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GP STRATEGIES CORP
Form 10-Q
May 03, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018
or

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

For the transition period from _____ to _____

Commission File Number 1-7234

GP STRATEGIES CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	52-0845774
(State of Incorporation)	(I.R.S. Employer Identification No.)
70 Corporate Center	
11000 Broken Land Parkway, Suite 200, Columbia, MD	21044
(Address of principal executive offices)	(Zip Code)

(443) 367-9600

Registrant's telephone number, including area code:

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Smaller reporting company ☐ Emerging growth company ☐

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

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

The number of shares outstanding of the registrant's common stock as of April 17, 2018 was as follows:

Class	Outstanding
Common Stock, par value \$.01 per share	16,493,753

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)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash	\$ 16,945	\$23,612
Accounts and other receivables, less allowance for doubtful accounts of \$2,157 in 2018 and \$2,492 in 2017	107,640	119,335
Unbilled revenue	43,350	42,958
Prepaid expenses and other current assets	19,191	14,212
Total current assets	187,126	200,117
Property, plant and equipment	21,872	21,466
Accumulated depreciation	(16,920)	(16,343)
Property, plant and equipment, net	4,952	5,123
Goodwill	154,590	144,835
Intangible assets, net	8,838	8,363
Other assets	7,569	6,569
	\$ 363,075	\$365,007
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	\$ 43,706	\$37,696
Current portion of long-term debt	12,000	12,000
Accounts payable and accrued expenses	74,889	78,280
Deferred revenue	22,563	22,356
Total current liabilities	153,158	150,332
Long-term debt	13,000	16,000
Other noncurrent liabilities	9,895	10,621
Total liabilities	176,053	176,953
Stockholders' equity:		
Common stock, par value \$0.01 per share	172	172
Additional paid-in capital	107,369	107,256
Retained earnings	108,835	106,599
Treasury stock at cost	(17,134)	(11,118)
Accumulated other comprehensive loss	(12,220)	(14,855)
Total stockholders' equity	187,022	188,054
	\$ 363,075	\$365,007

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Revenue	\$125,032	\$122,447
Cost of revenue	107,353	103,059
Gross profit	17,679	19,388
Selling, general and administrative expenses	14,584	12,994
Restructuring charges	435	—
Gain on change in fair value of contingent consideration, net	2,552	197
Operating income	5,212	6,591
Interest expense	686	438
Other expense	164	75
Income before income tax expense	4,362	6,078
Income tax expense	1,730	1,992
Net income	\$2,632	\$4,086
Basic weighted average shares outstanding	16,619	16,741
Diluted weighted average shares outstanding	16,713	16,841
Per common share data:		
Basic earnings per share	\$0.16	\$0.24
Diluted earnings per share	\$0.16	\$0.24

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 March 31,	
	2018	2017
Net income	\$2,632	\$4,086
Foreign currency translation adjustments	2,432	1,011
Change in fair value of interest rate cap, net of tax	148	—
Change in fair value of interest rate swap, net of tax	55	(55)
Comprehensive income	\$5,267	\$5,042

See accompanying notes to condensed consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017

(Unaudited, in thousands)

	2018	2017
Cash flows from operating activities:		
Net income	\$2,632	\$4,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on change in fair value of contingent consideration, net	(2,552)	(197)
Depreciation and amortization	1,842	1,443
Deferred income taxes	(108)	118
Non-cash compensation expense	1,409	1,458
Changes in other operating items:		
Accounts and other receivables	12,817	5,753
Unbilled revenue	227	(7,570)
Prepaid expenses and other current assets	(6,024)	(330)
Accounts payable and accrued expenses	1,643	(2,481)
Deferred revenue	(2,485)	2,047
Other	5	(209)
Net cash provided by operating activities	9,406	4,118
Cash flows from investing activities:		
Additions to property, plant and equipment	(370)	(525)
Acquisitions, net of cash acquired	(10,000)	(3,193)
Other investing activities	(834)	(344)
Net cash used in investing activities	(11,204)	(4,062)
Cash flows from financing activities:		
Proceeds from short-term borrowings	6,022	5,820
Repayment of long-term debt	(3,000)	(3,000)
Change in negative cash book balance	(261)	(2,313)
Repurchases of common stock in the open market	(7,790)	(1,674)
Other financing activities	(50)	(134)
Net cash used in financing activities	(5,079)	(1,301)
Effect of exchange rate changes on cash and cash equivalents	210	351
Net decrease in cash	(6,667)	(894)
Cash at beginning of period	23,612	16,346
Cash at end of period	\$16,945	\$15,452
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$624	\$175
Cash paid during the period for income taxes	1,460	491
See accompanying notes to condensed consolidated financial statements.		

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018
(Unaudited)

(1) Basis of Presentation

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

The accompanying condensed consolidated balance sheet as of March 31, 2018 and the condensed consolidated statements of operations, comprehensive income and cash flows for the three months ended March 31, 2018 and 2017 have not been audited, but have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, as presented in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017. In the opinion of management, this interim information includes all material adjustments, which are of a normal and recurring nature, necessary for a fair presentation. The results for the 2018 interim period are not necessarily indicative of results to be expected for the entire year.

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

(2) Recent Accounting Standards

Accounting Standards Not Yet Adopted

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

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

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

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018
(Unaudited)

Accounting Standard Adopted

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

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

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

The following tables summarize the current period impacts of adopting ASC Topic 606 on our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2018.

Selected condensed consolidated statement of operations line items, which were impacted by the adoption of the new standard, are as follows for the three months ended March 31, 2018 (in thousands):

	As reported	Balances without Adoption of Topic 606	Effect of Adoption - Higher (Lower)
Revenue	\$ 125,032	\$ 125,049	\$ (17)

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Cost of revenue	107,353	107,554	(201)
Gross profit	17,679	17,495	184
Income tax expense	1,730	1,684	46
Net income	2,632	2,494	138

Per common share data:

Basic earnings per share	\$0.16	\$0.15	\$ 0.01
Diluted earnings per share	\$0.16	\$0.15	\$ 0.01

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018
(Unaudited)

The adoption of ASC Topic 606 did not have a significant impact on our condensed consolidated statement of comprehensive income for the three months ended March 31, 2018.

Selected condensed consolidated balance sheet line items, which were impacted by the adoption of the new standard, are as follows as of March 31, 2018 (in thousands):

	As reported	Balances without adoption of ASC Topic 606	Effect of Adoption - Higher (Lower)
Assets:			
Prepaid expenses and other current assets	\$ 19,191	\$ 16,934	\$ 2,257
Other assets	7,569	7,483	86
Total assets	363,075	360,732	2,343
Liabilities and Stockholders' Equity:			
Accounts payable and accrued expenses	74,889	75,090	(201)
Deferred revenue	22,563	19,761	2,802
Retained earnings	108,835	109,093	(258)
Total liabilities and stockholders' equity	363,075	360,732	2,343

The adoption of ASC Topic 606 did not impact our total cash flows from operating, investing or financing activities. In addition, the impact to the individual line items within the operating activities section of our condensed consolidated statement of cash flows was not significant for the three months ended March 31, 2018.

(3) Revenue

Significant Accounting Policy

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

Nature of goods and services

Over 90% of our revenue is derived from services provided to our customers for training, consulting, technical, engineering and other services. Less than 10% of our revenue is derived from various other offerings including

custom magazine publications and assembly of glovebox portfolios for automotive manufacturers, licenses of software and other intellectual property, and software as a service (SaaS) arrangements.

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

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018
(Unaudited)

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

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

For fixed price contracts, when total direct cost estimates exceed revenues, the estimated losses are recognized immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in estimated salaries and other costs. Estimates of total contract costs are continuously monitored during the term of the contract, and recorded revenues and costs are subject to revision as the contract progresses. When revisions in estimated contract revenues and costs are determined, such adjustments are recorded in the period in which they are first identified. Adjustments to our contracts were not material, individually or in the aggregate, to our unaudited condensed consolidated financial statements for the three-month periods ended March 31, 2018 and 2017.

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

For certain fixed-fee per transaction and fixed price contracts in which the output of the arrangement is measurable, such as for the shipping of publications and print materials, revenue is recognized when the deliverable is met and the product is delivered based on the output method of performance.

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

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation

and recognized as revenue when, or as, the performance obligation is satisfied. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. On March 31, 2018, we had \$276.5 million of remaining performance obligations, which we also refer to as total backlog. We expect to recognize over 95 percent of our remaining performance obligations as revenue within the next twelve months. We did not apply any of the practical expedients permitted by ASC Topic 606 in determining the amount of our performance obligations as of March 31, 2018.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

Revenue by Category

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

	Three Months Ended March 31,					
	Workforce Excellence		Business Transformation Services		Consolidated	
	2018	2017	2018	2017	2018	2017
Revenue by type of service:						
Managed learning services	\$48,902	\$45,329	\$—	\$—	\$48,902	\$45,329
Engineering & technical services	25,529	26,213	—	—	25,529	26,213
Sales enablement	—	—	23,850	24,617	23,850	24,617
Organizational development	—	—	26,751	26,287	26,751	26,287
	\$74,431	\$71,542	\$50,601	\$50,904	\$125,032	\$122,446

Revenue by geographic region:

Americas	\$45,440	\$44,940	\$44,182	\$46,398	\$89,622	\$91,338
Europe Middle East Africa	24,957	23,591	8,497	5,753	33,454	29,344
Asia Pacific	7,711	7,130	72	112	7,783	7,242
Eliminations	(3,677)	(4,119)	(2,150)	(1,359)	(5,827)	(5,478)
	\$74,431	\$71,542	\$50,601	\$50,904	\$125,032	\$122,446

Revenue by client market sector:

Automotive	\$2,838	\$2,258	\$24,346	\$24,857	\$27,184	\$27,115
Financial & Insurance	21,103	18,586	4,070	5,459	25,173	24,045
Manufacturing	8,679	8,275	4,609	4,261	13,288	12,536
Energy / Oil & Gas	7,642	9,050	1,475	987	9,117	10,037
U.S. Government	6,454	6,153	2,386	2,543	8,840	8,696
UK Government	5,486	6,730	—	—	5,486	6,730
Information & Communication	3,299	3,980	2,375	2,722	5,674	6,702
Aerospace	7,598	5,039	761	1,513	8,359	6,552
Electronics Semiconductor	3,683	4,363	51	395	3,734	4,758
Life Sciences	1,849	1,724	2,708	2,495	4,557	4,219
Other	5,800	5,384	7,820	5,672	13,620	11,056
	\$74,431	\$71,542	\$50,601	\$50,904	\$125,032	\$122,446

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled revenue (contract assets), and deferred revenue (contract liabilities) on the condensed consolidated balance sheet. Amounts charged to our clients become billable according to the contract terms, which usually consider the passage of time, achievement of milestones or completion of the project. When billings occur after the work has been performed, such unbilled amounts will generally be billed and collected within 60 to 120 days but typically no longer than over the next twelve months. When we advance bill clients prior to the work being performed, generally, such amounts will be earned and recognized in revenue within the next twelve months. These assets and liabilities are reported on the condensed consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. Changes in

the contract asset and liability balances during the three-month period ended March 31, 2018 were not materially impacted by any other factors.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018
(Unaudited)

Revenue recognized for the three months ended March 31, 2018, that was included in the contract liability balance at the beginning of the year was \$16.8 million, and primarily represented revenue from services performed during the current period for which we received advance payment from clients in a prior period.

Contract Costs

Costs to fulfill contracts which do not meet the over time revenue recognition criteria are capitalized and recognized to cost of revenue when the performance obligation is satisfied and revenue is recognized. Such costs are included in prepaid expenses and other current assets on the condensed consolidated balance sheet and totaled \$2.3 million as of March 31, 2018. Recognition of such contract costs totaled \$1.6 million for the first quarter of 2018 and is included in cost of revenue on the condensed consolidated statements of operations.

Applying the practical expedient in ASC Topic 606, we recognize the incremental costs of obtaining contracts (i.e. sales commissions) as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. Substantially all of our sales commission arrangements have an amortization period of one year or less. As of March 31, 2018, we did not have any capitalized sales commissions.

(4) Significant Customers & Concentration of Credit Risk

We have a market concentration of revenue in both the automotive sector and financial services & insurance sector. Revenue from the automotive sector accounted for approximately 22% of our consolidated revenue for both of the three-month periods ended March 31, 2018 and 2017. In addition, we have a concentration of revenue from a single automotive customer, which accounted for approximately 15% and 13% of our consolidated revenue for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, accounts receivable from a single automotive customer totaled \$14.6 million, or 14%, of our consolidated accounts receivable balance.

Revenue from the financial services & insurance sector accounted for approximately 20% of our consolidated revenue for both of the three-month periods ended March 31, 2018 and 2017. In addition, we have a concentration of revenue from a single financial services customer, which accounted for approximately 14% of our consolidated revenue for both of the three-month periods ended March 31, 2018 and 2017, respectively. As of March 31, 2018, billed and unbilled accounts receivable from a single financial services customer totaled \$25.3 million, or 17%, of our consolidated accounts receivable and unbilled revenue balances.

No other single customer accounted for more than 10% of our consolidated revenue for the three months ended March 31, 2018 or 2017 or consolidated accounts receivable balance as of March 31, 2018.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018
(Unaudited)

(5) Earnings Per Share

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

Our dilutive common stock equivalent shares consist of stock options and restricted stock units computed under the treasury stock method, using the average market price during the period. Performance-based restricted stock unit awards are included in the computation of diluted shares based on the probable outcome of the underlying performance conditions being achieved. The following table presents instruments which were not dilutive and were excluded from the computation of diluted EPS in each period, as well as the dilutive common stock equivalent shares which were included in the computation of diluted EPS:

	Three Months Ended March 31, 2018	2017
	(In thousands)	
Non-dilutive instruments	7	35
Dilutive common stock equivalents	94	100

(6) Acquisitions

Hula Partners

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

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

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

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

Contingent Consideration

ASC Topic 805 requires that contingent consideration be recognized at fair value on the acquisition date and be re-measured each reporting period with subsequent adjustments recognized in the condensed consolidated statement of operations. We estimate the fair value of contingent consideration liabilities using an appropriate valuation methodology, typically either an income-based approach or a simulation model, such as the Monte Carlo model, depending on the structure of the contingent consideration arrangement. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. We believe our estimates and assumptions are reasonable; however, there is significant judgment involved. At each reporting date, the contingent consideration obligation is revalued to estimated fair value, and changes in fair value subsequent to the acquisitions are reflected in income or expense in the condensed consolidated statements of operations, and could cause a material impact to, and volatility in, our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates and changes in the timing and amount of revenue and/or earnings projections.

Below is a summary of the potential maximum contingent consideration we may be required to pay in connection with completed acquisitions as of March 31, 2018 (dollars in thousands):

Acquisition:	Original range of potential undiscounted payments	As of March 31, 2018			
		Maximum contingent consideration due in			
		2018	2019	2020	Total
Maverick	\$0 - \$10,000	\$5,902	\$—	\$—	\$5,902
McKinney Rogers	\$0 - \$18,000	—	4,000	4,000	8,000
Emantras		*	—	—	—
CLS	\$0 - \$2,312	2,312	—	—	2,312
		\$8,214	\$4,000	\$4,000	\$16,214

* 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, 2017 to March 31, 2018 (dollars in thousands):

Acquisition:	Liability as of December 31, 2017		Change in Fair Value of Contingent		Foreign Currency Translation	Liability as of March 31, 2018	
		Additions	Payments	Consideration			
Maverick	\$ 1,979	\$ —	\$ —	—\$ (1,325)	\$ —	\$ 654	
McKinney Rogers	1,501	—	—	(1,168)	—	333	
Emantras	76	—	—	(76)	—	—	
CLS	669	—	—	17	26	712	
Total	\$ 4,225	\$ —	\$ —	—\$ (2,552)	\$ 26	\$ 1,699	

As of March 31, 2018 and December 31, 2017, contingent consideration considered a current liability and included in accounts payable totaled \$1.4 million and \$2.7 million, respectively. As of March 31, 2018 and December 31, 2017 we also had accrued contingent consideration totaling \$0.3 million and \$1.5 million respectively, related to acquisitions which are included in other long-term liabilities on the condensed consolidated balance sheets and

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

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GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2018
(Unaudited)

(7) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill by reportable business segment for the three months ended March 31, 2018 were as follows (in thousands):

	Workforce Excellence	Business Transformation Services	Total
Balance as of December 31, 2017	\$ 96,330	\$ 48,505	\$ 144,835
Acquisitions	—	8,527	8,527
Foreign currency translation	778	450	1,228
Balance as of March 31, 2018	\$ 97,108	\$ 57,482	\$ 154,590

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
March 31, 2018			
Customer relationships	\$ 16,432	\$ (10,610)	\$ 5,822
Intellectual property and other	4,404	(1,388)	3,016
	\$ 20,836	\$ (11,998)	\$ 8,838
December 31, 2017			
Customer relationships	\$ 16,330	\$ (11,140)	\$ 5,190
Intellectual property and other	4,298	(1,125)	3,173
	\$ 20,628		