of the underlying performance conditions being achieved. The following table presents instruments which were not dilutive and were excluded from the computation of diluted EPS in each period, as well as the dilutive common stock equivalent shares which were included in the computation of diluted EPS:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Non-dilutive instruments	17	72	26	89
Dilutive common stock equivalents	116	91	108	81

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Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

(5) Acquisitions

McKinney Rogers
On February 1, 2017, we acquired the business and certain assets of McKinney Rogers, a provider of strategic consulting services with offices in New York and London. This acquisition will expand our solutions offerings, giving us the ability to leverage McKinney Rogers' intellectual property and consulting methodologies to help our global client base meet strategic business goals. The upfront purchase price was $3.2 million in cash. In addition, the purchase agreement requires up to an additional $18.0 million of consideration, $6.0 million of which is contingent upon the achievement of certain earnings targets during the five-month period ended April 30, 2017 and $12.0 million of which is contingent upon the achievement of certain earnings targets during the three twelve-month periods following completion of the acquisition. In July 2017, we paid the seller $1.0 million in respect of the contingent consideration for the five-month period ended April 30, 2017. We expect that all of the goodwill recorded for financial statement purposes will be deductible for tax purposes, except that the contingent consideration is only deductible when paid. If the actual contingent consideration payments are less than the estimated fair value as of the acquisition date, a portion of goodwill will not be deductible for tax purposes. The acquired McKinney Rogers business is included in the Performance Readiness Solutions segment, and the results of its operations have been included in the consolidated financial statements beginning February 1, 2017. The pro-forma impact of the acquisition is not material to our results of operations.

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

Cash purchase price	$3,193	
Fair value of contingent consideration	4,505	
Total purchase price	$7,698	
Purchase price allocation:		Amortization Period
Technology-related intangible assets	$2,704	5 years
Customer-related intangible assets	653	5 years
Marketing-related intangible assets (tradename)	121	3 years
Goodwill	5,130	
Total assets	8,608	
Accrued expenses	44	
Billings in excess of costs and estimated earnings on uncompleted contracts	866	
Total liabilities	910	
Net assets acquired	$7,698	

Emantras
Effective April 1, 2017, we acquired the business and certain assets of Emantras, a digital education company that provides engaging learning experiences and effective knowledge delivery through award-winning digital and mobile solutions with offices in Fremont, California and Chennai, India. This acquisition strengthens our eLearning

development capabilities, allowing us to better serve our customer base with the latest digital learning solutions. The upfront purchase price was $3.2 million in cash. In addition, the purchase agreement requires up to an additional $0.3 million of consideration, contingent upon the achievement of an earnings target during the twelve-month period following completion of the acquisition, plus a percentage of any earnings in excess of the specified earnings target. We expect that all of the goodwill recorded for financial statement purposes will be deductible for tax purposes, except that the contingent consideration is only deductible when paid. If the actual contingent consideration payments are less than the estimated fair value as of the acquisition date, a portion of

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goodwill will not be deductible for tax purposes. The acquired Emantras business is included in the Learning Solutions segment, and the results of its operations have been included in the consolidated financial statements beginning April 1, 2017. The pro-forma impact of the acquisition is not material to our results of operations.
The following table summarizes the fair value of the purchase price and purchase price allocation for the acquisition (dollars in thousands).

Cash purchase price	$3,191	
Fair value of contingent consideration	220	
Total purchase price	$3,411	
Purchase price allocation:		Amortization Period
Fixed assets	$50	
Customer-related intangible assets	818	4 years
Goodwill	3,156	
Total assets	4,024	
Accrued expenses	558	
Billings in excess of costs and estimated earnings on uncompleted contracts	55	
Total liabilities	613	
Net assets acquired	$3,411	

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Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

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 condensed consolidated statement of operations. We estimate the fair value of contingent consideration liabilities using an appropriate valuation methodology, typically either an income-based approach or a simulation model, such as the Monte Carlo model, depending on the structure of the contingent consideration arrangement. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. We believe our estimates and assumptions are reasonable; however, there is significant judgment involved. At each reporting date, the contingent consideration obligation is revalued to estimated fair value, and changes in fair value subsequent to the acquisitions are reflected in income or expense in the condensed consolidated statements of operations, and could cause a material impact to, and volatility in, our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates and changes in the timing and amount of revenue and/or earnings projections.

Below is a summary of the potential maximum contingent consideration we may be required to pay in connection with completed acquisitions as of June 30, 2017 (dollars in thousands):

Acquisition:	Original range of potential undiscounted payments	As of June 30, 2017 Maximum contingent consideration due in			
		2017	2018	2019-2020	Total
Maverick	$0 - $10,000	$5,000	$5,000	$ —	$10,000
McKinney Rogers	$0 - $18,000	967	4,000	8,000	12,967
Emantras		—	*	—	—
		$5,967	$9,000	$ 8,000	$22,967

* There is no maximum contingent consideration payable to the seller.

Below is a summary of the changes in the recorded amount of contingent consideration liabilities from December 31, 2016 to June 30, 2017 (dollars in thousands):

Acquisition:	Liability as of December 31, 2016	Additions (Payments)	Change in Fair Value of Contingent Consideration	Foreign Currency Translation	Liability as of June 30, 2017
Maverick	$ 5,258	$ —	$ (440)	$ —	$ 4,818
McKinney Rogers	—	4,505	334	—	4,839
Emantras	$ —	220	5	—	225
Total	$ 5,258	$ 4,725	$ (101)	$ —	$ 9,882

As of June 30, 2017 and December 31, 2016, contingent consideration considered a current liability and included in accounts payable totaled $6.0 million and $3.6 million, respectively. As of June 30, 2017 and December 31, 2016 we also had accrued contingent consideration totaling $3.9 million and $1.7 million respectively, related to acquisitions which are included in other long-term liabilities on the condensed consolidated balance sheets and represent the portion of contingent consideration estimated to be payable greater than twelve months from the balance sheet date.

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

(6) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill by reportable business segment for the six months ended June 30, 2017 were as follows (in thousands):

	Learning Solutions	Professional & Technical Services	Sandy Training & Marketing	Performance Readiness Solutions	Total
Balance as of December 31, 2016	$ 49,079	$ 42,364	$ 653	$ 35,676	$ 127,772
Acquisitions	3,156	—	—	5,145	8,301
Foreign currency translation	1,859	394	—	67	2,320
Balance as of June 30, 2017	$ 54,094	$ 42,758	$ 653	$ 40,888	$ 138,393

Intangible Assets Subject to Amortization

Intangible assets with finite lives are subject to amortization over their estimated useful lives. The primary assets included in this category and their respective balances were as follows (in thousands):

June 30, 2017	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 16,452	$ (11,489)	$ 4,963
Intellectual property and other	5,536	(1,802)	3,734
	$ 21,988	$ (13,291)	$ 8,697
December 31, 2016			
Customer relationships	$ 14,595	$ (9,855)	$ 4,740
Intellectual property and other	2,311	(1,226)	1,085
	$ 16,906	$ (11,081)	$ 5,825

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

(7) 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Non-qualified stock options	$1	$28	$5	$75
Restricted stock units	962	611	1,678	1,209
Board of Directors stock grants	79	65	155	147
Total stock-based compensation expense	$1,042	$704	$1,838	$1,431

Pursuant to our 2011 Stock Incentive Plan (the “2011 Plan”), we may grant awards of non-qualified stock options, incentive stock options, restricted stock, stock units, performance shares, performance units and other incentives payable in cash or in shares of our common stock to officers, employees or members of the Board of Directors. As of June 30, 2017, 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, 2016	67,550	$ 15.34		
Granted	—	—		
Exercised	(57,350)	15.11		
Forfeited	(100)	19.38		
Expired	(400)	19.38		
Outstanding at June 30, 2017	9,700	$ 16.53	0.88	$ 96,000
Exercisable at June 30, 2017	9,100	$ 16.34	0.85	$ 92,000

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

Restricted Stock Units

In addition to stock options, we issue restricted stock units to key employees and members of the Board of Directors. 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:

	Six Months Ended June 30, 2017	Weighted average grant date fair value
	(In shares)	(In dollars)
Outstanding and unvested, beginning of period	207,016	$ 29.85
Granted	48,194	24.13
Vested	(7,468)	22.89
Forfeited	(4,509)	24.74
Outstanding and unvested, end of period	243,233	$ 29.03

Performance Stock Units

We issue performance-based stock units to certain executives under a long-term incentive program. Under the program, a target level of equity compensation is set for each officer. The total equity compensation is divided into performance-based and time-based restricted stock units. Under the program, the Compensation Committee sets the performance-based goals within the first 90 days of each year. Vesting of performance-based stock units (PSU's) is contingent upon the employee's continued employment and the Company's achievement of certain performance goals during a three-year performance period. The performance goals are established by the Compensation Committee for a three-year performance period based on financial targets, including an average annual return on invested capital ("ROIC") and average annual growth in earnings before interest, taxes, depreciation and amortization (adjusted to exclude the effect of acquisitions, dispositions, and certain other nonrecurring or extraordinary items) ("Adjusted EBITDA"). We recognize compensation expense for PSU's on a straight line basis over the performance period based on the probable outcome of achievement of the financial targets. At the end of each reporting period, we estimate the number of PSU's expected to vest, based on the probability and extent to which the performance goals will be met, and take into account these estimates when calculating the expense for the period. If the number of shares expected to be earned changes during the performance period, we will make a cumulative adjustment to compensation expense based on the revised number of shares expected to be earned.

Summarized share information for our performance-based restricted stock units is as follows:

	Six Months Ended June 30,	Weighted average grant date fair value

	2017	
	(In shares)	(In dollars)
Outstanding and unvested, beginning of period	124,394	$ 31.08
Granted	104,590	23.65
Vested	—	—
Forfeited	—	—
Outstanding and unvested, end of period	228,984	$ 27.69

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2017
(Unaudited)

(8) Debt and Financial Instruments

On December 15, 2016, we entered into a Fifth Amended and Restated Financing and Security Agreement (the “Credit Agreement”). The Credit Agreement provides for a revolving credit facility up to a maximum principal amount of $100 million expiring on December 31, 2021 and for a term loan in the principal amount of $40 million maturing on April 30, 2020. The Credit Agreement is secured by substantially all of our assets.

The maximum interest rate on the Credit Agreement is the daily one-month LIBOR market index rate (for borrowings in Dollars and Sterling) or the daily one month EURIBOR (for borrowings in Euros) plus 2.50%. Based on our financial performance, the interest rate can be reduced to a minimum rate of the daily one-month LIBOR market index rate plus 1.25%, with the rate being determined based on our maximum leverage ratio for the preceding four quarters. Each unpaid advance on the revolving loan will bear interest until repaid. The term loan is payable in monthly installments of principal in the amount of $1.0 million plus applicable interest, beginning on January 1, 2017. We may prepay the term loan or the revolving loan, in whole or in part, at any time without premium or penalty, subject to certain conditions. Amounts repaid or prepaid on the term loan may not be reborrowed.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our and our subsidiaries’ (subject to certain exceptions) ability to, among other things, grant liens, make investments, incur indebtedness, merge or consolidate, dispose of assets or make acquisitions. We are also required to maintain compliance with a minimum fixed charge coverage ratio and a maximum leverage ratio. We were in compliance with all of the financial covenants under the Credit Agreement as of June 30, 2017. As of June 30, 2017, our total long-term debt outstanding under the term loan was $34.0 million. In addition, there were $24.5 million of borrowings outstanding and $70.1 million of available borrowings under the Credit Agreement. For the six months ended June 30, 2017, the weighted average interest rate on our borrowings was 2.6%.

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

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

(9) Income Taxes

Income tax expense was $4.6 million, or an effective income tax rate of 31.6%, for the six months ended June 30, 2017 compared to $5.3 million, or an effective income tax rate of 37.7%, for the six months ended June 30, 2016. The decrease in the effective income tax rate in 2017 compared to 2016 is primarily due to a change in the mix of taxable income from higher taxing jurisdictions to lower taxing jurisdictions. Income tax expense for the quarterly periods is based on an estimated annual effective tax rate which includes the U.S. federal, state and local, and non-U.S. statutory rates, permanent differences, and other items that may have an impact on income tax expense.

An uncertain tax position taken or expected to be taken in a tax return is recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities that have full knowledge of all relevant information. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Interest and penalties related to income taxes are accounted for as income tax expense. As of June 30, 2017, we had no uncertain tax positions reflected on our consolidated balance sheet. The Company files income tax returns in U.S. federal, state and local jurisdictions, and various non-U.S. jurisdictions, and is subject to audit by tax authorities in those jurisdictions. Tax years 2013 through 2015 remain open to examination by these tax jurisdictions, and earlier years remain open to examination in certain of these jurisdictions which have longer statutes of limitations.

(10) Stockholders' Equity

Changes in stockholders' equity during the six months ended June 30, 2017 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, 2016	$ 172	$ 106,569	$ 93,845	$ (11,628)	$ (21,462)	$ 167,496
Net income	—	—	9,949	—	—	9,949
Cumulative effect adjustment of adopting ASU 2016-09	—	234	(137)	—		