

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

GP STRATEGIES CORP
Form 10-K/A
April 29, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
(Amendment No.1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2003
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

13-1926739

(State of Incorporation)

(I.R.S. Employer Identification No.)

777 Westchester Avenue, White Plains, NY

10604

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(914) 249-9700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Name of each exchange on which registered: Common Stock,
\$.01 Par Value New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /x/

Indicate by check mark whether the registrant is an accelerated filer. Yes No X

The aggregate market value of the outstanding shares of the Registrant's Common Stock, par value \$.01 per share and Class B Capital Stock, par value \$.01 per share held by non-affiliates as of June 30, 2003 was approximately \$68,737,653.

The number of shares outstanding of each of the Registrant's Common Stock and Class B Stock as of March 15, 2004:

Class

Outstanding

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | |
|--|-------------------|
| Common Stock, par value \$.01 per share | 16,391,006 shares |
| Class B Capital Stock, par value \$.01 per share | 1,200,000 shares |

EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission ("SEC") on April 14, 2004. This Amendment corrects certain numerical errors and also includes the information required by Part III of Form 10-K.

The following describes the corrections made in the Annual Report on Form 10-K/A Amendment No. 1 for numerical errors contained in the Form 10-K as originally filed:

"Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and capital resources." We have corrected the first sentence in the second paragraph of "Liquidity and capital resources" relating to working capital to indicate that the Company's working capital increased by \$17,218,000 from \$780,000 to \$17,998,000 instead of \$179,998,000. The correct amount of \$17,998,000 for working capital was disclosed in "Item 6 -Selected Financial Data" in the Form 10-K as originally filed.

"Item 8- Financial Statements and Supplementary Data - Note 8, Long term debt". The caption in the table has been corrected to provide the headings 2003 and 2002 instead of 2002 and 2001. In Note 8(g), the Aggregate annual maturities of long-term debt for the years 2005 and 2006, respectively, have been corrected to \$742 and \$1,444, respectively, from \$467 and \$1,719, respectively.

"Item 8 -Financial Statements and Supplementary Date - Note 16 Commitments and contingencies." Note 16(c) relating to the guarantee of Five Star's warehouse and equipment leases has been corrected to \$1,347,000 per year for warehouse leases and \$116,000 for equipment leases from \$1,589,000 and \$455,000, respectively.

Except for the inclusion of Part III information and the numerical corrections referred to above, this Amendment does not change any other portion of the Form 10-K as originally filed with the SEC.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

RESULTS OF OPERATIONS

Overview

The Company's primary operating entity is General Physics, a global workforce development company that improves the effectiveness of organizations by providing training, management consulting, e-Learning solutions and engineering services that are customized to meet the specific needs of clients. Clients include Fortune 500 companies, manufacturing, process and energy companies, and

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

other commercial and governmental customers.

General Physics operates in two segments: the Manufacturing & Process Segment and the IT Segment. The Company has a third segment, Optical Plastics (MXL), which manufactures molded and coated optical products. During the fourth quarter of 2003 due to the Company's acquisition of additional shares of GSE, bringing its ownership to 58%, GSE will be consolidated into the Company's consolidated financial statements as the Company's new Simulation Segment effective October 23, 2003. Also during the fourth quarter of 2003 due to the Company's acquisition of additional shares of Five Star, bringing its ownership to 54%, Five Star will be consolidated into the Company's consolidated financial statements as the Company's new Home Improvement Distribution Segment effective October 8, 2003. The Company also holds investments in a publicly held company, Millennium Cell, Inc. ("Millennium"), and in a private company, Valera Pharmaceuticals (formerly Hydro Med Sciences) ("Valera"), and owns certain real estate.

Spin-off of National Patent Development Corporation

In July 2002, the Company announced that it was actively considering a spin-off of certain of its non-core assets into a separate corporation to be named National Patent Development Corporation ("NPDC"). The spin-off, when effective, will result in the Company being separated into two independent, publicly-held companies. GP Strategies will own and operate the manufacturing & process business and information technology business through its subsidiary, General Physics Corporation, and retain the 58% interest in GSE. NPDC will own and operate the optical plastics business through its subsidiary, MXL, and will own the 54% interest in Five Star and certain other non-core assets.

On November 14, 2002, the Company filed a ruling request with the Internal Revenue Service (the "IRS"), which enables the Company to do a tax-free spin-off of certain non-core assets, including MXL and Five Star. Each holder of the Company's common stock would receive one share of NPDC common stock for each share of the Company's common stock held and each holder of the Company's Class B capital stock would receive one share of NPDC common stock for each share of Class B capital stock held. On March 21, 2003, the IRS issued a favorable tax

ruling for the spin-off. On February 12, 2004 the Company filed documents with the Securities and Exchange Commission relating to the proposed spin-off and the Company anticipates that the spin-off will occur at the conclusion of the SEC review process.

The spin-off is expected to result in several benefits to the Company and its shareholders. By engaging in the spin-off, the Company would improve its access to capital and significantly improve its borrowing capacity, thereby satisfying its need to raise additional funds as well as achieving other corporate benefits. Having two separate public companies will enable financial markets to better evaluate each company more effectively, thereby enhancing stockholder value over the long term for both companies and making the stock of each more attractive as currency for future acquisitions. The spin-off will provide NPDC's management with increased strategic flexibility and decision-making power to realize significant growth opportunities. Having a separate management and ownership structure for NPDC will provide equity based compensation that is more closely related to the business in which its employees work.

Acquisitions

On October 23, 2003, the Company purchased from ManTech International ("ManTech") 3,426,699 shares of common stock of GSE and a GSE Subordinated Note in the outstanding principal amount of \$650,000, which the Company immediately

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

converted into 418,653 shares of common stock of GSE. This transaction (the "GSE Acquisition") increased the Company's ownership of the common stock of GSE from approximately 22% to approximately 58%, and as a result, effective October 23, 2003, GSE is consolidated in the Company's financial statements. The consideration paid to ManTech by the Company consisted of a five-year 5% note of \$5,250,955 (the "ManTech Note") due in full in October 2008.

The GSE Acquisition was carried out in order to allow the Company to work together with GSE to expand GSE's simulation technology to the power, military and homeland defense markets that are currently served by General Physics. In December 2003, John Moran, an executive of the Company with experience in both the power industry and simulation technology, was elected Chief Executive Officer of GSE by GSE's Board of Directors. In addition GSE restructured its Power Simulation Business in order to reduce expenses and focus on business development. Several operating personnel were terminated in the fourth quarter, and GSE entered into a Management Services Agreement with the Company effective January 1, 2004 pursuant to which GSE outsourced most of its corporate functions to the Company and General Physics and terminated most of its corporate staff. GSE recognized \$256,000 of severance expense in connection with this transaction. The Company agreed to provide corporate support services to GSE, including accounting, finance, human resources, legal, network support and tax. In addition, GSE will use General Physics' financial system. GSE will pay an annual fee to General Physics of \$685,000. The term of the agreement is one year, subject to earlier termination only upon the mutual consent of the parties to the agreement. The agreement can be renewed for successive one-year terms. GSE reorganized, creating a dedicated worldwide business development organization under the direction of one manager, and consolidating all of its worldwide operations under another manager. To maintain its capability to fulfill customer orders, GSE strengthened and expanded its relationships with international partners to provide the necessary workforce augmentation.

On October 8, 2003, the Company converted \$500,000 principal amount of the \$3,500,000 Senior Unsecured 8% Note due June 30, 2005, as amended, (the "Five Star Note") of Five Star into 2,000,000 shares of Five Star common stock (the "Five Star Acquisition"). The Five Star Acquisition increased the Company's ownership in Five Star from approximately 48% to approximately 54% of the outstanding Five Star common stock. As a result, effective October 8, 2003 Five Star is consolidated in the Company's financial statements. In addition, the Company continues to own the remaining \$2.8 million principal amount of the Five Star Note, the balance of which decreased in 2003 due to repayments of \$1,000,000 prior to the Five Star Acquisition, \$500,000 due to the conversion of principal to common stock in the Five Star Acquisition and a \$200,000 repayment subsequent to the Five Star Acquisition. The Five Star Acquisition occurred because the Company believed that the common stock of Five Star represented an attractive investment opportunity based on its valuation at that time.

Operating Highlights

In 2003, the Company had a loss before income taxes and minority interests of \$7,420,000 compared to a loss before income taxes of \$6,047,000 in 2002. The decrease in income before income taxes in 2003, as compared to 2002, was primarily due to the following factors: (i) executive incentive bonuses of \$3,000,000, (ii) lower gains on sales of marketable securities by \$1,421,000, (iii) increased interest expense due to a write-off of deferred financing costs of \$860,000 and (iv) non-cash debt conversion expense of \$622,000. These items were partially offset by non-cash gain of \$1,436,000 (due to a valuation adjustment to the liability for the warrant to purchase Company Common Stock issued in connection with the Gabelli Note and Warrant Purchase Agreement) (see below), as well as increased operating profit from the consolidation of GSE and

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Five Star, following the GSE and Five Star Acquisitions in the fourth quarter of 2003 of \$358,000 and \$333,000 respectively.

In 2003, the Company had a net gain of \$846,000 on marketable securities, primarily relating to the Company's sale of 783,000 shares of Millennium, which were held as available-for-sale. The Company received gross proceeds of \$1,648,000 from these sales. In addition, the Company recorded a \$150,000 credit to compensation expense related to the GP Strategies Corporation Millennium Cell, LLC Option Plan (the "Millennium Option Plan") offered to certain of its employees, which is included as a credit to selling, general and administrative expense, a \$500,000 non-cash gain associated with an option to purchase Valera Series B preferred stock and a non-cash gain of \$1,436,000 due to a valuation adjustment to the liability for the Gabelli warrant. These items were offset by restructuring charges of \$291,000, primarily attributable to adjustments to the reserve for lease obligations, and \$500,000 equity loss of Valera. The Company incurred approximately \$1,200,000 of legal fees relating to the Company's ongoing litigation against MCI Communications, Systemhouse and Electronic Data Systems Corporation, as successor to Systemhouse and incurred costs of approximately \$500,000 in connection with the proposed spin-off of NPDC.

In 2002, the Company had a net gain of \$2,267,000 on marketable securities, primarily relating to the Company's sale of 1,286,000 shares of Millennium, which were held as available-for-sale. The Company received gross proceeds of \$3,833,000 from these sales. In addition, the Company recorded a \$1,211,000

credit to compensation expense related to the Millennium Option Plan offered to certain of its employees, which is included as a credit to selling, general and administrative expense, and restructuring charge reversals of \$368,000 primarily relating to favorable settlements on certain lease and contractual obligations. These items were offset by equity losses of \$2,611,000 of which \$1,401,000 related to Valera and \$1,210,000 to GSE. The Company recorded charges of approximately \$700,000 relating to financial and consulting fees and incurred approximately \$800,000 of legal fees relating to the Company's ongoing litigation against MCI Communications, Systemhouse and Electronic Data Systems Corporation, as successor to Systemhouse.

In 2001, the Company had a net gain of \$4,294,000 on marketable securities, primarily relating to the Company's sale of 2,081,000 shares of Millennium, 861,000 of which were trading securities and 1,220,000 of which were available for sale. The Company received gross proceeds of \$14,624,000 from these sales. In addition, the Company recorded a \$2,370,000 credit to compensation expense related to the Millennium Option Plan, which is included as a credit to selling, general and administrative expense. The Company had restructuring charge reversals of \$1,174,000 primarily relating to favorable settlements on certain lease and contractual obligations, offset by an operating loss from Valera of approximately \$3,400,000 and a \$320,000 write-down on investments, of which \$200,000 related to Five Star. In addition, the Company recorded charges of approximately \$1,050,000 relating to financial consulting services (of which \$750,000 is a non-cash stock based award) and \$400,000 relating to a potential new credit agreement which was not consummated. The Company also incurred in excess of \$500,000 relating to legal fees relating to the Company's litigation against MCI Communications Corporation, Systemhouse and Electronic Data System Corporation, as successor to Systemhouse.

Sales

Years ended December 31, (in thousands)

2003

2002

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | |
|---|-----------|-----------|
| Manufacturing & Process | \$127,762 | \$134,255 |
| Information Technology | 6,213 | 7,982 |
| Simulation | 6,059 | |
| Optical Plastics | 8,613 | 9,996 |
| Home Improvement Distribution Valera | 20,031 | |
| | \$168,678 | \$152,233 |

The decreased sales of \$6,493,000 by the Manufacturing & Process Segment in 2003 were primarily due to the following:

- o A decrease in engineering and related services in connection with Liquefied Natural Gas projects.
- o Decreased services provided to nuclear power utilities.
- o A decline in attendance at General Physics Training Institute (GPTI) open enrollment courses primarily due to reduced spending on training within the automotive industry.
- o A general decline in client spending (and budgets for spending) on consulting and training services due to overall economic conditions during the past year.

The decline in revenue was partially offset by an increase in revenue from the United States Army for Domestic Preparedness services for the Department of Homeland Security.

The decreased sales of \$30,106,000 by the Manufacturing & Process Segment in 2002 were primarily attributable to a reduction in sales from the automotive and e-Learning divisions, as well as from advanced manufacturing clients and reduced sales from a contract with Westinghouse Savannah River.

The decreased sales of \$1,769,000 in the IT Segment in 2003 was primarily due to the Company focusing on higher margin projects and declining certain work with lower margins. The decrease in sales of \$3,079,000 in the IT Segment in 2002 was primarily due to the continued downturn in the economy, which caused a reduction in overall technology spending, including training and consulting.

In 2003, the Optical Plastics Segment (MXL) sales decreased by \$1,383,000 or 14% primarily as a result of a decline in revenue from the discontinuance of a product line. In 2002 MXL sales decreased by \$1,188,000 or 11% primarily due to the overall downturn in the economy, which caused a reduction in orders from MXL's most significant customers.

In the fourth quarter of 2003 the Company acquired additional shares of GSE and Five Star, bringing its ownership to 58% and 54% as of October 23, 2003 and October 8, 2003 respectively. As a result, sales of GSE and Five Star of \$6,059,000 and \$20,031,000, respectively, are included in the Company's consolidated financial statements. GSE comprises the Company's new Simulation Segment and Five Star comprises the Company's new Home Improvement Distribution Segment.

Gross margin

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| Years ended December 31, (in thousands) | 2003 | | 2002 | |
|---|----------|------|----------|------|
| | | % | | % |
| Manufacturing & Process | \$14,240 | 11.1 | \$15,158 | 11.1 |
| Information Technology | 1,261 | 20.3 | 208 | 2.0 |
| Simulation | 1,594 | 27.3 | | |
| Optical Plastics | 1,863 | 21.6 | 2,099 | 21.6 |
| Home Improvement Distribution Valera | 4,484 | 22.4 | | |
| | \$23,442 | 13.8 | \$17,465 | 11.1 |

The Manufacturing & Process Segment gross margin of \$14,240,000 in 2003 decreased by \$918,000 when compared to 2002. This decrease was primarily due to reduced sales. In addition, the Company experienced a reduction in higher value-added services primarily provided to customers in the automotive division, that typically generate higher gross margins. However, the gross margin percentage for the Manufacturing & Process Segment remained relatively consistent as a result of the Company's efforts to monitor and control costs.

The gross margin of \$15,158,000 by the Manufacturing & Process Segment in 2002, decreased by \$3,393,000 when compared to 2001. This decrease was due to the continued downturn in the economy as well as a reduction in higher value-added services primarily provided to customers in the automotive division and advanced manufacturing clients. Nonetheless, the gross margin percentage for the Manufacturing & Process Segment remained unchanged as a result of the Company's efforts to monitor and control costs.

The IT Segment gross margin of \$1,261,000 in 2003 increased by \$1,053,000 when compared to 2002. This increase was due to the Company concentrating on higher gross margin opportunities and cost cutting initiatives. The decrease of \$1,573,000 in the IT Segment gross margin in 2002 compared to 2001 was the result of the continued downturn in the economy, and primarily due to the inability to reduce certain overhead costs in proportion to the decline in sales.

In the fourth quarter of 2003 the Company acquired additional shares of GSE and Five Star, bringing its ownership to 58% and 54% as of October 23, 2003 and October 8, 2003 respectively. As a result, gross margins of GSE and Five Star of \$1,594,000 and \$4,484,000, respectively, are included in the Company's consolidated financial statements as part of the new Simulation and Home Improvement Distribution Segments, respectively.

Selling, general, and administrative expenses

The increase in SG&A of \$8,428,000 in 2003 as compared to 2002 was primarily attributable to the following factors: (i) \$1,228,000 and \$4,151,000 of SG&A for GSE and Five Star, respectively, being consolidated in the Company's financial statements subsequent to the GSE and Five Star Acquisitions, (ii) executive incentive bonuses of \$3,000,000, (iii) a non-cash debt conversion expense of \$622,000, (iv) restructuring charges of \$291,000 (as compared to a reversal of restructuring charges of \$368,000 in 2002) and (v) a decrease in the non-cash credit to compensation expense of \$1,061,000, relating to the Millennium Option

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Plan. The increase was offset by a decrease in severance and related expense of \$2,089,000 and decrease in rental expense of approximately \$540,000 due to the relocation of the Company's corporate office from New York City to White Plains, New York.

The decrease in SG&A of \$508,000 in 2002 as compared to 2001 was primarily attributable to a reduction in SG&A expenses of Valera of \$2,841,000 due to the deconsolidation of Valera at December 27, 2001 and goodwill and other intangible asset amortization expense of \$1,410,000, which is not recorded in 2002 in accordance with SFAS 142, Goodwill and Other Intangible Assets. This decrease was offset by severance and related expenses of \$2,214,000, and a decrease in the non-cash credit to compensation expense of \$1,159,000 relating to the Millennium Option Plan, due to fluctuations in the share price of Millennium.

Interest expense

Interest expense was \$3,625,000 in 2003, \$2,770,000 in 2002, and \$4,733,000 in 2001. The increase in interest expense in 2003 is primarily due to the write off of \$860,000 of deferred financing costs as a result of the early termination of the Company's prior credit agreement. This expense is included in interest expense for year ended December 31, 2003.

The reduction in interest expense in 2002 was attributable to both a decrease in the Company's outstanding indebtedness and a reduction in variable interest rates.

Investment and other income (loss) and gains on marketable securities, net,

| Years ended December 31, (in thousands) | 2003 | 2002 | 2001 |
|---|---------|-----------|-------|
| Investment and other income, (loss) | \$ (49) | \$(1,967) | \$176 |
| Gains on marketable securities, net | 846 | 2,267 | 4,294 |

The investment and other income (loss) for 2003 was primarily related to interest income on loans receivable of \$424,000, equity income of Five Star of \$190,000 (before its consolidation) and other income of \$70,000, offset by an equity loss of GSE of \$733,000 (before its consolidation).

The investment and other income (loss) for 2002 was related to equity losses on GSE of \$1,210,000 and Valera of \$1,401,000, and a write-off of an investment of \$153,000 offset by equity income on Five Star of \$162,000, \$584,000 of interest income on loans receivable, and \$51,000 from other income.

The investment and other income (loss) for 2001 was primarily related to \$701,000 of interest income on loans receivable offset by write downs of \$320,000 based upon the Company's impairment assessment in the carrying value of the Company's equity investments, a loss of \$205,000 from equity investments and other miscellaneous losses.

The gains on marketable securities, net in 2003 were primarily due to the Company's disposal of shares of Millennium and Hemispherx Biopharma, Inc. The gains on marketable securities, net in 2002 and 2001 were primarily due to the Company's disposal of shares of Millennium.

Valuation adjustment of liability for warrants

Pursuant to a Note and Warrant Purchase Agreement dated August 8, 2003, the Company issued and sold to four Gabelli funds \$7,500,000 aggregate principal amount of 6% Conditional Subordinated Notes due 2008 (the "Gabelli Notes") and 937,500 warrants ("GP Warrants"), each entitling the holder thereof to purchase

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

(subject to adjustment) one share of the Company's common stock.

The GP Warrants were accounted for as a liability of the Company until the shares of the Company's common stock issuable on exercise of the GP Warrants were registered, which occurred on December 8, 2003, at which time the liability was reclassified to additional paid in capital at its then fair market value of \$953,000. The changes in the fair market value of the GP Warrants were marked to market through December 8, 2003 with the adjustment shown as other income in the consolidated statement of operations. The Company recognized a gain of \$1,436,000 in its December 8, 2003 valuation adjustment of the liability relating to the GP Warrants using the Black-Scholes model.

Income taxes

Income tax benefit (expense) for 2003, 2002 and 2001 was \$(886,000), 819,000 and \$(2,515,000) respectively.

For the year ended December 31, 2003, the current income tax provision of \$1,131,000 represents federal taxes of \$39,000, state taxes of \$399,000, and foreign taxes of \$693,000. The deferred income tax benefit of \$245,000 represents a benefit for the future utilization of a portion of the Company's foreign net operating loss.

For the year ended December 31, 2002, the current income tax provision represents state taxes of \$370,000, and foreign taxes of \$361,000. The deferred income tax benefit of \$1,550,000 primarily represents a benefit relating to the Company's federal net operating losses.

For the year ended December 31, 2001, the current income tax provision of \$723,000 represents state taxes of \$537,000, and foreign taxes of \$186,000. The deferred income tax expense of \$1,792,000 represents future estimated federal and state taxes.

The Company had an effective tax rate of 11.9% for the year ended December 31, 2003. This rate was primarily due to certain nondeductible items, an increase in the valuation allowance for domestic net operating losses for which no tax benefit has been provided, and the tax treatment for financial statement purposes of the sale by the Company in 2003 of certain shares of available-for-sale securities accounted for pursuant to SFAS No.115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").

The Company had an effective tax rate of 14% for the year ended December 31, 2002. This rate was primarily due to certain nondeductible items, net losses from foreign operations for which no tax benefit has been provided, and the tax treatment for financial statement purposes of the sale by the Company in 2002 of certain shares of available-for-sale securities accounted for pursuant to SFAS 115.

The Company had an effective tax rate of 160% for the year ended December 31, 2001. This rate was primarily due to the tax treatment for financial statement purposes of the sale by the Company in 2001 of certain shares of available-for-sale securities accounted for pursuant to SFAS 115.

At December 31, 2003, the Company had a net deferred tax asset of \$11,688,000, which management believes will more likely than not be realized.

Liquidity and capital resources

At December 31, 2003, the Company had cash and cash equivalents totaling \$4,416,000. The Company believes that cash generated from operations, borrowing

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

availability under the new credit agreement, cash generated from sales of marketable securities and potential equity financings will be sufficient to fund the working capital and other requirements of the Company for the foreseeable future. On February 12, 2004 the Company filed documents with the Securities and Exchange Commission relating to the proposed spin-off and the Company

anticipates that the spin-off will occur at the conclusion of the SEC review process. The Company does not believe the spin-off will significantly impact the Company's liquidity.

For the year ended December 31, 2003, the Company's working capital increased by \$17,218,000 from \$780,000 to \$17,998,000. As a result of the GSE and Five Star Acquisitions, GSE and Five Star are now consolidated in the Company's financial statements which increased working capital by \$2,449,000 and \$6,217,000, respectively. In addition the Company has increased working capital substantially during the year ended December 31, 2003 by reducing the level of its short-term indebtedness by utilizing the proceeds of the Gabelli Notes.

The increase in cash and cash equivalents of \$2,900,000 for the year ended December 31, 2003 resulted from cash provided by operations of \$5,350,000 and the effect of exchange rate changes on cash of \$70,000; offset by cash used in investing activities of \$1,618,000 and cash used in financing activities of \$902,000. Net cash used in investing activities of \$1,618,000 includes cash acquired in acquisitions of \$2,853,000, proceeds from the sale of marketable securities of \$2,124,000 offset by \$2,123,000 of capital expenditures, \$422,000 of additions to intangible assets, and a \$4,050,000 decrease to investments and other assets. Net cash used in financing activities of \$902,000 consisted primarily of repayments of short-term borrowings of \$13,461,000 and deferred financing costs of \$1,619,000, offset by proceeds from issuance of long term debt, net of repayments, of \$13,223,000 and of net proceeds from exercises of stock options of \$955,000.

On October 23, 2003, the Company purchased from ManTech additional shares of common in GSE exchange for a 5% note for \$5,250,955 due in full in October 2008. Interest is payable quarterly. Each year during the term of the note, ManTech will have the option to convert up to 20% of the original principal amount of the note into common stock of the Company at the then market price of the Company's common stock, but only in the event that the Company's common stock is trading at \$10 per share or more. In the event that less than 20% of the principal amount of the note is not converted in any year, such amount not converted will be eligible for conversion in each subsequent year until converted or until the note is repaid in cash.

Five Star is indebted to the Company for the Five Star Note in the principal amount of \$4,500,000 as of December 31, 2002. In June 2003, and July 2003 the Company received partial repayments from Five Star in the amount of \$500,000 each, reducing the outstanding principal amount of the Note from \$4,500,000 to \$3,500,000. On October 8, 2003, the Company exchanged \$500,000 principal amount of the \$3,500,000 Five Star Note for 2,000,000 shares of Five Star common stock, reducing the outstanding principal balance of the Five Star note from \$3,500,000 to \$3,000,000 and increasing the Company's ownership of the Five Star common stock to approximately 54%. In December 2003 the Company received a partial repayment from Five Star in the amount of \$200,000, reducing the outstanding principal amount of the Five Star Note from \$3,000,000 to \$2,800,000.

On September 15, 2003, MXL acquired certain of the precision custom optical assemblies inventory, machinery and equipment of AOTec for \$1.1 million in cash and notes, subject to adjustment. MXL leased space in Massachusetts for the

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

newly purchased equipment. MXL paid \$100,000 of the purchase price in cash and issued three notes, in the amount of \$450,000, \$275,000 and \$275,000 each, due

October 1, 2003, August 5, 2004 and August 5, 2005, respectively (collectively, the "AOTec Notes"). The AOTec Notes bear interest on the unpaid principal amount at the rate of 4% per annum. On October 1, 2003, MXL borrowed \$700,000 from a bank (the "AOTec Debt") and used the proceeds to pay the \$450,000 note. The AOTec Debt is payable monthly for three years and is secured by the machinery and equipment purchased from AOTec. The Company guaranteed the AOTec Debt.

On August 13, 2003, General Physics, General Physics's subsidiary Skillright, Inc. and MXL entered into a two-year \$25 million Financing and Security Agreement ("Credit Agreement") with a new bank, the proceeds of which were used to repay the Company's previous credit facility. The Credit Agreement, as amended in March 2004 is secured by certain assets of General Physics. The Credit Agreement also provides for an unsecured guaranty from the Company. The Credit Agreement also contains certain restrictive covenants including a prohibition on future acquisitions (except for the Five Star Acquisition), incurrence of debt and the payment of dividends. The Company received a waiver under the Credit Agreement with respect to the GSE Acquisition. General Physics is currently restricted from paying dividends or management fees to the Company in excess of \$1,000,000 in any fiscal year.

Pursuant to a Note and Warrant Purchase Agreement dated August 8, 2003, the Company issued and sold to four Gabelli funds \$7,500,000 aggregate principal amount of 6% Conditional Subordinated Notes due 2008 and 937,500 warrants, each entitling the holder thereof to purchase (subject to adjustment) one share of the Company's common stock. The aggregate purchase price for the Gabelli Notes and GP Warrants was \$7,500,000. The Gabelli Notes are secured by a mortgage on the Company's property located in Pawling, New York. In the event that the spin-off does not occur, the Company may be required to redeem the Gabelli Notes by April 2005. In addition, at any time that less than \$1,875,000 principal amount of the Gabelli Notes are outstanding, the Company may defease the obligations secured by the mortgage and obtain a release of the mortgage by depositing with an agent for the Noteholders, bonds or government securities with an investment grade rating by a nationally recognized rating agency which, without reinvestment, will provide cash on the maturity date of the Gabelli Notes in an amount not less than the outstanding principal amount of the Gabelli Notes. The Company used \$5,800,000 of the proceeds to repay its previous credit facility. The Company and NPDC agreed to allocate to NPDC \$1,875,000 of the \$7,500,000 received for the Gabelli Notes and Warrants, which the Company will transfer to NPDC prior to the spin-off of NPDC.

The following table summarizes long term debt, capital lease commitments and operating lease commitments as of December 31, 2003 (in thousands)

| | Balance at December 31, 2003 | 2004 | 2005-06 | Payments Du 200 |
|-----------------------------|---------------------------------|--------|----------|--------------------|
| Long term debt | \$16,654 | \$ 775 | \$ 2,054 | |
| Capital lease commitments | 469 | 337 | 132 | |
| Operating lease commitments | 22,096 | 5,650 | 9,363 | |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | | |
|-------|----------|---------|----------|
| Total | \$39,219 | \$6,762 | \$11,549 |
| | ----- | ===== | ===== |

GSE previously had a \$1.5 million bank line of credit. The credit facility provided for borrowings to support working capital needs and foreign letters of credit. The line was collateralized by substantially all of GSE's assets. The interest rate on this line of credit was based on the bank's prime rate plus 1.00% (5.00% as of December 31, 2003), with interest only payments due monthly. At December 31, 2003, GSE's available borrowing base was \$1.5 million, none of which had been utilized. On March 23, 2000, the Company initially agreed to guarantee up to \$1,800,000 of GSE's indebtedness under its credit facility for three years. In consideration for the extension of the guarantee from March 23, 2003 to March 31, 2004, the Company received 150,000 shares of GSE common stock, with a value of \$180,000. A deferred credit of \$180,000 was recorded for the receipt of these shares which will amortize to income over the term of the guarantee. During the year ended December 31, 2003, the Company recorded \$135,000 to other income in the Statement of Operations.

GSE's current credit facility was scheduled to expire on May 31, 2004, as amended; however on March 30, 2004, GSE was added as an additional borrower under the General Physics Credit Agreement. Under the terms of the Credit Agreement, as amended, \$1,500,000 of General Physics' Credit Agreement has been allocated for use by GSE. The Credit Agreement was amended to provide for additional collateral consisting of substantially all of the GSE's assets as well as certain covenants specific to GSE. It provides for borrowings by GSE up to 80% of eligible accounts receivable and 80% of eligible unbilled receivables, up to a maximum of \$1,500,000. The interest rate is based upon the LIBOR Market Index Rate plus 3%, with interest only payments due monthly. The Company agreed to guarantee GSE's borrowings under the Credit Agreement, as amended, in consideration for a fee pursuant to the Management Services Agreement.

The Company has guaranteed the leases for Five Star's New Jersey and Connecticut warehouses, totaling approximately \$1,347,000 per year through the first quarter of 2007, and an aggregate of \$116,000 for certain equipment leases through April 2004. The Company's guarantee of such leases was in effect when Five Star was originally a wholly-owned subsidiary of the Company prior to the sale by the Company in 1998 of substantially all of the operating assets of Five Star Group to the predecessor company of Five Star. As part of this transaction, the landlords of the New Jersey and Connecticut facilities and the lessors of the equipment did not consent to the release of the Company's guarantee (see Note 16).

On June 20, 2003 Five Star obtained a new Loan and Security Agreement (the "Loan Agreement") with Fleet Capital Corporation. The Loan Agreement has a five-year term, with a maturity date of June 30, 2008. The Loan Agreement provides for a \$25,000,000 revolving credit facility, which allows Five Star to borrow based upon a formula of eligible inventory and eligible accounts receivable, as defined therein. The interest rates under the Loan Agreement are LIBOR plus a credit spread for borrowings not to exceed \$15,000,000 and the prime rate plus a credit spread for borrowings in excess of the above-mentioned LIBOR-based borrowings. The credit spreads can be reduced in the event that Five Star achieves and maintains certain performance benchmarks. In addition, under a Subordination Agreement between the Company and Fleet Capital Corporation dated

June 20, 2003, Five Star may make annual cash payments of principal to the Company provided Five Star achieves certain financial performance benchmarks. At December 31, 2003, approximately \$16,685,000 was outstanding under the Loan

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Agreement and approximately \$480,000 was available to be borrowed.

In connection with the Loan Agreement, Five Star also entered into a derivative transaction with Fleet National Bank on June 20, 2003. The derivative transaction is an interest rate swap which has been designated as a cash flow hedge. Effective July 1, 2004 through June 30, 2008, Five Star will pay a fixed interest rate of 3.38% to Fleet National Bank on notional principal of \$12,000,000. In return, Fleet National Bank will pay to Five Star a floating rate, namely, LIBOR, on the same notional principal amount. The credit spread under the Loan Agreement is not included in and will be paid in addition to this fixed interest rate of 3.38%.

The following table summarizes the estimated expiration of financial guarantees outstanding as of December 31, 2003 (in thousands):

| | Total | 2004 | 2005 | |
|----------------------------|----------------|----------------|----------------|----------------------|
| | ----- | ---- | ---- | |
| | | | | Estimated Expiration |
| GSE debt | \$1,500 | \$ 0 | \$1,500 | |
| Five Star warehouse leases | 4,355 | 1,347 | 1,347 | |
| Five Star equipment leases | 116 | 116 | | |
| | --- | --- | | |
| Total | \$5,971 | \$1,463 | \$2,847 | \$ |
| | ===== | ===== | ===== | = |

The Company does not have any off-balance sheet financing, other than operating leases entered into in the normal course of business and disclosed above. The Company does not use derivatives for trading purposes.

Management discussion of critical accounting policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Certain of our accounting policies require higher degrees of judgment than others in their application. These include contract revenue and cost recognition, valuation of accounts receivables, accounting for investments, impairment of long-lived and intangible assets and income tax recognition of deferred tax items which are summarized below. In addition, Note 1 to the Consolidated Financial Statements includes further discussion of our significant accounting policies.

Contract revenue and cost recognition.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Revenue Recognition

General Physics contract revenue and cost recognition. General Physics provides services under time-and-materials, cost-plus-fixed fee and fixed-price contracts. Each contract has different terms based on the scope, deliverables and complexity of the engagement, requiring General Physics to make judgments and estimates about recognizing revenue. In general, revenue is recognized on these arrangements as the services are performed. Under time-and-material contracts, as well as certain cost-plus-fixed fee and certain fixed-price contracts, the contractual billing schedules are based on the specified level of resources General Physics is obligated to provide. As a result, on those "level of effort" contracts, the contractual billing amount for a given period acts as a measure of performance and, therefore, revenue is recognized in that amount.

For other fixed price contracts, the contractual billing schedules are not based on the specified level of resources General Physics is obligated to provide. These arrangements typically do not have milestones or other reliable measures of performance. As a result, revenue on these arrangements is recognized using the 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. General Physics believes this methodology provides a reasonable measure of performance on these arrangements since performance primarily involves personnel costs and the customer is required to pay General Physics for the proportionate amount of work and cost incurred in the event of contract termination. Revenue for unpriced change orders is not recognized until the customer agrees with the changes. Costs and estimated earnings in excess of billings on uncompleted contracts are recorded as a current asset. Billings in excess of costs and estimated earnings on uncompleted contracts are recorded as a current liability. Generally contracts provide for the billing of costs incurred and estimated earnings on a monthly basis.

Risks relating to service delivery, usage, productivity and other factors are considered when making estimates of total contract cost, contract profitability, and progress towards completion. If sufficient risk exists, a reduced-profit methodology is applied to a specific client contract's percentage-of-completion model whereby the amount of revenue recognized is limited to the amount of costs incurred until such time as the risks have been partially or wholly mitigated through performance. General Physics' estimates of total contract cost and contract profitability change periodically in the normal course of business, occasionally due to modifications of contractual arrangements. In addition, the implementation of cost saving initiatives and achievement of productivity gains generally results in a reduction of estimated total contract expenses on affected client contracts. Such changes in estimate are recognized in the period the changes are determined. For all client contracts, provisions for estimated losses on individual contracts are made in the period in which the loss first becomes apparent.

As part of General Physics' on-going operations to provide services to its customers, incidental expenses, which are commonly referred to as "out-of-pocket" expenses, are billed to customers. Out-of-pocket expenses include expenses such as airfare, mileage, hotel stays, out-of-town meals, and

telecommunication charges. General Physics' policy provides for these expenses to be recorded as both revenue and direct cost of services in accordance with the provisions of EITF 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred."

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

GSE revenue recognition. The majority of GSE's revenue is derived through the sale of uniquely designed systems containing hardware, software and other materials under fixed-price contracts. In accordance with Statement of Position 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", the revenue under these fixed-price contracts is accounted for on the percentage-of-completion method, based on contract costs incurred to date and estimated costs to complete. Estimated contract earnings are reviewed and revised periodically as the work progresses, and the cumulative effect of any change is recognized in the period in which the change is identified. Estimated losses are charged against earnings in the period such losses are identified.

As GSE recognizes revenue under the percentage-of-completion method, it provides an accrual for estimated future warranty costs based on historical and projected claims experience. GSE's longer-term contracts generally provide for a one-year warranty on parts, labor and any bug fixes as it relates to software embedded in the systems.

GSE's system design contracts do not provide for "post customer support service" (PCS) in terms of software upgrades, software enhancements or telephone support. In order to obtain PCS, the customers must purchase a separate contract at the date of system installation. Such PCS arrangements are generally for a one-year period renewable annually and include customer support, unspecified software upgrades, maintenance releases. GSE recognizes revenue from these contracts ratably over the life of the agreements in accordance with Statement of Position 97-2 "Software Revenue Recognition".

Revenues from certain consulting or training contracts are recognized on a time-and-material basis. For time-and-material type contracts, revenue is recognized based on hours incurred at a contracted labor rate plus expenses.

Five Star and MXL revenue recognition. Revenue is recognized upon shipment of product to customers. Allowances for estimated returns and allowances are recognized when sales are recorded.

Valuation of accounts receivables

Provisions for allowance for doubtful accounts are made based on historical loss experience adjusted for specific credit risks. Measurement of such losses requires consideration of the historical loss experience of the Company and its subsidiaries, judgments about customer credit risk, and the need to adjust for current economic conditions. The allowance for doubtful accounts as a percentage of total gross trade receivables was 4.2% and 3.2% at December 31, 2003 and 2002, respectively.

Impairment of long-lived tangible and intangible assets

Impairment of long-lived tangible and intangible assets with finite lives result in a charge to operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived tangible assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by determining the amount by which the carrying amount of the assets exceeds the fair value of the asset.

The measurement of the future net cash flows to be generated is subject to management's reasonable expectations with respect to the Company's future

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

operations and future economic conditions which may affect those cash flows.

In accordance with SFAS No. 142, which the Company adopted in 2002, goodwill is no longer amortized, but instead tested for impairment at least annually. The first step of the goodwill impairment test is a comparison of the fair value of each reporting unit to its carrying value. The Company conducted a transitional goodwill impairment test upon adoption of SFAS No. 142 as of January 1, 2002, and its annual goodwill impairment test as of December 31, 2003 and 2002. The goodwill impairment test requires the Company to identify its reporting units and obtain estimates of the fair values of those units as of the testing date. The Company estimates the fair values of its reporting units using discounted cash flow valuation models. The Company estimates these amounts by evaluating historical trends, current budgets, operating plans and industry data. The estimated fair value of each reporting unit exceeded its respective carrying value in both tests conducted in 2003 and 2002 indicating the underlying goodwill of each unit was not impaired at the respective testing dates. The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would more than likely reduce the estimated fair value of a reporting unit below its carrying value. The Company will continue to monitor its goodwill for impairment and conduct formal tests when impairment indicators are present. A decline in the fair value of any reporting units below its carrying value is an indicator that the underlying goodwill of the unit is potentially impaired. This situation would require the second step of the goodwill impairment test to determine whether the unit's goodwill is impaired. The second step of the goodwill impairment test is a comparison of the implied fair value of a reporting unit's goodwill to its carrying value. An impairment loss is required for the amount which the carrying value of a reporting unit's goodwill exceeds its implied fair value. The implied fair value of the reporting unit's goodwill would become the new cost basis of the unit's goodwill.

The following table presents goodwill balances at December 31, 2003 and operating income for the years ended December 31, 2003, 2002 and 2001 for each of the Company's reportable segments (in thousands):

| | Goodwill at | Operati |
|-------------------------------|--------------|---------------|
| | December 31, | For the Years |
| | 2003 | 2003 |
| | ---- | ---- |
| Manufacturing & Process | \$51,036 | \$3,823 |
| Information Technology | 6,401 | 860 |
| Simulation | 4,756 | 358 |
| Optical Plastics | 202 | (60) |
| Home Improvement Distribution | | 333 |
| <hr/> | | |
| | \$62,395 | \$5,314 |
| | ===== | ===== |
| <hr/> | | |

Accounting for investments

On October 8, 2003 the Company acquired additional shares of Five Star, bringing its ownership to 54%. Five Star is consolidated into the Company's consolidated

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

financial statements and is no longer accounted for as an equity investment effective as of that date. At December 31, 2002 the Company owned approximately 47.3% of Five Star, and would have owned approximately 50% if certain stock options beneficially owned by the Company's officers were exercised, and accounted for its investment in Five Star using the equity method. At December 31, 2002, the Company's investment in Five Star was \$6,317,000, including a \$4,500,000 senior unsecured 8% note. As of December 31, 2002, three officers of the Company served on the board of Five Star (out of a total of seven directors). However, effective August 1998, the Company entered into a Voting Agreement which limited its operating and financial control of Five Star. Pursuant to an amendment of such agreement, the Company agreed that until June 30, 2004, it would vote its shares of common stock of Five Star (i) such that not more than 50% of Five Star's directors will be officers or directors of the Company and (ii) in the same manner and in the same proportion as the remaining stockholders of Five Star vote on all matters presented to a vote of stockholders, other than the election of directors. Therefore, the Company had previously accounted for its investment in Five Star under the equity method.

On October 8, 2003 the Company acquired additional shares of GSE, bringing its ownership to 58%. GSE is consolidated into the Company's consolidated financial statements and is no longer accounted for as an equity investment effective as of that date. At December 31, 2002 the Company owned approximately 19.5% of GSE with a carrying value of \$1,794,000 and accounted for its investment in GSE using the equity method. Although the Company owned approximately 19.5% of the common stock of GSE as of December 31, 2002, the Company had accounted for its investment in GSE using the equity method of accounting based upon management's conclusion that the Company had significant influence with respect to the operations of GSE.

The Company currently owns 100% of Valera's common stock but no longer has financial and operating control of Valera. As a condition of a private placement of preferred stock in December 2001, the Company contractually gave up operating control over Valera through an Investors Rights Agreement. Therefore, through December 27, 2001, the operating results of Valera were consolidated within the Consolidated Statements of Operations. However, subsequent to that date the Company accounts for its investment in Valera under the equity method. Due to Valera's operating losses during 2002, the Company's investment in Valera as of December 31, 2002 was written down to zero.

Income tax recognition

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of

existing assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered. In assessing the realizability of the deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon these factors, management believes it is more likely than not that the Company will realize the benefits of deferred tax assets, net of the valuation allowance. The valuation allowance relates to both foreign and domestic net operating loss carryforwards for which the Company does not believe the benefits will be realized.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Restructuring reserves

The Company adopted restructuring plans, primarily related to its open enrollment IT business, in 2000 and 1999. In order to identify and calculate the associated costs to exit this business, management made assumptions regarding estimates of future liabilities for operating leases and other contractual obligations, severance costs and the net realizable value of assets. Management believes its estimates, which are reviewed quarterly, to be reasonable and considers its knowledge of the industry, its previous experience in exiting activities and valuations from independent third parties if necessary, in calculation of such estimates. As of December 31, 2003 and 2002 only lease obligations comprised the restructuring reserve.

Recent accounting pronouncements

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities that have legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. This statement is effective for the Company in fiscal 2003. The application of SFAS No. 143 did not have and is not expected to have a material impact on the Company's Consolidated Financial Statements.

During April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS No. 145"). Among other items, SFAS No. 145 updates and clarifies existing accounting pronouncements related to reporting gains and losses from the extinguishment of debt and certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of SFAS No. 145 are generally effective for fiscal years beginning after May 15, 2002, with earlier adoption of certain provisions encouraged. The application of SFAS No. 145 did not have an impact on the Company's Consolidated Financial Statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). This Statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company is required to adopt the provisions of SFAS No. 146 for exit or disposal activities, if any, initiated after December 31, 2002. The adoption of SFAS No. 146 did not impact the consolidated financial position or results of operations, although it can be expected to impact the timing of liability recognition associated with future exit activities, if any.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123" ("SFAS No. 148"), and the transition guidance and annual disclosure provisions are effective for the Company for the quarterly interim periods beginning in 2003. SFAS No. 148 amends SFAS Statement No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation" and provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used. The Company continues to account for

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

stock-based compensation using APB Opinion No. 25 and has not adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148. The Company has adopted the disclosure provisions of SFAS No. 148 for the 2003 fiscal year.

In April 2003, the FASB issued SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, this Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative. It also clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and did not have an impact on the Company's Consolidated Financial Statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as a liability (or as an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on the Company's Consolidated Financial Statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). FIN No. 45 elaborates on the disclosures for interim and annual reports regarding obligations under certain guarantees

issued by a guarantor. Under FIN No. 45, the guarantor is required to recognize a liability for the fair value of the obligation undertaken in issuing the guarantee at the inception of a guarantee. The recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company applied the provisions of FIN No. 45 for its financial guarantee entered into in the first quarter of 2003.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). FIN No. 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The provisions of FIN No. 46 are effective immediately for all entities with variable interests in variable interest entities created after December 31, 2002. The provisions of FIN No. 46 are effective for public entities with a variable interest in a variable interest entity created prior to January 1, 2003 no later than the end of the first annual reporting period beginning after December 15, 2003. The Company has evaluated its interests in certain entities to determine if any such entities will require consolidation under FIN No. 46, and has determined that, at this time, it is not necessary to consolidate any such entities.

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This Issue provides guidance on when and how to separate elements of an arrangement that may involve the delivery or performance of multiple products, services and rights to use assets into separate units of accounting. The guidance in the consensus is

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The transition provision allows either prospective application or a cumulative effect adjustment upon adoption. The adoption of Issue No. 00-21 did not have an impact on the Company's Consolidated Financial Statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

| | Page |
|---|------|
| INDEX TO CONSOLIDATED FINANCIAL STATEMENTS | |
| FINANCIAL STATEMENTS OF GP STRATEGIES CORPORATION AND SUBSIDIARIES: | |
| Independent Auditors' Report of KPMG LLP | 21 |
| Independent Auditors' Report of Eisner LLP | 22 |
| Consolidated Balance Sheets - December 31, 2003 and 2002 | 23 |
| Consolidated Statements of Operations - Years ended December 31, 2003, 2002, and 2001 | 25 |
| Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2003, 2002, and 2001 | 26 |
| Consolidated Statements of Cash Flows - Years ended December 31, 2003, 2002, and 2001 | 27 |
| Notes to Consolidated Financial Statements | 29 |
| SUPPLEMENTARY DATA (Unaudited) | |
| Selected Quarterly Financial Data | 82 |

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
GP Strategies Corporation:

We have audited the accompanying consolidated balance sheets of GP Strategies Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Five Star Products Inc., a 54 % owned subsidiary, which statements reflect total assets constituting 20 percent and total revenues constituting 12 percent (after elimination of intercompany balances and transactions) in 2003 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Five Star Products Inc., is based solely on the report of the other auditors.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GP Strategies Corporation and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", effective January 1, 2002

[GRAPHIC OMITTED][GRAPHIC OMITTED]

New York, New York
April 5, 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Five Star Products, Inc.

We have audited the consolidated balance sheets of Five Star Products, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003 (not shown separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Five Star Products, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Eisner LLP

New York, New York
 March 17, 2004, except for the first paragraph of Note 7, as to which the date is March 31, 2004

GP STRATEGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (in thousands, except shares and par value per share)

| December 31, | 200 |
|---|------|
| ----- | |
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$4, |
| Accounts and other receivables (of which \$9,899 and \$4,865 are from government contracts) less allowance for doubtful accounts of \$1,739 and \$854 | 39, |
| Inventories | 28, |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 14, |
| Prepaid expenses and other current assets | 6, |
| ----- | |
| Total current assets | 93, |
| ----- | |
| Investments, marketable securities and note receivable | 4, |
| ----- | |
| Property, plant and equipment, net | 8, |
| ----- | |
| Intangible assets | |
| Goodwill | 62, |
| Patents, licenses and contract rights, net | 1, |
| ----- | |
| Deferred tax asset | 63, |
| ----- | |
| Other assets | 6, |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

\$188,

See accompanying notes to consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(in thousands, except shares and par value per share)

December 31,

Liabilities and stockholders' equity

Current liabilities

Current maturities of long-term debt

Short-term borrowings

Accounts payable and accrued expenses

Billings in excess of costs and estimated

earnings on uncompleted contracts

Total current liabilities

Long-term debt less current maturities

Other non-current liabilities

Minority interests

Stockholders' equity

Preferred stock, authorized 10,000,000

shares, par value \$.01 per share, none issued

Common stock, authorized 25,000,000 shares, par value \$.01 per share, issued

16,348,777 and 15,361,437 shares (of which 14,722 and 33,417 shares are held in treasury)

Class B common stock, authorized 2,800,000 shares, par

value \$.01 per share, issued and outstanding 1,200,000 shares

Additional paid-in capital

Accumulated deficit

Accumulated other comprehensive income

Notes receivable from stockholder

Treasury stock at cost

Total stockholders' equity

See accompanying notes to consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

| Years ended December 31, | 2003 | |
|--|-----------|------|
| Sales | \$168,678 | \$15 |
| Cost of sales | 145,236 | 13 |
| Gross margin | 23,442 | 1 |
| Executive incentive compensation bonus | (3,000) | |
| Non-cash debt conversion expense, net | (622) | |
| Other selling, general & administrative expenses | (25,848) | (2) |
| Total selling, general & administrative expenses | (29,470) | (2) |
| Operating profit (loss) | (6,028) | (|
| Write-off of deferred financing costs | (860) | |
| Interest expense | (2,765) | (|
| Total interest expense | (3,625) | (|
| Investment and other income (loss) (including interest income of \$424, \$584 and \$701) | (49) | (|
| Gains on marketable securities, net | 846 | |
| Valuation adjustment of liability for warrants | 1,436 | |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | |
|--|------------|------|
| Income (loss) before income taxes and minority interests | | |
| | (7,420) | (|
| Income tax benefit (expense) | (886) | |
| Loss before minority interests | (8,306) | (|
| Minority interests | 30 | |
| Net loss | \$ (8,276) | \$ (|
| Net loss per share | | |
| Basic | \$ (.48) | \$ |
| Diluted | (.48) | |

See accompanying notes to consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2003, 2002, and 2001
(in thousands, except for par value per share)

| | Common stock (\$.01 Par) | Class B common stock (\$.01 Par) | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Compre hensiv Income (loss) |
|---|---------------------------------|--|----------------------------------|------------------------|--|--------------------------------------|
| Balance at December 31, 2000 | \$125 | \$ 8 | \$179,955 | \$ (86,994) | \$27,237 | |
| Other comprehensive loss | | | | | (18,873) | (18,87 |
| Net loss | | | | (945) | | (94 |
| Total comprehensive loss | | | | | | (19,81 |
| Issuance and sale of common stock and warrants | 3 | 3 | 2,924 | | | |
| Issuance of treasury stock in exchange for Class B common stock | | (2) | (2,801) | | | |
| Balance at December 31, 2001 | \$128 | \$ 9 | \$180,078 | \$ (87,939) | \$ 8,364 | |
| Other comprehensive loss | | | | | (7,904) | (7,90 |
| Net loss | | | | (5,228) | | (5,22 |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | | | | | |
|--|-------|------|-----------|-------------|-------|---------|
| Total comprehensive loss | | | | | | (13,13) |
| Issuance and sale of common stock | 26 | 3 | 9,910 | | | |
| Balance at December 31, 2002 | \$154 | \$12 | \$189,988 | \$(93,167) | \$460 | |
| Other comprehensive loss | | | | | (436) | (43) |
| Net loss | | | | (8,276) | | (8,27) |
| Total comprehensive loss | | | | | | (8,71) |
| Repayment of notes receivable from stockholder | | | | | | |
| Issuance and sale of common stock and warrants | 9 | | 6,553 | | | |
| Balance at December 31, 2003 | \$163 | \$12 | \$196,541 | \$(101,443) | \$24 | |

See accompanying notes to consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| Years ended December 31, | 2003 |
|---|-----------|
| Cash flows from operations: | |
| Net loss | \$(8,276) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | |
| Depreciation and amortization | 2,928 |
| Issuance of stock for retirement savings plan and stock bonuses | 1,053 |
| Restructuring charge (reversal) | 291 |
| Gains on marketable securities | (846) |
| Write-off of deferred financing costs | 860 |
| Non-cash debt conversion expense, net | 622 |
| Valuation adjustment of liability for warrants | (1,436) |
| Non-cash consultant fees | |
| Non-cash compensation expense (credit) | 2,850 |
| Loss on equity investments and other, net | 559 |
| Deferred income taxes | (623) |
| Proceeds from sale of trading securities | 249 |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | |
|--|---------|
| Changes in other operating items, net of effect of acquisitions and disposals: | |
| Accounts and other receivables | 2,713 |
| Inventories | (6,698) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 3,788 |
| Accounts payable and accrued expenses | 4,656 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 2,534 |
| Minority interests | (30) |
| Changes in other operating items | 156 |
| ----- | |
| Net cash provided by operations | \$5,350 |
| ----- | |

See accompanying notes to consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

| | |
|--|------------|
| Years ended December 31, | 2003 |
| ----- | |
| Cash flows from investing activities: | |
| Additions to property, plant and equipment | \$ (2,123) |
| Additions to intangible assets | (422) |
| Proceeds from sale of marketable securities | 2,124 |
| Deconsolidation of Valera | |
| Cash acquired in acquisitions | 2,853 |
| Decrease (increase) to investments and other | (4,050) |
| ----- | |
| Net cash provided by (used in) investing activities | (1,618) |
| ----- | |
| Cash flows from financing activities: | |
| Proceeds from sale of Common Stock | 955 |
| Proceeds from issuance of Class B Stock | |
| Net proceeds from issuance of Valera Preferred Stock | |
| Repayment of short-term borrowings | (13,461) |
| Deferred financing costs | (1,619) |
| Proceeds from issuance of long-term debt | 14,674 |
| Repayment of long-term debt | (1,451) |
| ----- | |
| Net cash used in financing activities | (902) |
| ----- | |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | |
|--|---------|
| Effect of exchange rate changes on cash and cash equivalents | 70 |
| Net increase (decrease) in cash and cash equivalents | 2,900 |
| Cash and cash equivalents at beginning of year | 1,516 |
| Cash and cash equivalents at end of year | \$4,416 |
| Supplemental disclosures of cash flow information: | |
| Cash paid during the year for: | |
| Interest | \$1,379 |
| Income taxes | \$ 734 |

See accompanying notes to consolidated financial statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Description of business and summary of significant accounting policies

Description of business.

GP Strategies Corporation (the "Company") currently has five operating business segments. The Company's principal operating subsidiary is General Physics Corporation (GP or General Physics). GP is a global workforce development company that improves the effectiveness of organizations by providing training, management consulting, e-Learning solutions and engineering services that are customized to meet the needs of specific clients. Clients include Fortune 500 companies, manufacturing, process and energy companies, and other commercial and governmental customers.

GP operates in two business segments. The Manufacturing & Process Segment provides technology based training, engineering, consulting and technical services to leading companies in the automotive, steel, power, oil and gas, chemical, energy, pharmaceutical and food and beverage industries, as well as to the government sector. The Information Technology Segment provides information technology (IT) training programs and solutions, including Enterprise Solutions and comprehensive career training and transition programs.

During the fourth quarter of 2003 due to the Company's acquisition of additional shares of GSE Systems, Inc. ("GSE"), bringing its ownership to 58%, GSE will be consolidated into the Company's consolidated financial statements effective October 23, 2003. GSE is a world leader in real-time power plant simulation and makes up the Company's new Simulation Segment. The Company intends to use GSE's simulation technology to enhance General Physics capabilities.

The Company's Optical Plastics Segment is comprised of the Company's wholly owned subsidiary MXL Industries, Inc. (MXL). MXL is a specialist in the manufacture of polycarbonate parts requiring strict adherence to optical quality

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

specifications, and in the application of abrasion and fog resistant coatings to these parts. Products include shields, and face masks and non-optical plastic products.

During the fourth quarter of 2003 due to the Company's acquisition of additional shares of Five Star Products, Inc. ("Five Star"), bringing its ownership to 54%, Five Star will be consolidated into the Company's consolidated financial statements effective October 8, 2003. Five Star is a leading regional distributor of paint sundry items, interior and exterior stains, brushes, rollers, caulking compounds and hardware products and makes up the Company's new Home Improvement Distribution Segment.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Description of business and summary of significant accounting policies (Continued)

In addition, as of December 31, 2003, the Company has investments in Millennium Cell Inc. (Millennium), Valera Pharmaceuticals (formerly Hydro Med Sciences) ("Valera") and owns certain real estate (see Note 3).

Principles of consolidation and investments. The consolidated financial statements include the operations of the Company and, except for Valera as discussed below, its majority-owned subsidiaries. The minority interests balance is comprised of the 46 percent minority share in Five Star and 42 percent minority share in GSE which the Company did not own. All significant intercompany balances and transactions have been eliminated.

The Company owns 100% of the common stock of Valera, however, it no longer has financial and operating control of the entity and accordingly, effective December 27, 2001, the Company has accounted for its investment in Valera under the equity method.

In July 2002, the Company's Board of Directors approved a spin-off of certain of its non-core assets into a separate corporation, National Patent Development Corporation ("NPDC"). After the spin-off becomes effective, the Company's business would be comprised of its training and workforce development business operated by General Physics and the GSE simulation business. NPDC would be a stand-alone public company owning all of the stock of MXL, the interest in Five Star and certain other non-core assets. The separation of these businesses will be accomplished through a pro-rata distribution (the "Distribution") of 100% of the outstanding Class A common stock of NPDC to the Company's stockholders on the record date of the Distribution.

On March 21, 2003, the Internal Revenue Service issued a favorable tax ruling which would enable the Distribution to be tax-free. As a result, each stockholder of the Company would receive a tax-free stock dividend of one share of NPDC Class A common stock for every share of the Company's common stock or Class B capital stock owned on the record date of the Distribution. On February 12, 2004 the Company filed documents with the Securities and Exchange Commission relating to the proposed spin-off.

Cash and cash equivalents. Cash and cash equivalents of \$4,416,000 and \$1,516,000 at December 31, 2003 and 2002, respectively, consist of cash and highly liquid debt instruments with original maturities of three months or less.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Marketable securities. Marketable securities at December 31, 2003 and 2002 consist of U.S. corporate equity securities. The Company classifies its marketable securities as trading or available-for-sale investments. A decline in the market value of any available-for-sale security

below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings, and a new cost basis is established. Gains and losses are derived using the average cost method for determining the cost of securities sold.

Trading securities are included in Prepaid expenses and other current assets and are those securities which are generally expected to be sold within one year. Available-for-sale securities are included in Investments, marketable securities and notes receivable on the Consolidated Balance Sheet. Trading and available-for-sale securities are recorded at their fair value. Trading securities are held principally for the purpose of selling them in the near term. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity in accumulated other comprehensive income, net of the related tax effect, until realized.

Inventories. Inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) method.

Foreign currency translation. The functional currency of the Company's international operations is the applicable local currency. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted-average rates of exchange prevailing during the year. The unrealized gains and losses resulting from such translation are included as a separate component of stockholders' equity in accumulated other comprehensive income.

Revenue Recognition

General Physics contract revenue and cost recognition. GP provides services under time-and-materials, cost-plus-fixed fee and fixed-price contracts. Each contract has different terms based on the scope, deliverables and complexity of the engagement, requiring GP to make judgments and estimates about recognizing revenue. In general, revenue is recognized on these arrangements as the services are performed. Under time-and-material contracts, as well as certain cost-plus-fixed fee and certain fixed-price contracts, the contractual billing schedules are based on the specified level of resources GP is obligated to provide. As a result, on those "level of effort" contracts, the contractual billing amount for a given period acts as a measure of performance and, therefore, revenue is recognized in that amount.

For other fixed price contracts, the contractual billing schedules are not based on the specified level of resources GP is obligated to provide. These arrangements typically do not have milestones or other reliable measures of

performance. As a result, revenue on these arrangements is recognized using the 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. GP believes this methodology provides a reasonable measure of performance on these arrangements since performance primarily involves personnel costs and the

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

customer is required to pay GP for the proportionate amount of work and cost incurred in the event of contract termination. Revenue for unpriced change orders is not recognized until the customer agrees with the changes. Costs and estimated earnings in excess of billings on uncompleted contracts are recorded as a current asset. Billings in excess of costs and estimated earnings on uncompleted contracts are recorded as a current liability. Generally contracts provide for the billing of costs incurred and estimated earnings on a monthly basis.

Risks relating to service delivery, usage, productivity and other factors are considered when making estimates of total contract cost, contract profitability, and progress towards completion. If sufficient risk exists, a reduced-profit methodology is applied to a specific client contract's percentage-of-completion model whereby the amount of revenue recognized is limited to the amount of costs incurred until such time as the risks have been partially or wholly mitigated through performance. GP's estimates of total contract cost and contract profitability change periodically in the normal course of business, occasionally due to modifications of contractual arrangements. In addition, the implementation of cost saving initiatives and achievement of productivity gains generally results in a reduction of estimated total contract expenses on affected client contracts. Such changes in estimate are recognized in the period the changes are determined. For all client contracts, provisions for estimated losses on individual contracts are made in the period in which the loss first becomes apparent.

As part of GP's on-going operations to provide services to its customers, incidental expenses, which are commonly referred to as "out-of-pocket" expenses, are billed to customers. Out-of-pocket expenses include expenses such as airfare, mileage, hotel stays, out-of-town meals, and telecommunication charges. GP's policy provides for these expenses to be recorded as both revenue and direct cost of services in accordance with the provisions of EITF 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred."

GSE revenue recognition. The majority of GSE's revenue is derived through the sale of uniquely designed systems containing hardware, software and other materials under fixed-price contracts. In accordance with Statement of Position 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", the revenue under these fixed-price contracts is accounted for on the percentage-of-completion method, based on contract costs incurred to date and estimated costs to complete. Estimated contract earnings are reviewed and revised periodically as the work progresses, and the cumulative

effect of any change is recognized in the period in which the change is identified. Estimated losses are charged against earnings in the period such losses are identified.

As GSE recognizes revenue under the percentage-of-completion method, it provides an accrual for estimated future warranty costs based on historical and projected claims experience. GSE's longer-term contracts generally provide for a one-year warranty on parts, labor and any bug fixes as it relates to software embedded in the systems.

GSE's system design contracts do not provide for "post customer support service" (PCS) in terms of software upgrades, software enhancements or telephone support. In order to obtain PCS, the customers must purchase a separate contract at the date of system installation. Such PCS arrangements are generally for a one-year period renewable annually and include customer support, unspecified software upgrades, maintenance releases. GSE recognizes revenue from these contracts ratably over the life of the agreements in accordance with Statement of Position

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

97-2 "Software Revenue Recognition".

Revenues from certain consulting or training contracts are recognized on a time-and-material basis. For time-and-material type contracts, revenue is recognized based on hours incurred at a contracted labor rate plus expenses.

Five Star and MXL revenue recognition. Revenue is recognized upon shipment of product to customers. Allowances for estimated returns and allowances are recognized when sales are recorded.

Comprehensive income. Comprehensive income consists of net income (loss), net unrealized gains (losses) on available-for-sale securities and the interest rate swap, and foreign currency translation adjustments.

Property, plant and equipment. Property, plant and equipment are carried at cost. Major additions and improvements are capitalized while maintenance and repairs which do not extend the lives of the assets are expensed as incurred. Gain or loss on the disposition of property, plant and equipment is recognized in operations when realized.

Depreciation and amortization. The Company provides for depreciation of property, plant and equipment primarily on a straight-line basis over the following estimated useful lives:

| CLASS OF ASSETS | USEFUL LIFE |
|---|--|
| Buildings and improvements | 5 to 40 years |
| Machinery, equipment and furniture and fixtures | 3 to 7 years |
| Leasehold improvements | Shorter of asset life or term of lease |

Recoverability of Long-Lived Assets. Effective January 1, 2002, the Company adopted Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement.

The recoverability of long-lived assets, other than goodwill and intangible assets with indefinite lives, is assessed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured by determining the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Intangible assets. The excess of cost over the fair value of net assets of businesses acquired is recorded as goodwill and through December 31, 2001, was amortized on a straight line basis over periods ranging from 5 to 40 years. The Company capitalizes costs incurred to obtain and maintain patents and licenses as well as contract rights acquired. Patent costs are amortized over the lesser of 17 years or the remaining lives of the patents, and license costs over the lives of the licenses. Contract rights are amortized over the lives of the contracts acquired, ranging up to two years. The Company also capitalizes costs incurred to obtain long-term debt financing. Such costs are included in other current assets and other assets in the accompanying Consolidated Balance Sheets,

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

are amortized on a straight line basis over the terms of the related debt and such amortization is classified as interest expense in the Consolidated Statements of Operations.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, the Company capitalizes computer software development costs incurred after technological feasibility has been established, but prior to the release of the software product for sale to customers. Once the product is available to be sold, the Company begins to amortize the costs over the estimated useful life of the product, which normally ranges from three to five years. On an annual

basis, the Company assesses the recovery of the unamortized software computer costs by estimating the net undiscounted cash flows expected to be generated by the sale of the product. If the undiscounted cash flows are not sufficient to recover the unamortized software costs the Company will write-down the investment to its estimated fair value based on future discounted cash flows. The excess of any unamortized computer software costs over the related net realizable value is written down and charged to income. Significant changes in the sales projections could result in an impairment with respect to the capitalized software. Capitalized software is included in other assets on the Company's Consolidated Balance Sheets.

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values.

The Company periodically assesses the recoverability of goodwill and intangible assets with indefinite lives by a comparison of the estimated fair value of each reporting unit to its carrying value. The estimated fair value of each reporting unit exceeded the carrying value of each respective reporting unit. The Company will perform its annual impairment review as of the end of each fiscal year.

As of the date of adoption (January 1, 2002), the Company had unamortized goodwill in the amount of approximately \$56 million and unamortized identifiable intangible assets in the amount of approximately \$1.4 million, all of which were subject to the transition provisions of Statement 142. Amortization expense related to goodwill was \$2.7 million for the year ended December 31, 2001.

Sales of subsidiary stock. The Company recognizes gains and losses on sales of subsidiary stock in its Consolidated Statements of Operations, except in circumstances where the realization of the gain is not reasonably assured or the sale relates to issuance of preferred stock.

Income taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Five Star files separate federal and state tax returns and GSE files separate federal, state and foreign tax returns from the Company, as those entities are not consolidated with the Company for tax purposes.

Income (loss) per share. Basic earnings (loss) per share is based upon the weighted average number of common shares outstanding, including Class B common stock, during the period.

Diluted earnings (loss) per share is based upon the weighted average number of common shares outstanding during the period assuming the issuance of common stock for all dilutive potential common stock equivalents outstanding.

Loss per share (EPS) for the years ended December 31, 2003, 2002 and 2001 are as follows (in thousands, except per share amounts):

| | 2003 ---- | 2002 ---- | 2001 ---- |
|--------------------------------|--------------|--------------|--------------|
| Basic and Diluted EPS | | | |
| Net loss | \$(8,276) | \$(5,228) | \$ (945) |
| Weighted average shares | | | |
| outstanding, basic and diluted | 17,139 | 15,370 | 13,209 |
| Basic loss per share | \$ (.48) | \$ (.34) | \$ (.09) |
| Diluted loss per share (a) | \$ (.48) | \$ (.34) | \$ (.09) |

Basic loss per share is based upon the weighted average number of common shares outstanding, including Class B common shares, during the period. Class B common stockholders have the same rights to share in profits and losses and liquidation values as common stockholders. Diluted loss per share are based upon the weighted average number of common shares outstanding during the period, assuming the issuance of common shares for all dilutive potential common shares outstanding.

- (a) For the years ended December 31, 2003, 2002 and 2001, presentation of the dilutive effect of stock options, warrants and convertible notes, which totaled 1,249,000, 612,000 and 376,000 shares, respectively, are not included since they are anti-dilutive.
- For the year ended December 31, 2003 presentation of the dilutive effect of GSE and Five Star stock options are not included since they are anti-dilutive.

Stock based compensation. Options are granted to purchase Company, GSE and Five Star common shares under stock-based incentive plans, which are described more fully in Note 12. The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its fixed plan stock options. As such compensation expense would

be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The difference between the quoted market price as of the date of the grant and the contractual purchase price of shares is charged to operations over the vesting period. No compensation cost has been recognized for fixed stock options with exercise prices equal to the market price of the stock on the dates of grant and shares acquired by employees under the stock option plans. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123" ("SFAS No. 148"), was issued in December 2002 and is effective for the Company for the quarterly interim periods beginning in 2003. SFAS No. 148 amends SFAS No. 123 and provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used.

Pro forma net income and earnings per share disclosures as if compensation expense was recorded based on the fair value for stock-based awards have been presented in accordance with the provisions of SFAS No. 123, are as follows for the years ended December 31, 2003, 2002 and 2001 (in thousands, except per share amounts):

| | 2003 ---- | 2002 ---- |
|----------------------------------|--------------|--------------|
| Net loss - As reported | \$ (8,276) | \$ (5,228) |
| Compensation expense, net of tax | | |
| Company stock options | (1,251) | (1,495) |
| GSE stock options | (181) | |
| Five Star stock options | (4) | |
| | ----- | ----- |
| Pro forma net loss | \$ (9,712) | \$ (6,723) |
| | ----- | ----- |
| Basic and diluted loss per share | | |
| As reported | \$ (.48) | \$ (.34) |
| Company stock options | (.08) | (.10) |
| GSE stock options | (.01) | |
| Five Star stock options | (.00) | |
| | ----- | ----- |
| Pro forma net loss per share | \$ (.57) | \$ (.44) |
| | ----- | ----- |

Pro forma net loss reflects only options granted since 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net loss amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to January 1, 1995 is not considered.

Company stock options

At December 31, 2003, 2002 and 2001, the per share weighted-average fair value of the Company's stock options granted was \$2.95, \$2.78 and \$2.98, respectively, on the date of grant using the modified Black Scholes option-pricing model with the following weighted-average assumptions:

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | 2003 | 2002 | 2001 |
|-------------------------|------------|------------|------------|
| | ---- | ---- | ---- |
| Expected dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 2.00% | 4.30% | 4.78% |
| Expected volatility | 78.33% | 72.84% | 66.13% |
| Expected life | 4.00 years | 6.16 years | 3.70 years |

There were no GSE and Five Star options granted during 2003 subsequent to their consolidation.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Concentrations of credit risk. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its cash investments with high quality financial institutions and limits the amount of credit exposure to any one institution. With respect to accounts receivable, approximately 25% are related to United States government contracts, and the remainder are dispersed among various industries, customers and geographic regions. In addition, the Company has investments in public and private equity securities, consisting of Valera and Millennium.

Fair value of financial instruments. The carrying value of financial instruments including cash and cash equivalents, marketable securities, accounts receivable, accounts payable and short-term borrowings approximate estimated market values because of short maturities and interest rates that approximate current rates.

The carrying values of investments approximate fair values based upon quoted market prices. The investments for which there is no quoted market price are not significant. The estimated fair value for the Company's debt is equal to the carrying amount. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Five Star interest rate swap. The interest rate swap is being accounted for under SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires all derivatives to be recognized in the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a cash flow hedge, changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The fair value of the interest rate swap at December 31, 2003 was recognized through a credit to other comprehensive income.

Reclassifications. Certain prior year amounts in the financial statements and notes thereto have been reclassified to conform to 2003 classifications.

Recent accounting pronouncements. In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities that have legal obligations associated with

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. This statement is effective for the Company in 2003. The application of SFAS No. 143 did not have and is not expected to have a material impact on the Company's Consolidated Financial Statements.

During April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS No. 145"). Among other items, SFAS No. 145 updates and clarifies existing accounting pronouncements related to reporting gains and losses from the extinguishment of debt and certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of SFAS No. 145 are generally effective for fiscal years beginning after May 15, 2002, with earlier adoption of certain provisions encouraged. The application of SFAS No. 145 did not have an impact on the Company's Consolidated Financial Statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). This Statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company is required to adopt the provisions of SFAS No. 146 for exit or disposal activities, if any, initiated after December 31, 2002. The adoption of SFAS No. 146 did not impact the consolidated financial position or results of operations, although it can be expected to impact the timing of liability recognition associated with future exit activities, if any.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123" ("SFAS No. 148"), and the transition guidance and annual disclosure provisions were effective for the Company for the quarterly interim periods beginning in 2003. SFAS No. 148 amends SFAS Statement No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation" and provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used. The Company continues to account for stock-based compensation using APB Opinion No. 25 and has not adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148. The Company has adopted the disclosure provisions of SFAS No. 148 for the 2003 fiscal year.

In April 2003, the FASB issued SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, this Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative. It also clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and did not have an impact on the Company's Consolidated Financial Statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as a liability

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

(or as an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15,

2003. The adoption of SFAS No. 150 did not have an impact on the Company's Consolidated Financial Statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). FIN No. 45 elaborates on the disclosures for interim and annual reports regarding obligations under certain guarantees issued by a guarantor. Under FIN No. 45, the guarantor is required to recognize a liability for the fair value of the obligation undertaken in issuing the guarantee at the inception of a guarantee. The recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company applied the provisions of FIN No. 45 for its financial guarantee entered into in the first quarter of 2003.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). FIN No. 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The provisions of FIN No. 46 are effective immediately for all entities with variable interests in variable interest entities created after December 31, 2002. The provisions of FIN No. 46 are effective for public entities with a variable interest in a variable interest entity created prior to January 1, 2003 no later than the end of the first annual reporting period beginning after December 15, 2003. The Company has evaluated its interests in certain entities to determine if any such entities will require consolidation under FIN No. 46, and has determined that, at this time, it is not necessary to consolidate any such entities.

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This Issue provides guidance on when and how to separate elements of an arrangement that may involve the delivery or performance of multiple products, services and rights to use assets into separate units of accounting. The guidance in the consensus is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The transition provision allows either prospective application or a cumulative effect adjustment upon adoption. The adoption of Issue No. 00-21 did not have an impact on the Company's Consolidated Financial Statements.

GP STRATEGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Goodwill and intangible assets

Effective January 1, 2002, the Company adopted FASB Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

method business combinations completed after June 30, 2001. Statement No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of Statement No. 142. Statement No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposed of Long-Lived Assets. The Company did not recognize any impairment as a result of the adoption of this

statement. For the years ended December 31, 2003 and 2002 the Company performed a test for potential impairment of goodwill and other intangible assets. The Company did not recognize any impairment as a result of the impairment test. As of December 31, 2003 and 2002, the Company had unamortized goodwill in the amount of \$62,395,000 and \$57,491,000, respectively.

The components of goodwill and intangible assets as of December 31, 2003 and 2002 are as follows (in thousands):

| | Original Cost or Carrying Value | Additions | Accumulated Amortization |
|---------------------------------------|------------------------------------|-----------------|-----------------------------|
| 2003: | | | |
| Amortizing intangible assets: | | | |
| Patents, licenses and contract rights | \$ 1,348 ----- | \$ 422 ----- | \$ ----- |
| Non-amortizing intangible assets: | | | |
| Goodwill | 57,491 ----- | 4,904 ----- | ----- |
| 2002: | | | |
| Amortizing intangible assets: | | | |
| Patents and licenses | \$1,348 ----- | ----- | \$ ----- |
| Non-amortizing intangible assets: | | | |
| Goodwill | 55,988 ----- | 1,503 ----- | ----- |

2. Goodwill and intangible assets (Continued)

Amortization expense for patents, licenses and contract rights was \$147,000 in 2003, \$103,000 in 2002, and \$126,000 in 2001. The weighted average amortization period as of December 31, 2003 is six years. Amortization is estimated to be approximately \$289,000 in 2004, \$233,000 in 2005, and \$73,000 from 2006 through 2008.

Goodwill increased in 2003 due to the GSE Acquisition (see Note 4) as well as

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

the impact of foreign currency fluctuations. The increase in goodwill in 2002 was due to additional contingent payments made for previous acquisitions as well as the impact of foreign currency fluctuations.

The following is a summary of proforma net income and earnings (loss) per share for the year ended December 31, 2001, as adjusted to remove the amortization of goodwill and intangible assets with indefinite useful lives (in thousands, except per share amounts):

| | |
|---------------------------|----------|
| Net Income (loss) | |
| As Reported | \$ (945) |
| Proforma | \$ 488 |
| | |
| Basic and Diluted | |
| Earnings (loss) Per Share | |
| As Reported | \$ (.09) |
| Proforma | \$.02 |

3. Investments, marketable securities and notes receivable

Investments and note receivable

At December 31, 2003 and 2002, Investments and notes receivable were comprised of the following (in thousands):

| | 2003 | December 31, 2002 |
|---------------------------------------|-------|----------------------|
| Five Star Products, Inc. (See Note 4) | \$ | \$6,317 |
| GSE Systems, Inc. (See Note 4) | | 1,794 |
| Valera | | |
| Other | 655 | 422 |
| | ----- | ----- |
| | \$655 | \$8,533 |
| | ===== | ===== |

3. Investments, marketable securities and notes receivable (Continued)

(a) Five Star Products, Inc.

Five Star is a leading regional distributor of home decorating, hardware and finishing products. On October 8, 2003 the Company acquired additional shares of Five Star, bringing its ownership to 54%. Five Star is consolidated into the Company's consolidated financial statements and no longer accounted for as an equity investment effective as of that date. The Company recognized equity income of Five Star of \$190,000 in 2003 prior to its date of consolidation.

At December 31, 2002, the Company owned approximately 47.3% of Five Star and accounted for its investment in Five Star using the equity method. At December 31, 2002, the Company's investment in Five Star was \$6,317,000, including the \$4,500,000 senior unsecured 8% note. The Company recorded a write down on its investment of \$200,000 in 2001, which is included in Loss on investments on the Consolidated Statements of Operations.

In 1994 Jerome Feldman, Chairman and CEO of the Company was granted options to purchase 250,000 shares of Five Star from the Company at an exercise price of

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

\$.50. These options expired unexercised in June 2003.

Information relating to the Company's investment in Five Star as of December 31, 2002 is as follows (in thousands):

| | |
|---|----------|
| Long-term note receivable | \$ 4,500 |
| Number of shares | 7,103 |
| Carrying amount of shares | \$1,817 |
| Equity income included in Investment and other income, net | \$162 |

Condensed financial information for Five Star as of December 31, 2002 and for the years ended December 31, 2002 and 2001 is as follows (in thousands):

| | 2002 | 2001 |
|-------------------------|----------|--------|
| Current assets | \$34,191 | |
| Non current assets | 1,142 | |
| Current liabilities | 27,552 | |
| Non current liabilities | 4,500 | |
| Stockholders' equity | 3,281 | |
| Sales | 94,074 | 94,908 |
| Gross profit | 16,613 | 16,054 |
| Net income | 391 | 417 |

3. Investments, marketable securities and notes receivable (Continued)

(b) GSE Systems, Inc.

GSE is a leading global provider of real-time simulation, homeland security and engineering services for the energy, process and military industries. On October 23, 2003 the Company acquired additional shares of GSE, bringing its ownership to 58%. GSE will be consolidated into the Company's consolidated financial statements and will no longer be accounted for as an equity investment effective as of that date. The Company recognized equity losses of GSE of \$733,000 in 2003 prior to its date of consolidation.

At December 31, 2002 the Company owned approximately 19.5% of GSE and accounted for its investment in GSE using the equity method. Although the Company owned approximately 19.5% of the common stock of GSE as of December 31, 2002, the Company has accounted for its investment in GSE using the equity method of accounting based upon management's conclusion that the Company has significant influence with respect to the operations of GSE. Additionally, pursuant to the extension of the Company's guarantee of GSE debt in March 2003 (see Note 16), the Company received 150,000 shares of GSE common stock.

Information relating to the Company's investment in GSE as of December 31, 2002 is as follows (in thousands):

| | |
|---|-----------|
| Number of shares | 1,159 |
| Carrying amount | \$ 1,794 |
| Equity loss included in Investment and other income, net | \$(1,210) |

Condensed financial information for GSE as of December 31, 2002 and for the years ended December 31, 2002 and 2001 is as follows (in thousands):

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | 2002 | 2001 |
|-------------------------|----------|-------|
| | ---- | ---- |
| Current assets | \$17,202 | |
| Non current assets | 11,692 | |
| Current liabilities | 11,166 | |
| Non current liabilities | 9,617 | |
| Stockholders' equity | 8,111 | |
| Revenue 20,220 | 25,509 | |
| Gross profit | 3,560 | 5,765 |
| Net income (loss) | (5,943) | 259 |

3. Investments, marketable securities and notes receivable (Continued)

(c) Valera Pharmaceuticals

Valera is a specialty pharmaceutical company engaged in the development and commercialization of prescription pharmaceuticals principally utilizing Valera's patented Hydron drug delivery technology.

Prior to June 2000, Valera operated as a division of the Company, however, in connection with an offering of the Company's 6% Convertible Subordinated Exchangeable Notes due 2003 (the "Valera Notes"), Valera was incorporated as a separate company and became a wholly-owned subsidiary of the Company. The Valera Notes, at the option of the holders, could have been exchanged for 19.9% of the outstanding common stock of Valera on a fully diluted basis or into shares of the Company's common stock. On April 23, 2003, the Company entered into an agreement with the holders of the Valera Notes to exchange the Valera Notes plus related accrued interest for 554,000 shares of the Company's Common Stock at a conversion rate of \$5.00 per share with a fair value of \$2,770,000. As a result, in accordance with the provisions of SFAS Statement No. 84, Induced Conversions of Convertible Debt, the Company recorded debt conversion expense, net of approximately \$622,000, which is included in selling, general and administrative expenses in 2003.

On December 27, 2001, Valera completed a \$7 million private placement of Valera Series A Convertible Preferred Stock (the "Preferred Stock") to certain institutional investors. The Preferred Stock is convertible into Valera's common stock at any time at the option of the holder and participates in dividends with Valera common stock on an as converted basis.

The Company owns 100% of Valera's common stock but no longer has financial and operating control of Valera. As a condition of the private placement, the Company contractually gave up operating control over Valera through an Investors Rights Agreement. Therefore, through December 27, 2001, the operating results of Valera are consolidated within the Consolidated Statements of Operations. However, subsequent to that date the Company accounts for its investment in Valera under the equity method. Due to Valera's operating losses in 2002 the Company's investment in Valera as of December 31, 2002 was written down to zero.

In the second quarter of 2003, Valera completed a \$12 million private placement offering. As part of such transaction, the Company was granted an option (the "Valera Option") until March 31, 2004 (which the Company did not exercise) to purchase up to \$5 million of Series B preferred stock at the offering price of \$.72 per share. The Company valued the Valera Option using the Black-Scholes model and recorded approximately \$500,000 of income, which is included in Investments and other income (loss) net. The Valera Option was written down to zero in the quarter ended September 30, 2003 due to the recognition of the

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

3. Investments, marketable securities and notes receivable (Continued)

Company's share of Valera's equity loss. Assuming conversion of all of the outstanding shares of Series A and Series B convertible preferred stock and exercise of options for the total number of Valera common shares reserved for Valera's employee stock option plans, the Company would own approximately 25% of Valera.

Marketable securities

At December 31, 2003 and 2002, Marketable securities were comprised of the following (in thousands):

| | 2003 | 2002 |
|----------------------------|---------|---------|
| | ---- | ---- |
| Millennium Cell Inc. | \$3,570 | \$5,552 |
| Hemispherx Biopharma, Inc. | 361 | 0 |
| Other | 0 | 45 |
| | ----- | ----- |
| | \$3,931 | \$5,597 |
| | ===== | ===== |

(a) Millennium Cell Inc.

Millennium Cell Inc. ("Millennium") is a publicly traded emerging technology company engaged in the business of developing innovative fuel systems for the safe storage, transportation and generation of hydrogen for use as an energy source. As of December 31, 2003 and 2002, the Company had a 4% and 8% ownership interest, respectively, in Millennium, representing approximately 1,532,000 and 2,325,000 shares, including approximately 340,000 and 349,000 shares of common stock subject to options which were granted to the Company's employees to acquire Millennium shares from the Company's holdings.

In 2001, the Company sold 861,500 shares of Millennium classified as trading securities for proceeds of \$9,141,440. In addition, the Company sold approximately 1,220,000 shares from available for sale securities for \$5,482,216. For the year ended December 31, 2001, the Company has recognized a net gain of \$4,294,000, which is included in gain on marketable securities, net. The approximately 3,703,000 shares remaining were classified as available for sale securities. At December 31, 2001, these shares had a fair value of approximately \$19,341,000.

In 2002, the Company sold approximately 1,286,000 shares for \$3,833,000. For the year ended December 31, 2002, the Company has recognized a net gain of \$2,267,000 which is included in gain on marketable securities, net. The approximately 2,325,000 shares remaining at December 31, 2002 had a fair value of approximately \$5,552,000.

In 2003, the Company sold approximately 783,000 shares for \$1,648,000. For the year ended December 31, 2003, the Company has recognized a net gain of \$704,000

3. Investments, marketable securities and notes receivable (Continued)

which is included in gain on marketable securities, net. The approximately

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

1,532,000 shares remaining at December 31, 2003 had a fair value of approximately \$3,570,000.

On February 11, 2000, the Company granted options to certain of its employees pursuant to the GP Strategies Corporation Millennium Cell, LLC Option Plan (the "Millennium Option Plan") to purchase an aggregate of approximately 547,000 of its shares of Millennium common stock, of which there are currently approximately 340,000 options outstanding. These options vested over either a one year or two year period and expire on June 30, 2004, as amended. The options in the Millennium Option Plan were fully vested as of December 31, 2002. The Company may receive approximately \$500,000 (of which approximately \$189,000 was received in 2001, 2002 and 2003) upon exercise of all options pursuant to the Millennium Option Plan. The Company recorded a liability to employees of \$650,000 and \$767,000 at December 31, 2003 and December 31, 2002, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying Consolidated Balance Sheets.

The Company recorded a non-cash compensation credit of \$150,000, \$1,211,000 and \$2,370,000 for the years ended December 31, 2003, 2002, and 2001, respectively, which is included in selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

Information relating to the Company's investment in Millennium is as follows at December 31, 2003 and 2002 (in thousands):

| | 2003 | 2002 |
|---|---------|---------|
| Number of shares | 1,532 | 2,325 |
| Available-for-sale equity securities, at market | \$3,570 | \$5,552 |

The gross unrealized holding gains (losses) and fair value for available-for-sale securities (primarily Millennium Cell) were as follows (in thousands):

| | Cost | Gross Unrealized Holding Gains | Losses | Fair |
|---------------------------------------|----------|-----------------------------------|--------|------|
| Available-for-sale equity securities: | | | | |
| December 31, 2003 | \$ 1,957 | \$ 1,613 | | \$ |
| December 31, 2002 | \$ 2,917 | \$ 2,680 | | \$ |
| December 31, 2001 | \$ 4,633 | \$14,810 | | \$ |

Differences between cost and market, net of taxes, of \$984,000, \$1,609,000, and \$9,021,000 at December 31, 2003, 2002 and 2001, respectively, were credited to a separate component of stockholders' equity called accumulated other comprehensive income (loss).

3. Investments, marketable securities and notes receivable (Continued)
 - (b) Interferon Sciences, Inc. ("ISI") and Hemispherx Biopharma Inc.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

ISI is a biopharmaceutical company in which the Company owned 181,201 shares at December 31, 2002 with a market value of \$9,000. In an agreement dated March 25, 1999, the Company agreed to lend ISI \$500,000 (the "ISI Debt"). ISI issued the Company 500,000 shares of ISI common stock and a five-year warrant to purchase 500,000 shares of ISI common stock at a price of \$1 per share as a loan origination fee. Pursuant to the agreement, as amended, ISI issued a Note due March 15, 2002, to the Company for \$500,000 of which approximately \$300,000 plus accrued interest receivable was outstanding as of December 31, 2002, which was included in accounts and other receivables on the Consolidated Balance Sheets.

In March 2003, the Company and ISI entered into an agreement whereby the Company agreed to receive shares of common stock of Hemispherx Biopharma Inc. ("HEB") with a market value of \$425,000 (the "Guaranteed Shares") in full settlement of all of ISI's debt obligations. The agreement obligated HEB to register the Guaranteed Shares, set limits on the amount of shares the Company could sell and required HEB to pay the Company an amount equal to the number of Guaranteed Shares remaining unsold on September 11, 2005 multiplied by \$1.59. The Guaranteed Shares were registered by HEB in the fourth quarter of 2003. The Company received 268,000 shares of HEB from ISI and subsequently sold 108,000 of the shares during the fourth quarter of 2003 for \$249,000. For the year ended December 31, 2003, the Company has recognized a net gain of \$142,000 on the sale of these shares, which is included in gain on marketable securities, net. The approximately 160,000 shares remaining are classified as trading securities at December 31, 2003. These shares had a fair value of approximately \$361,000 and were sold in the first quarter of 2004.

4. Acquisitions

(a) Five Star Products, Inc.

Five Star was previously a 47.3% investment of the Company accounted for under the equity method and was indebted to the Company for a Unsecured 8% Note ("the Five Star Note") due June 30, 2005, as amended, which amounted to \$4,500,000 as of December 31, 2002. On June 20, 2003, the Company entered into an Agreement of Subordination and Assignments (the "Subordination Agreement") with Five Star that amended the amount of annual repayment of principal on the Five Star Note. Future repayments of the Five Star Note are contingent on the operating results of Five Star, subject to certain limitations as defined in the Subordination

Agreement. Pursuant to the provisions of the Subordination Agreement, in June 2003 and July 2003 the Company received partial repayments from Five Star in the amount of \$500,000 each, reducing the outstanding principal amount of the Five Star Note from \$4,500,000 to \$3,500,000. On October 8, 2003 the Company converted an additional \$500,000 principal amount of the Five

4. Acquisitions (Continued)

Star Note into 2,000,000 shares of Five Star common stock (the "Five Star Acquisition") increasing the Company's investment in Five Star to 54%. In December 2003 the Company received a partial repayment from Five Star in the amount of \$200,000, reducing the outstanding principal amount of the Five Star Note from \$3,000,000 to \$2,800,000.

In consideration for the Company agreeing to convert at a conversion price of \$0.25 per share, Five Star agreed to terminate the voting agreement between the Company and Five Star. The voting agreement, which by its terms would in any event have terminated on June 30, 2004, provided that the Company (i) would vote its Five Star common stock so that not more than 50% of the members of the Five Star board of directors would be officers or directors of the Company and (ii)

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

would vote on matters other than the election of directors in the same proportion as the other Five Star stockholders.

The Five Star Acquisition, which was approved by a Special Committee of the Five Star board of directors comprised of an independent non-management director who is unaffiliated with the Company, increased the Company's ownership in Five Star from approximately 47.3% to approximately 54% of the outstanding Five Star common stock. The Five Star Acquisition occurred because the Company believed that the common stock of Five Star represented an attractive investment opportunity based on its valuation at that time. Subsequent to the Five Star Acquisition, Five Star will be consolidated into the Company's consolidated financial statements. Five Star comprises the Company's new Home Improvement Distribution Segment.

The acquisition was accounted for as a purchase transaction in accordance with SFAS No. 141, and accordingly, the net assets acquired were recorded at their fair value at the date of the acquisition. The excess of the net assets acquired over the purchase price was recorded as a reduction to property, plant and equipment to reflect the allocation of negative goodwill arising in purchase accounting.

The components of the net assets acquired were as follows (in thousands):

| | |
|--|----------|
| Accounts receivable | \$13,267 |
| Inventory | 20,222 |
| Property, plant & equipment and other assets | 1,529 |
| ----- | |
| Total assets | 35,018 |
| ----- | |
| Short term borrowings | 17,616 |
| Accounts payable and accrued expenses | 10,063 |
| Debt to GP Strategies | 3,000 |
| ----- | |
| Total liabilities assumed | 30,679 |
| ----- | |
| Five Star net assets as of October 8, 2003 | 4,339 |
| ----- | |

4. Acquisitions (Continued)

On February 6, 2004 Five Star announced that it would repurchase up to 5,000,000 shares, or approximately 30% of its common stock currently outstanding, through a tender offer for the shares at \$0.21 per share, originally set to expire on March 16, 2004. On March 17, 2004 Five Star announced that it had increased the price it was offering to pay for the shares in the tender offer to \$0.25 per share and extended the offer to March 31, 2004. Based on the final tabulation by the depository for the tender offer, approximately 2,648,000 shares of common stock were tendered and acquired by Five Star. The effect of the tender offer was to increase the Company's ownership in Five Star to approximately 64%.

If the Company increases its ownership to at least 80% of Five Star's common stock, Five Star would become, for federal tax purposes, part of the affiliated group of which the Company is the common parent. As a member of such affiliated group, Five Star would be included in the Company's consolidated federal income tax returns, Five Star's income or loss would be included as part of the income or loss of the affiliated group and any of Five Star's income so included might be offset by the consolidated net operating losses, if any, of the affiliated group. As part of this agreement, Five Star has agreed to enter into a tax

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

sharing agreement with the Company pursuant to which Five Star will make tax sharing payments to the Company once Five Star becomes a member of the consolidated group equal to 80% of the amount of taxes Five Star would pay if Five Star were to file separate consolidated tax returns but did not pay as a result of being included in the Company affiliated group. If the Company completes the spin-off of certain of its assets, including a majority interest in Five Star into NPDC (See Note 1), the foregoing agreement would be assigned by the Company to NPDC.

(b) GSE Systems Inc.

On October 23 2003, the Company purchased from ManTech International ("ManTech") 3,426,699 shares of common stock of GSE and a GSE Subordinated Note in the outstanding principal amount of \$650,000, which the Company immediately converted into 418,653 shares of common stock of GSE. This transaction (the "GSE Acquisition") increased the Company's ownership of the common stock of GSE from approximately 22% to approximately 58%. Simultaneously with the closing of the GSE Acquisition, three directors nominated by the Company were added to the GSE board of directors. GSE was previously an investment of the Company accounted for under the equity method. Subsequent to the GSE Acquisition, GSE is consolidated into the Company's consolidated financial statements and comprises the Company's new Simulation Segment. The GSE Acquisition was carried out in order to allow the Company to work together with GSE to expand GSE's simulation technology to the power, military and homeland defense markets that are currently served by General Physics.

The consideration paid to ManTech by the Company consisted of a five-year 5% note of \$5,250,955 (the "ManTech Note") due in full in October 2008. Each year

4. Acquisitions (Continued)

during the term of the ManTech Note, ManTech will have the option to convert up to 20% of the original principal amount of the note into common stock of the Company at the then market price of Company's common stock, but only in the event that Company's common stock is trading at \$10 per share or more. In the event that less than 20% of the principal amount of the note is not converted in any year, such amount not converted will be eligible for conversion in each subsequent year until converted or until the note is repaid in cash. As part of the GSE Acquisition, the Company and ManTech entered into a five-year Teaming Agreement pursuant to which ManTech and the Company will work together to give the Company the opportunity to provide training services to ManTech's customers.

On January 1, 2004, GSE entered into a Management Services Agreement with the Company in which the Company agreed to provide corporate support services to GSE, including accounting, finance, human resources, legal, network support and tax. In addition, GSE will use General Physics' financial system. GSE will pay an annual fee to General Physics of \$685,000. The term of the agreement is one year, subject to earlier termination only upon the mutual consent of the parties to the agreement. The agreement can be renewed for successive one-year terms.

The acquisition was accounted for as a purchase transaction in accordance with SFAS No. 141, and accordingly, the net assets acquired were recorded at their fair value at the date of the acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. Goodwill associated with this acquisition will be deductible for tax purposes.

The components of the net assets acquired were as follows (in thousands):

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | |
|--|---------|
| Cash | \$2,847 |
| Accounts receivable and unbilled receivables | 6,587 |
| Intangible assets | 2,684 |
| Property, plant & equipment and other assets | 2,444 |
| ----- | |
| Total assets | 14,562 |
| ----- | |
| Accounts payable, accrued expenses and other liabilities | 5,303 |
| Billings in excess of revenue earned | 3,528 |
| ----- | |
| Total liabilities assumed | 8,831 |
| ----- | |
| GSE net assets as of October 23, 2003 | \$5,731 |
| ----- | |

The following table represents the Company's pro forma consolidated statements of operations for the years ended December 31, 2003 and 2002, as if the Five Star and GSE Acquisitions had been completed at the beginning of each period. The pro forma information is presented for comparative purposes only and does not purport to be indicative of what would have occurred

4. Acquisitions (Continued)

had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results (in thousands, except per share data):

| Years ended December 31, | 2003 | 2002 |
|--------------------------------|------------|------------|
| ----- | | |
| Sales | \$262,692 | \$266,527 |
| Loss before minority interests | (9,522) | (8,405) |
| Minority interests | 1,207 | 2,316 |
| Net loss | \$ (8,315) | \$ (6,089) |
| Net loss per share | | |
| Basic and diluted | \$ (.49) | \$ (.40) |
| ----- | | |

5. Property, plant and equipment

Property, plant and equipment consists of the following (in thousands):

| December 31, | 2003 | 2002 |
|---|----------|----------|
| ----- | | |
| Land | \$ 915 | \$ 915 |
| Buildings and improvements | 3,561 | 3,525 |
| Machinery and equipment | 14,534 | 11,884 |
| Furniture and fixtures | 8,583 | 6,300 |
| Leasehold improvements | 2,072 | 2,649 |
| ----- | | |
| | 29,665 | 25,273 |
| Accumulated depreciation and amortization | (20,671) | (16,974) |
| ----- | | |
| ----- | | |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

\$ 8,994

\$ 8,299

During 2003 the Company wrote off certain fully depreciated assets of approximately \$3,663,000. During 2002 the Company wrote off certain fully depreciated assets as a result of its General Physics and Corporate office relocations of approximately \$5,100,000.

6. Short-term borrowings

General Physics

On August 13, 2003, General Physics, General Physics's subsidiary, Skillright, Inc., and MXL, entered into a two-year \$25 million Financing and Security Agreement (the "Credit Agreement") with a new bank, the proceeds of which were used to repay the Company's existing credit facility. The Credit Agreement is secured by certain assets of General Physics and certain of the accounts receivable of MXL. The Credit Agreement also provides for an unsecured guaranty from the Company. MXL provided a limited guaranty of the Credit Agreement up to the value of its accounts receivable collateral securing the Credit Agreement.

6. Short-term borrowings (Continued)

At General Physics' option, upon prior written notice to the lender, MXL's accounts receivables can be eliminated from the borrowing base under the Credit Agreement, provided that General Physics makes a prepayment under the Credit Agreement, if necessary, to eliminate a borrowing base deficiency, if any. At such point, all obligations of MXL relating to the Credit Agreement shall terminate and MXL's limited guaranty of the Credit Agreement shall be void. In March 2004 the Company eliminated MXL's accounts receivable from the borrowing base, which would have had the effect as of December 31, 2003 of reducing the borrowing base by \$453,000. At the same time, the Credit Agreement was also amended to include GSE.

The interest rate on the Credit Agreement is at Eurodollar plus 3.00%, (which as of December 31, 2003 is approximately 4.1%). Based upon the financial performance of GP, the interest rate can be reduced. The Credit Agreement contains covenants with respect to GP's minimum tangible net worth, leverage ratio, interest coverage ratio and its ability to make capital expenditures. The Credit Agreement also contains certain restrictive covenants including a prohibition on future acquisitions (except for the Five Star Acquisition), incurrence of debt and the payment of dividends. The Company received a waiver under the Credit Agreement with respect to the GSE Acquisition. GP is currently restricted from paying dividends or management fees to the Company in excess of \$1,000,000 in any fiscal year. GP is also subject to certain restrictive covenants including limitations on future acquisitions. GP was in compliance with all loan covenants under the Credit Agreement as of December 31, 2003.

The Company wrote off \$860,000 of deferred financing costs due to the early termination of its previous credit agreement. This expense is included in interest expense for year ended December 31, 2003.

As of December 31, 2003, the amount outstanding under the Credit Agreement is approximately \$9,527,000, and approximately \$7,225,000 was available to be borrowed under the Credit Agreement.

Five Star

On June 20, 2003 Five Star obtained a new Loan and Security Agreement (the "Loan

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Agreement") with Fleet Capital Corporation. The Loan Agreement has a five-year term, with a maturity date of June 30, 2008. The Loan Agreement provides for a \$25,000,000 revolving credit facility, which allows Five Star to borrow based upon a formula of eligible inventory and eligible accounts receivable, as defined therein. The interest rates under the Loan Agreement are LIBOR plus a credit spread for borrowings not to exceed \$15,000,000 and the prime rate plus a credit spread for borrowings in excess of the above-mentioned LIBOR-based borrowings. The credit spreads can be reduced in the event that Five Star

6. Short-term borrowings (Continued)

achieves and maintains certain performance benchmarks. At December 31, 2003, approximately \$16,685,000 was outstanding under the Loan Agreement and approximately \$480,000 was available to be borrowed.

In connection with the Loan Agreement, Five Star also entered into a derivative transaction with Fleet National Bank on June 20, 2003. The derivative transaction is an interest rate swap which has been designated as a cash flow hedge. Effective July 1, 2004 through June 30, 2008, Five Star will pay a fixed interest rate of 3.38% to Fleet National Bank on notional principal of \$12,000,000. In return, Fleet National Bank will pay to Five Star a floating rate, namely, LIBOR, on the same notional principal amount. The credit spread under the Loan Agreement is not included in and will be paid in addition to this fixed interest rate of 3.38%.

GSE

GSE previously had a \$1.5 million bank line of credit. The credit facility provided for borrowings to support working capital needs and foreign letters of credit. The line was collateralized by substantially all of GSE's assets. The interest rate on this line of credit was based on the bank's prime rate plus 1.00% (5.00% as of December 31, 2003), with interest only payments due monthly. At December 31, 2003, GSE's available borrowing base was \$1.5 million, none of which had been utilized. On March 23, 2000, the Company agreed to guarantee up to \$1,800,000 of GSE credit facility, through May 31, 2004, as extended.

GSE's current credit facility was scheduled to expire on May 31, 2004; however on March 30, 2004, GSE was added as an additional borrower under the General Physics Credit Agreement. Under the terms of the Credit Agreement, as amended, \$1,500,000 of General Physics' Credit Agreement has been allocated for use by GSE as well as certain covenants specific to GSE. The Credit Agreement was amended to provide for additional collateral consisting of substantially all of the GSE's assets, as well as certain covenants specific to GSE. It provides for borrowings by GSE up to 80% of eligible accounts receivable and 80% of eligible unbilled receivables, up to a maximum of \$1,500,000. The interest rate is based upon the LIBOR Market Index Rate plus 3%, with interest only payments due monthly. The Company agreed to guarantee GSE's borrowings under the Credit Agreement, as amended, in consideration for a fee pursuant to the Management Services Agreement.

7. Accounts payable and accrued expenses

Accounts payable and accrued expenses are comprised of the following (in thousands):

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| December 31, | 2003 | 2002 |
|---------------------------|----------|----------|
| Accounts payable | \$22,795 | \$ 6,324 |
| Payroll and related costs | 6,324 | 4,617 |
| Restructuring reserve | 72 | 221 |
| Other | 8,916 | 6,390 |
| | \$38,107 | \$17,552 |

8. Long term debt

Long-term debt is comprised of the following (in thousands):

| December 31, | 2003 | 2002 |
|---|----------|---------|
| 6% conditional subordinated notes due 2008 (a) | \$7,500 | - |
| ManTech Note (b) | 5,251 | - |
| Mortgage on MXL Pennsylvania facility (c) | 1,405 | \$1,500 |
| Mortgage on MXL Illinois facility (d) | 1,185 | 1,210 |
| Senior subordinated debentures | 423 | 55 |
| 6% convertible exchangeable notes (e) | - | 2,600 |
| AOtec Debt (f) | 922 | - |
| Other (g) | 437 | 99 |
| | 17,123 | 6,914 |
| Less warrant related discount, net of accretion | (2,262) | - |
| | 14,861 | 6,914 |
| Less current maturities | (1,112) | (3,610) |
| | \$13,749 | \$3,304 |

(a) Pursuant to a Note and Warrant Purchase Agreement dated August 8, 2003, the Company issued and sold to four Gabelli funds \$7,500,000 aggregate principal amount of 6% Conditional Subordinated Notes due 2008 (the "Gabelli Notes") and 937,500 warrants ("GP Warrants"), each entitling the holder thereof to purchase (subject to adjustment) one share of the Company's common stock. The aggregate purchase price for the Gabelli Notes and GP Warrants was \$7,500,000.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

The Gabelli Notes bear interest at 6% per annum payable semi-annually commencing on December 31, 2003, and mature in August 2008. The Gabelli Notes are secured by a mortgage on the Company's property located in Pawling, New York. In the event that the spin-off does not occur, the Company may be required to redeem

8. Long term debt (Continued)

the Gabelli Notes by April 2005. In addition, at any time that less than \$1,875,000 principal amount of Notes are outstanding, the Company may defease the obligations secured by the mortgage and obtain a release of the mortgage by depositing with an agent for the Noteholders, bonds or government securities with an investment grade rating by a nationally recognized rating agency which, without reinvestment, will provide cash on the maturity date of the Gabelli Notes in an amount not less than the outstanding principal amount of the Gabelli Notes.

The GP Warrants have an exercise price of \$8.00 per share and are exercisable at any time until August 2008. The exercise price may be paid in cash, by delivery of Notes, or a combination of the two. The GP Warrants contain anti-dilution provisions for stock splits, reorganizations, mergers, and similar transactions. The fair value of the GP Warrants at the date of issuance was \$2,389,000, which reduced long-term debt in the accompanying consolidated balance sheet.

This amount is being accreted as additional interest expense using the effective interest rate over the term of the Gabelli Notes. The Gabelli Notes have a yield to maturity of 15.436% based on the discounted value. Accretion charged as non-cash interest expense was approximately \$127,000 during 2003.

The GP Warrants were accounted for as a liability of the Company until the shares of the Company's common stock issuable on exercise of the GP Warrants were registered, which occurred on December 8, 2003, at which time the liability was reclassified to additional paid in capital at its then fair market value of \$953,000. The changes in the fair market value of the GP Warrants were marked to market through December 8, 2003 with the adjustment shown as other income in the consolidated statement of operations. The Company recognized a gain of \$1,436,000 in its December 8, 2003 valuation adjustment of the liability relating to the GP Warrants using the Black-Scholes model.

The Note and Warrant Purchase Agreement provides that, on completion of the Distribution described in Note 1, NPDC will issue warrants ("NPDC Warrants") to the holders of the GP Warrants. The NPDC Warrants will entitle the holders to purchase, in the aggregate, a number of shares of NPDC common stock equal to 8% of the number of shares outstanding at completion of the spin-off, subject to reduction for any GP Warrants exercised prior to the spin-off. The NPDC Warrants will be allocated to the holders of the GP Warrants on a pro-rata basis, on the respective number of GP Warrants held by them on such date.

In connection with the Distribution, the Company intends to contribute the Pawling property, subject to the mortgage, to MXL. MXL will assume the mortgage, but without liability for repayment of the Gabelli Notes or any other obligations of the Company under the Note and Warrant Purchase Agreement (other than foreclosure on such property). If there is a foreclosure on the mortgage for payment of the Gabelli Notes, the Company has agreed to indemnify MXL for loss of the value of the property.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

8. Long term debt (Continued)

(b) On October 23, 2003 in connection with the GSE Acquisition the Company issued a five-year 5% note due in full on October 21, 2008 in the principal amount of \$5,250,955 to ManTech International. Interest is payable quarterly. Each year during the term of the note, the holder of the note will have the option to convert up to 20% of the original principal amount of the note into common stock of GP Strategies at the then market price of GP Strategies' common stock, but only in the event that GP Strategies' common stock is trading at \$10 per share or more. In the event that less than 20% of the principal amount of the note is not converted in any year, such amount not converted will be eligible for conversion in each subsequent year until converted or until the note is repaid in cash.

(c) On March 8, 2001, MXL entered into a loan in the amount of \$1,680,000, secured by a mortgage covering the real estate and fixtures on its property in Pennsylvania. The loan requires monthly repayments of \$8,333 plus interest at 2.5% above the one month LIBOR rate and matures on March 8, 2011, when the remaining amount outstanding of approximately \$680,000 is due in full. The loan is guaranteed by the Company.

(d) On July 3, 2001, MXL entered into a loan in the amount of \$1,250,000, secured by a mortgage covering the real estate and fixtures on its property in Illinois. The loan requires monthly payments of principal and interest in the amount of \$11,046 with interest at a fixed rate of 8.75% per annum, and matures on June 26, 2006, when the remaining amount outstanding of approximately \$1,100,000 is due in full. The loan is guaranteed by the Company.

(e) On April 23, 2003, the Company entered into an agreement (the "Exchange Agreement") with the Holders of the 6% Convertible Exchangeable Notes due June 30, 2003 (the "Valera Notes") to exchange the Valera Notes plus related accrued interest for 554,000 shares of the Company's Common Stock with a fair value of \$2,770,000. The original agreement provided that the Valera Notes, at the option of the Holders, could be exchanged for 19.9% of the outstanding capital stock of Valera, or into shares of the Company's Common Stock at a conversion rate of \$5.00 per share. As a result, in accordance with the provisions of SFAS Statement No. 84, Induced Conversions of Convertible Debt, the Company recorded debt conversion expense, net of approximately \$622,000, which is included in selling, general and administrative expenses.

(f) On September 15, 2003, MXL purchased machinery, equipment and inventory from AOTec LLC ("AOTec"), for \$1,100,000, subject to adjustment. In connection with this purchase, the Company valued the machinery and equipment at approximately \$900,000, the inventory at approximately \$300,000 and recorded accrued expenses of \$100,000. MXL paid \$100,000 of the purchase price in cash and issued three notes, in the amount of \$450,000, \$275,000 and \$275,000 each, due October 1, 2003, August 5, 2004 and August 5, 2005, respectively (collectively, the "AOTec Notes"). The AOTec Notes bear interest on the unpaid principal

8. Long term debt (Continued)

amount at the rate of 4% per annum. On October 1, 2003, MXL borrowed \$700,000 from a bank (the "AOTec Debt") to finance the purchase price and used the proceeds to pay the \$450,000 note. The AOTec Debt is payable monthly for three years and is secured by the machinery and equipment purchased from AOTec. The Company guaranteed the AOTec Debt.

(g) Represents primarily capital lease obligations for equipment.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Aggregate annual maturities of long-term debt at December 31, 2003 are as follows (in thousands):

| | |
|------------|----------|
| 2004 | \$ 1,112 |
| 2005 | 742 |
| 2006 | 1,444 |
| 2007 | 100 |
| 2008 | 12,851 |
| Thereafter | 874 |

9. Employee benefit plans

The Company and its employees maintain a Retirement Savings Plan (the Plan) for employees who have completed at least one month of service. The Plan permits pre-tax contributions to the Plan by participants pursuant to Section 401(k) of the Internal Revenue Code of 1% to 14% of base compensation. The Company matches participants' contributions up to a specific percentage of the first 7% of base compensation contributed for employees who have completed one year of service and may make additional matching contributions at its discretion. In 2003, 2002 and 2001 the Company did not make any discretionary matching contributions. The Company matches participants' contributions in shares of its Common Stock up to 57% of monthly employee salary deferral contributions. In 2003, 2002 and 2001 the Company contributed 188,317 shares, 270,000 shares and 291,185 shares of the Company's common stock directly to the Plan with a value of approximately \$1,053,000, \$1,058,000 and \$1,151,000, respectively.

GSE Employee Benefit Plan

GSE has a qualified defined contribution plan that covers substantially all its U.S. employees under Section 401(k) of the Internal Revenue Code. Under this plan, GSE stipulated basic contribution matches a portion of the participants' contributions based upon a defined schedule. GSE's contributions to the plan were approximately \$12,000 from October 23, 2003 to December 31, 2003.

9. Employee benefit plans (Continued)

Five Star Employee Benefit Plan

Five Star maintains a 401(k) Savings Plan for employees who have completed one year of service. The Savings Plan permits pre-tax contributions to the plan of 2% to 50% of compensation by participants pursuant to Section 401(k) of the Internal Revenue Code. Five Star matches 40% of the participants' first 6% of compensation contributed, not to exceed an amount equivalent to 2.4% of that participant's compensation. Five Star's contribution to the plan was approximately \$31,000 from October 8, 2003 to December 31, 2003.

10. Income taxes

The components of income tax expense (benefit) are as follows (in thousands):

| Years ended December 31, | 2003 | 2002 | 2001 |
|--------------------------|-------|--------|--------|
| Current | | | |
| Federal | \$ 39 | | |
| State and local | 399 | \$ 370 | \$ 537 |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | | |
|------------------------------------|-------|----------|---------|
| Foreign | 693 | 361 | 186 |
| Total current | 1,131 | 731 | 723 |
| Deferred | | | |
| Federal | - | (1,420) | 1,392 |
| State and local | - | (130) | 400 |
| Foreign | (245) | | |
| Total deferred | (245) | (1,550) | 1,792 |
| Total income tax expense (benefit) | \$886 | \$ (819) | \$2,515 |

The deferred expense (benefit) excludes activity in the net deferred tax assets relating to tax on appreciation (depreciation) in available-for-sale securities, which is recorded directly to stockholders' equity.

10. Income taxes (Continued)

The difference between the expense (benefit) for income taxes computed at the statutory rate and the reported amount of tax expense (benefit) is as follows:

| December 31, | 2003 | 2002 | 2001 |
|---|---------|---------|--------|
| Federal income tax rate | (35.0%) | (35.0%) | 35.0% |
| Foreign, State and local taxes net of Federal benefit | 5.5 | 6.8 | 32.6 |
| Taxes of subsidiaries that are not consolidated for tax purposes | 1.8 | | |
| Items not deductible - primarily meals and entertainment | 6.2 | 3.0 | 23.8 |
| Valuation allowance adjustment | 28.1 | | (6.9) |
| Net losses from foreign operations for which no tax benefit has been provided | 0.7 | 1.7 | 41.2 |
| Tax effect recorded in stockholders' equity for sale of available-for sale-securities | 4.4 | 9.2 | 32.0 |
| Other | 0.2 | 0.8 | 2.5 |
| Effective tax rate expense (benefit) | 11.9% | (13.5%) | 160.2% |

In 2003, the Company recorded income tax expense of \$886,000. The current income tax provision of \$1,131,000 represents estimated federal taxes of \$39,000, state taxes of \$399,000, and foreign taxes of \$693,000. The deferred income tax benefit of \$245,000 represents a benefit for the future utilization of a portion

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

of the Company's foreign net operating loss.

In 2002, the Company recorded an income tax benefit of \$819,000. The current income tax provision of \$731,000 represents estimated state taxes of \$370,000 and foreign taxes of \$361,000. The deferred income tax benefit of \$1,550,000 primarily represents a benefit for the future utilization of the Company's domestic net operating losses.

In 2001, the Company recorded income tax expense of \$2,515,000. The current income tax provision of \$723,000 represents estimated state taxes of \$537,000 and foreign taxes of \$186,000. The deferred income tax expense of \$1,792,000 represents future estimated federal and state taxes.

The Company had an effective tax rate of 11.9% for the year ended December 31, 2003. This rate was primarily due to certain nondeductible items, an increase in the valuation allowance for domestic net operating losses for which no tax benefit has been provided, and the tax treatment for financial statement purposes of the sale by the Company in 2003 of certain shares of available-for-sale securities accounted for pursuant to SFAS No.115 "Accounting for Certain Investments in Debt and Equity Securities."

10. Income taxes (Continued)

The Company had an effective tax rate of 14% for the year ended December 31, 2002. This rate was primarily due to certain nondeductible items, net losses from foreign operations for which no tax benefit has been provided, and the tax treatment for financial statement purposes of the sale by the Company in 2002 of certain shares of available-for-sale securities accounted for pursuant to SFAS No.115.

The Company had an effective tax rate of 160% for the year ended December 31, 2001. This rate was primarily due to the tax treatment for financial statement purposes of the sale by the Company in 2001 of certain shares of available-for-sale securities accounted for pursuant to SFAS No.115.

As of December 31, 2003, the Company has approximately \$30,778,000 of Federal net operating loss carryforwards. These carryforwards expire in the years 2005 through 2023. Foreign net operating losses at December 31, 2003 were approximately \$35,825,000. In addition, the Company has approximately \$972,000 of available credit carryovers which may be carried over indefinitely.

The tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities that are included in the net deferred tax (liability) asset are summarized as follows (in thousands):

| December 31, | 2003 |
|---|--------|
| Deferred tax assets: | |
| Allowance for doubtful accounts | \$ 405 |
| Accrued liabilities | 1,706 |
| Net Federal and Foreign operating loss carryforwards | 22,751 |
| Tax credit carryforwards | 972 |
| Restructuring reserves | 460 |
| Tax benefits of subsidiaries not consolidated for tax | |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | |
|---|----------|
| purposes | 227 |
| Investment in partially owned companies | 128 |
| ----- | |
| Deferred tax assets | 26,649 |
| ----- | |
| Deferred tax liabilities: | |
| Property and equipment, principally due to difference in depreciation and amortization | 2,375 |
| Investment in partially owned companies | |
| ----- | |
| Deferred tax liabilities | 2,375 |
| ----- | |
| Net deferred tax assets | 24,274 |
| Less valuation allowance | (12,586) |
| ----- | |
| Net deferred tax asset | \$11,688 |
| ----- | |

10. Income taxes (Continued)

In 2003 the valuation allowance increased by \$2,125,000 attributable primarily to domestic net operating losses for the year ended December 31, 2003 for which no tax benefit has been provided. In 2002, the valuation allowance decreased by \$404,000 attributable primarily to the expiration of tax credit carryforwards.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon these factors, management believes it is more likely than not that the Company will realize the benefits of deferred tax assets, net of the valuation allowance. The valuation allowance relates to both foreign and domestic net operating loss carryforwards for which the Company does not believe the benefits will be realized. As of December 31, 2003, the Company has recorded a net deferred tax asset of \$11,688,000.

11. Comprehensive income (loss)

The following are the components of comprehensive income (loss) (in thousands):

Year ended December 31

2003

2002

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | |
|---|------------|-------------|
| | ---- | ---- |
| Net loss | \$ (8,276) | \$ (5,228) |
| Other comprehensive (loss) income, before tax: | | |
| Net unrealized loss on available-for-sale-securities | (1,067) | (12,130) |
| Net unrealized gain on interest rate swap | 82 | |
| Foreign currency translation adjustment | 139 | (492) |
| | ----- | ----- |
| Comprehensive loss before tax | (846) | (11,622) |
| Income tax benefit related to items of other comprehensive income (loss) | 410 | 4,718 |
| | ----- | ----- |
| Comprehensive income (loss), net of tax | \$ (8,712) | \$ (13,132) |
| | ===== | ===== |

The components of accumulated other comprehensive income are as follows (in thousands):

| | | |
|--|---------|---------|
| December 31, | 2003 | 2002 |
| Net unrealized gain on available-for-sale-securities | \$1,613 | \$2,680 |
| Net unrealized gain on interest rate swap | 82 | |
| Foreign currency translation adjustment | (1,010) | (1,149) |
| Accumulated other comprehensive income before tax | 685 | 1,531 |
| Accumulated income tax expense related to items of other comprehensive loss | (661) | (1,071) |
| Accumulated other comprehensive income, net of tax | \$ 24 | \$ 460 |
| | ===== | ===== |

12. Common Stock, stock options and warrants

(a) On October 29, 2003 the Company's shareholders approved the GP Strategies Corporation's 2003 Incentive Stock Plan (the "2003 Plan"). The 2003 Plan was adopted because only approximately 660,000 shares of the Company's Common Stock were available for grant under the Company's existing Non-Qualified Stock Option Plan (the "Plan"), which the Company believed did not provide sufficient shares for market-competitive grant levels.

The 2003 Plan will permit awards of incentive stock options, nonqualified stock options, restricted stock, stock units, performance shares, performance units and other incentives payable

12. Common Stock, stock options and warrants (Continued)

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

in cash or in shares of the Company's Common Stock or Class B Common Stock. The aggregate number of shares of Common Stock or Class B Common Stock available for issuance under the 2003 Plan is 2,000,000, of which not more than 500,000 shares may be shares of Class B Common Stock. As of December 31, 2003 approximately 711,000 shares of the Company's Common Stock were available for grant under the Plan, and 2,000,000 shares of the Company's Common Stock were available for grant under the 2003 Plan.

Under the Plan, employees and certain other parties may be granted options to purchase shares of common stock. Although the Plan permits options to be granted at a price not less than 85% of the fair market value, the Plan options primarily are granted at the fair market value of the common stock at the date of the grant and vest over periods ranging from two to ten years from the date of grant. Shares of common stock may also be reserved for issuance pursuant to other agreements.

Changes in options and warrants outstanding during 2003, 2002 and 2001, and options and warrants exercisable and shares reserved for issuance at December 31, 2003, 2002, and 2001 are as follows:

12. Common Stock, stock options and warrants (Continued)

| Options and warrants Outstanding | Price Range per share | | Number of shares | Weighted Average Exercise Price |
|----------------------------------|-----------------------|--------|------------------|---------------------------------|
| December 31, 2000 | \$3.375 - | 24.00 | 2,505,348 | |
| Granted | 3.00 - | 4.61 | 452,000 | |
| Terminated | 4.61 - | 24.00 | (166,683) | |
| December 31, 2001 | 3.00 - | 15.375 | 2,790,665 | |
| Granted | 3.60 - | 4.75 | 845,800 | |
| Exercised | 3.60 - | 4.61 | (1,233) | |
| Terminated | 3.60 - | 14.625 | (722,235) | |
| December 31, 2002 | 3.00 - | 15.375 | 2,912,997 | |
| Granted | 4.90 - | 8.00 | 1,222,250 | |
| Exercised | 3.00 - | 5.1875 | (248,983) | |
| Terminated | 3.60 - | 14.625 | (96,367) | |
| December 31, 2003 | 3.00 - | 15.375 | 3,789,897 | |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Options and warrants exercisable

| | | | |
|------------------------------|----------|--------|-----------|
| December 31, 2001 | 3.00 - | 15.375 | 2,058,096 |
| December 31, 2002 | 3.00 - | 15.375 | 2,096,199 |
| December 31, 2003 | \$3.00 - | 15.375 | 3,212,922 |
| Shares reserved for issuance | | | |
| December 31, 2001 | | | 3,938,303 |
| December 31, 2002 | | | 3,937,070 |
| December 31, 2003 | | | 4,625,587 |

At December 31, 2003, the weighted average remaining contractual life of all outstanding options was 4 years.

The following table summarizes information about the Plan's options outstanding at December 31, 2003:

| Range of Exercise Prices | Number Outstanding | Weighted Average Years Remaining | Weighted-Average Exercise Price |
|--------------------------|--------------------|----------------------------------|---------------------------------|
| \$ 3.00 - \$ 7.75 | 1,625,272 | 3.71 | \$ 4.72 |
| \$ 7.76 - \$10.41 | 560,000 | .71 | \$ 8.16 |
| \$10.42 - \$15.375 | 367,125 | 4.21 | \$14.72 |
| \$ 3.00 - \$15.375 | 2,552,397 | 3.12 | \$ 6.91 |

The Company had no outstanding Class B Common Stock options during fiscal years 2003, 2002 and 2001.

12. Common Stock, stock options and warrants (Continued)

The holders of Common Stock are entitled to one vote per share and the holders of Class B Common Stock are entitled to ten votes per share on all matters without distinction between classes, except when approval of a majority of each class is required by statute. The Class B Common Stock is convertible at any time, at the option of the holders of such stock, into shares of common stock on a share-for-share basis. Shares reserved for issuance of common stock were primarily related to options, warrants and the conversion of long-term debt.

The Company reserved 950,000 shares of its Common Stock for issuance upon conversion of Class B Common Stock at December 31, 2000. The Company reserved an

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

additional 300,000 shares for a private placement transaction (see Note 12(c)) bringing the total to 1,250,000 shares reserved for issuance upon conversion of Class B Common Stock at December 31, 2003, 2002 and 2001.

At December 31, 2003, 2002, and 2001, options outstanding included options for 353,623, 353,623 and 239,498 shares, respectively, for certain executive officers.

(b) Pursuant to an agreement dated as of October 19, 2001 (the "Stock Purchase Agreement"), the Company sold to Bedford Oak Partners, LP (the "Bedford Oak") in a private placement transaction, 300,000 shares of Class B Common Stock (the "Bedford Class B Shares") for \$900,000. Upon the disposition of any of the Bedford Class B Shares (other than to an affiliate of Bedford Oak who agrees to be bound by the provisions of the Stock Purchase Agreement) or at the request of the Board of Directors of the Company, Bedford Oak is required to exercise the right to convert all of the Bedford Class B Shares then owned by Bedford Oak into an equal number of shares of common stock of the Company (the "Bedford Underlying Shares"). The Company was required to file a registration statement to register the resale of the Bedford Underlying Shares by Bedford Oak, which registration statement was declared effective as of August 13, 2002.

On any date prior to October 19, 2003 during which Bedford Oak was not able to resell the Bedford Underlying Shares pursuant to the registration statement, Bedford Oak had the right to require the Company to purchase all, but not less than all, of the Bedford Class B Shares and the Bedford Underlying Shares then held by Bedford Oak for a purchase price as specified in the Stock Purchase Agreement. The put option obligation expired upon the effectiveness of the registration statement on August 13, 2002 covering the Bedford Underlying Shares.

Pursuant to an agreement dated May 3, 2002, the Company agreed to sell to Bedford Oak in a private placement transaction 1,200,000 shares of Common Stock (the "Bedford Common Shares") of the Company for an aggregate purchase price of \$4,200,000. Harvey Eisen, the managing member of Bedford Oak Advisors, LLC, the investment manager of Bedford Oak, was elected a director of the Company in July 2002.

12. Common Stock, stock options and warrants (Continued)

Pursuant to an agreement dated May 3, 2002, the Company sold 100,000 shares of Common Stock for \$350,000 to Marshall Geller (the "Geller Shares"), a director of the Company, in a private placement transaction.

Pursuant to an agreement dated May 3, 2002 (the "EGI Agreement"), the Company sold to Equity Group Investments, L.L.C. ("EGI") in a private placement transaction 1,000,000 shares of Common Stock (the "EGI Common Shares") for \$3,500,000 and 300,000 shares of Class B Common Stock (the "EGI Class B Shares") for \$1,260,000. Mark Radzik, a designee of EGI, was elected a director of the Company in July 2002.

Upon the disposition of any of the EGI Class B Shares (other than to an affiliate of EGI or to a transferee approved by the Board who in each case agrees to be bound by the provisions of the EGI Agreement), EGI was required to convert all of the EGI Class B Shares into an equal number of shares of Common Stock (the "EGI Underlying Shares"). Until May 3, 2003, the Company had the right to purchase all, but not less than all, of the EGI Class B Shares then owned by EGI. On April 14, 2003, the Company irrevocably waived its right to exercise such call option with respect to the EGI Class B Shares.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

The Company and EGI have entered into an advisory services agreement providing that, to the extent requested by the Company and deemed appropriate by EGI, EGI shall assist the Company in developing, identifying, evaluating, negotiating, and structuring financings and business acquisitions. The Company has agreed to pay EGI a transaction fee equal to 1% of the proceeds received by the Company in a financing, or of the consideration paid by the Company in a business acquisition, in respect of which EGI has provided material services.

On August 13, 2002, a registration statement covering the resale of the Bedford Underlying Shares, the Bedford Common Shares, the EGI Common Shares, the EGI Underlying Shares and the Geller Shares was declared effective by the SEC.

(c) In June 2001, the Company entered into an agreement with a financial consulting firm to provide certain services for which the Company, in addition to cash payments, agreed to issue warrants to purchase 300,000 shares of the Company's common stock at an exercise price of \$4.60 per share. In connection with the issuance of these warrants, the Company recorded an expense of \$750,000 in 2001 for these warrants which is included in selling, general and administrative expense in the Consolidated Statement of Operations. These warrants expire in June 2011.

(d) On February 11, 2000, an affiliate of Andersen, Weinroth & Co., L.P. ("Andersen Weinroth") purchased 200,000 shares of Class B Common Stock for \$1,200,000. In addition, a general partner of Andersen Weinroth joined the Board of Directors of the Company. On

12. Common Stock, stock options and warrants (Continued)

October 11, 2001, this general partner resigned from the Board of Directors of the Company and converted the 200,000 shares of Class B Common Stock into an equal number of shares of Common Stock.

(e) On August 8, 2003, the Company issued and sold to four Gabelli funds 937,500 GP Warrants, each entitling the holder thereof to purchase (subject to adjustment) one share of the Company's common stock (See Note 8). The GP Warrants have an exercise price of \$8.00 per share and are exercisable at any time until August 2008.

(f) GSE long term incentive plan

During 1995, GSE established the 1995 Long-Term Incentive Stock Option Plan (the "GSE Plan"), which includes all officers, key employees and non-employee members of GSE's Board of Directors. All options to purchase shares of GSE's common stock under the GSE Plan expire seven years from the date of grant and generally become exercisable in three installments with 40% vesting on the first anniversary of the grant date and 30% vesting on each of the second and third anniversaries of the grant date, subject to acceleration under certain circumstances. At December 31, 2003, GSE had 679,644 shares of common stock reserved for future grants under the GSE Plan.

Stock option activity under the GSE Plan is as follows:

| Options Outstanding | Price Range per share | Number of shares | Weighted-Average Exercise Price |
|---------------------|-----------------------|------------------|---------------------------------|
|---------------------|-----------------------|------------------|---------------------------------|

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | | | |
|-------------------|----------|--------|-----------|--------|
| October 23, 2003 | \$2.00 - | 14.750 | 1,683,876 | \$4.16 |
| Granted | | | | |
| Exercised | | | | |
| Terminated | 2.00 - | 2.800 | (27,400) | 2.31 |
| December 31, 2003 | \$2.00 - | 14.750 | 1,656,476 | \$4.65 |

The following table summarizes information relating to currently outstanding and exercisable options at December 31, 2003:

12. Common Stock, stock options and warrants (Continued)

| Range of Exercise Prices | Number Outstanding | Average Years Remaining | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
|--------------------------|--------------------|-------------------------|---------------------------------|--------------------|---------------------------------|
| \$ 1.48 - \$ 2.95 | 510,550 | 4.0 | \$2.15 | 393,550 | |
| \$ 2.96 - \$ 4.43 | 789,485 | 2.6 | 3.67 | 389,485 | |
| \$ 4.44 - \$ 5.90 | 200,000 | 3.1 | 4.75 | 200,000 | |
| \$ 5.91 - \$ 7.38 | 10,000 | 3.3 | 6.38 | 10,000 | |
| \$ 7.39 - \$ 8.85 | 20,000 | 3.2 | 7.50 | 20,000 | |
| \$ 8.86 - \$11.80 | 200 | 2.6 | 11.25 | 200 | |
| \$11.81 - \$14.75 | 26,241 | 1.7 | 14.11 | 126,241 | |
| Total | 1,656,476 | 3.0 | \$4.19 | 1,139,476 | |

(g) Five Star Stock Option plan

On January 1, 1994, Five Star's Board of Directors adopted the Five Star Products, Inc. 1994 Five Star Plan (the "Five Star Plan"), which became effective August 5, 1994. On January 1, 2002, the Board of Directors amended the Five Star Plan increasing the total number of shares of common stock to 4,000,000 shares reserved for issuance, subject to adjustment in the event of stock splits, stock dividends, recapitalizations, reclassifications or other capital adjustments. Unless designated as "incentive stock options" intended to qualify under Section 422 of the Internal Revenue Code, options granted under the Five Star Plan are intended to be nonqualified options. Options may be granted to any director, officer or other key employee of Five Star and its subsidiaries, and to consultants and other individuals providing services to Five Star.

The term of any option granted under the Five Star Plan will not exceed ten

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

years from the date of the grant of the option and, in the case of incentive stock options granted to a 10% or greater holder in the total voting stock of Five Star, three years from the date of grant. The exercise price of any option will not be less than the fair market value of the Common Stock on the date of grant or, in the case of incentive stock options granted to a 10% or greater holder in the total voting stock, 110% of such fair market value.

Options granted vest 20% on date of grant with the balance vesting in equal annual installments over four years.

12. Common Stock, stock options and warrants (Continued)

Activity relating to stock options granted by Five Star:

| Options Outstanding | Number of Shares | Weighted Average Exercise Price |
|---|------------------|---------------------------------|
| October 8, 2003 Granted Exercised Terminated | 1,530,000 | \$.19 |
| December 31, 2003 | 1,530,000 | .19 |
| Exercisable at December 31, 2003 | 975,000 | \$.22 |

The following table summarizes information about the Five Star Plan's options at December 31, 2003:

| Range of Exercise Prices | Number Outstanding | Weighted Average Exercise Prices | Weighted Average Years Remaining | Number Exercisable | Weighted Average Exercise Price |
|--------------------------|--------------------|----------------------------------|----------------------------------|--------------------|---------------------------------|
| \$.14 - .14 | 925,000 | .14 | 2.95 | 460,000 | .14 |
| .15 - .15 | 50,000 | .15 | 3.24 | 50,000 | .15 |
| .16 - .16 | 150,000 | .16 | 3.64 | 60,000 | .16 |
| .33 - .33 | 405,000 | .33 | .29 | 405,000 | .33 |
| \$.13 - \$.33 | 1,530,000 | \$.19 | .90 | 975,000 | \$.22 |

13. Business segments

The operations of the Company currently consist of the following five business segments, by which the Company is managed.

The Company's principal operating subsidiary is GP. GP operates in two business segments. The Manufacturing & Process Segment provides technology based training, engineering, consulting and technical services to leading companies in the automotive, steel, power, oil and gas, chemical, energy, pharmaceutical and food and beverage industries, as well as to the government sector. The Information Technology Segment provides IT training programs and solutions, including Enterprise Solutions and comprehensive career training and transition programs.

The Simulation Segment, which consists of GSE, provides of real-time simulation, homeland security and engineering services for the energy, process and military industries. The Company

13. Business segments (Continued)

acquired additional shares of GSE in fourth quarter of 2003, bringing its ownership to 58% (see Note 4). GSE is consolidated in the Company's financial statements effective October 23, 2003.

The Optical Plastics Segment, which consists of MXL, manufactures coated and molded plastic products.

The Home Improvement Distribution Segment, which consists of Five Star, distributes paint sundry items, interior and exterior stains, brushes, rollers, caulking compounds and hardware products on a regional basis. The Company acquired additional shares of Five Star in fourth quarter of 2003, bringing its ownership to 54% (see Note 4). Five Star is consolidated in the Company's financial statements effective October 8, 2003.

Effective January 1, 2002, Valera no longer exists as a business segment (see Note 3). Information presented for Corporate & Other includes financial information for the operations and assets of the Valera subsidiary as of and for the year ended December 31, 2001 prior to its treatment as an equity investment. The management of the Company does not allocate the following items by segment: Investment and other income, interest expense, selling, general and administrative expenses, depreciation and amortization expense, income tax expense, significant non-cash items and long-lived assets. Inter-segment sales are not significant.

The following tables set forth the sales and operating results attributable to each line of business and includes a reconciliation of the segments sales to consolidated sales and operating results to consolidated income (loss) before income taxes (in thousands):

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

13. Business segments (Continued)

| Years ended December 31, | 2003 | 2002 |
|---|------------|------------|
| Sales | | |
| Manufacturing & Process | \$127,762 | \$134,255 |
| Information Technology | 6,213 | 7,982 |
| Simulation | 6,059 | |
| Optical Plastics | 8,613 | 9,996 |
| Home Improvement Distribution | 20,031 | |
| Corporate & Other | | |
| | \$168,678 | \$152,233 |
| Operating results | | |
| Manufacturing & Process | \$ 3,823 | \$ 1,712 |
| Information Technology | 860 | (182) |
| Simulation | 358 | |
| Optical Plastics | (60) | 429 |
| Home Improvement Distribution | 333 | |
| Corporate & Other | (10,532) | (5,506) |
| Total operating results | (5,218) | (3,547) |
| Interest expense | (3,625) | (2,770) |
| Gains on equity investments, restructuring charges, amortization of intangible assets, valuation adjustment of liability for warrants and gain on sale of marketable securities | 1,423 | 270 |
| (Loss) income from operations before income taxes and minority interests | \$ (7,420) | \$ (6,047) |

Operating results represent sales less operating expenses. In computing operating results, none of the following items have been added or deducted: general corporate expenses at the holding company level, restructuring charges, foreign currency transaction gains and losses, investment income, loss on investments, loss on sale of assets, amortization of intangible assets, valuation adjustment of liability for warrants and interest expense. General corporate expenses at the holding company level, which are primarily salaries, occupancy costs, professional fees and costs associated with being a publicly traded company, totaled approximately \$10,472,000 (net of a non-cash credit to compensation expense of \$150,000 relating to a deferred compensation plan and including executive incentive bonuses of \$3,000,000 and non-cash debt conversion expense of \$622,000), \$4,882,000 (net of a non-cash credit to compensation expense of \$1,211,000 relating to the deferred compensation plan) and \$3,033,000 (net of a non-cash credit to compensation expense of \$2,370,000) for the years ended December 31, 2003, 2002 and 2001, respectively. For the years ended

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

December 31, 2003, 2002 and 2001, sales to the United States government and its agencies represented approximately 32%, 32% and 29%, respectively, of the Company's sales.

13. Business segments (Continued)

Additional information relating to the Company's business segments is as follows (in thousands):

| December 31, | 2003 | 2002 |
|-------------------------------|-----------|-----------|
| Identifiable assets | | |
| Manufacturing & Process | \$ 89,201 | \$ 93,193 |
| Information Technology | 8,088 | 8,978 |
| Simulation | 19,817 | |
| Optical Plastics | 10,462 | 9,818 |
| Home Improvement Distribution | 38,721 | |
| Corporate & Other | 22,034 | 32,916 |
| | \$188,323 | \$144,905 |

| Years ended December 31, | 2003 | 2002 |
|---|----------|----------|
| Additions to property, plant, and equipment | | |
| Manufacturing & Process | \$ 685 | \$ 1,523 |
| Information Technology | 22 | |
| Simulation | 20 | |
| Optical Plastics | 1,135 | 368 |
| Home Improvement Distribution | 159 | |
| Corporate & Other | 102 | 25 |
| | \$ 2,123 | \$ 1,916 |

| Years ended December 31, | 2003 | 2002 |
|-------------------------------|----------|----------|
| Depreciation and Amortization | | |
| Manufacturing & Process | \$ 1,600 | \$ 1,836 |
| Information Technology | 1 | 18 |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | |
|-------------------------------|----------|----------|
| Simulation | 192 | |
| Optical Plastics | 565 | 510 |
| Home Improvement Distribution | 47 | |
| Corporate & Other | 523 | 940 |
| | | |
| | \$ 2,928 | \$ 3,304 |

Identifiable assets by industry segment are those assets that are used in the Company's operations in each segment. Corporate and other assets are principally cash and cash equivalents, marketable securities and intangible assets, including goodwill.

13. Business segments (Continued)

Information about the Company's net sales in different geographic regions, which are attributed to countries based on location of customers, is as follows (in thousands):

| | Year ended December 31, | |
|-------------------------|-------------------------|-----------|
| | 2003 | 2002 |
| | ---- | ---- |
| United States | \$156,394 | \$139,831 |
| Canada | 1,221 | 1,421 |
| United Kingdom | 7,131 | 7,258 |
| Latin America and other | 3,932 | 3,723 |
| | ----- | ----- |
| | \$168,678 | \$152,233 |
| | ----- | ----- |

Information about the Company's total assets in different geographic regions is as follows (in thousands):

| | December 31, | |
|-------------------------|--------------|-----------|
| | 2003 | 2002 |
| | ---- | ---- |
| United States | \$180,026 | \$137,303 |
| Canada | 404 | 3,076 |
| United Kingdom | 3,820 | 3,301 |
| Latin America and other | 4,073 | 1,225 |
| | ----- | ----- |
| | \$188,323 | \$144,905 |
| | ----- | ----- |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

All corporate intangible assets of the Company, as well as other corporate assets, are assumed to be in the United States.

14. Restructuring and other charges

During 1999, the Company adopted restructuring plans, primarily related to its IT Segment. The Company took steps in order to change the focus of the IT Segment from open enrollment information technology training courses to project oriented work for corporations, which was consistent with the focus of GP's current business.

In connection with the restructuring, the Company recorded a charge of \$7,374,000 in 1999, of which \$1,939,000 was the remaining balance as of December 31, 2000. During 2001, the Company utilized \$663,000 of the reserve and reversed \$202,000. During 2002, the Company utilized \$528,000 of the reserve, and as of December 31, 2002, \$104,000 was included in accounts payable and accrued expenses and \$442,000 was included in other non-current liabilities in the accompanying Consolidated Balance Sheet. During 2003 the Company utilized

14. Restructuring and other charges (Continued)

\$256,000 of the reserve and recorded restructuring charges of \$298,000 primarily relating to lease obligations. As of December 31, 2003, \$61,000 was included in accounts payable and accrued expenses and \$527,000 was included in other non-current liabilities in the accompanying Consolidated Balance Sheet.

The Company believed at the time the restructuring plan was adopted that the strategic initiatives and cost cutting moves taken in 1999 and the first quarter of 2000 would enable the IT Segment to return to profitability in the last six months of 2000. However, those plans were not successful, and the Company determined that it could no longer bring the open enrollment IT business to profitability. As a result of the continued operating losses incurred by the IT Segment, as well as the determination that revenues would not increase to profitable levels, the Company decided to close its open enrollment IT business in the third quarter of 2000 recording a charge of \$8,810,000 of which \$4,926,000 was the remaining balance as of December 31, 2000.

During 2001, the Company utilized \$2,302,000 of the reserve and reversed \$972,000 as a result of favorable settlements on certain leases and contractual obligations. During 2002, the Company utilized \$689,000 of the reserve and reversed \$368,000, and as of December 2002, \$117,000 was included in accounts payable and accrued expenses and \$478,000 was included in other non-current liabilities in the accompanying Consolidated Balance Sheet. During 2003, the Company utilized \$81,000 and reversed \$8,000 of charges primarily relating to lease obligations. As of December 31, 2003, \$11,000 was included in accounts payable and accrued expenses and \$495,000 was included in other non-current liabilities in the accompanying Consolidated Balance Sheet.

14. Restructuring and other charges (Continued)

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

The components of the restructuring charges are as follows (in thousands):

| | 1999 | 2000 |
|---|-------------------------|-------------------------|
| | Restructuring Charge | Restructuring Charge |
| Balance December 31, 2000 | \$ 1,939 | \$ 4,926 |
| Utilization | (663) | (2,302) |
| Reversal of Restructuring charges during 2001 | (202) | 972 |
| Balance December 31, 2001 | \$ 1,074 | \$ 1,652 |
| Utilization | (528) | (689) |
| Reversal of Restructuring charges during 2002 | | (368) |
| Balance December 31, 2002 | \$ 546 | \$ 595 |
| Utilization | (256) | (81) |
| Restructuring charges (reversals) during 2003 | 298 | (8) |
| Balance December 31, 2003 | \$ 588 | \$ 506 |

Lease and related obligations are presented at their present value, net of assumed sublets.

Effective September 4, 2002, John C. McAuliffe resigned as President of GP. Mr. McAuliffe and GP entered into a Separation Agreement pursuant to which Mr. McAuliffe will be a consultant to GP for a six-month period. In consideration for such services, GP agreed to pay Mr. McAuliffe the sum of \$350,000, \$300,000 in equal installments over the course of the consultancy period and \$50,000 in September 2005. In addition, GP agreed to pay Mr. McAuliffe severance of \$1,200,000 payable in equal installments on the following dates (i) September 2002, (ii) March 2003 and (iii) January 2, 2004. The Company recorded an expense of approximately \$125,000 in 2003 and of approximately \$1,440,000 in 2002, including \$125,000 of related legal fees, which is recorded in selling, general and administrative expense in the Consolidated Statements of Operations.

15. Related party transactions

In December 2003, GSE's Board of Directors elected John Moran, an executive of the Company with extensive experience in the power industry and simulation technology, as Chief Executive Officer. Mr. Moran will continue as an employee of the Company, however, Mr. Moran will devote 100% of his time to the performance of his duties as CEO of GSE. For 2003, GSE will reimburse the Company \$35,000 for his compensation and benefits; in 2004 GSE will reimburse the Company \$300,000 for Mr. Moran's compensation and benefits.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

15. Related party transactions (Continued)

At December 31, 2003 and 2002, the Company had total loans receivable from Mr. Feldman, the Company's Chief Executive Officer in the amount of approximately \$2,323,000 and \$4,095,000, the proceeds of which were used to purchase an aggregate of 537,500 shares of Class B Common Stock. Such loans bear interest at the prime rate and are secured by the purchased Class B Common Stock and certain other assets. All principal on the loans and accrued interest, totaling \$0 and \$1,075,000 at December 31, 2003 and 2002, respectively, are due on May 31, 2007.

Pursuant to the incentive compensation agreement (the "Incentive Agreement") entered into in 2002, Mr. Feldman, is eligible to receive from the Company up to five payments in an amount of \$1 million each, based on the closing price of the Company's common stock sustaining or averaging increasing specified levels over periods of at least 10 consecutive trading days. On each of June 11, 2003, July 23, 2003 and December 22, 2003, Mr. Feldman earned an incentive payment of \$1 million each. To the extent there are any outstanding loans from the Company to Mr. Feldman at the time an incentive payment is payable, the Company has the right to set-off the payment of such incentive payment first against the outstanding accrued interest under such loans and next against any outstanding principal.

The Company recorded compensation expense of \$3 million for the year ended December 31, 2003, which is included in selling, general and administrative expense. Although the set-off of the payments earned on June 11, 2003, July 23, 2003 and December 22, 2003 will take place in future periods, for accounting purposes, the set-offs will be deemed to have occurred on the dates earned since the Company possesses the right of set-off under the Incentive Agreement. As a result, the Company applied the first \$1 million earned by Mr. Feldman against \$1 million of accrued interest receivable, the second \$1 million against \$163,000 of accrued interest receivable and \$837,000 of principal, and the third \$1 million against \$64,000 of accrued interest receivable and \$936,000 of principal, which resulted in the outstanding balance of the note receivable being reduced from \$4,095,000 at December 31, 2002 to \$2,322,000 as of December 31, 2003.

On October 1, 2003, the incentive agreement was amended to allow Mr. Feldman to defer receipt of any incentive payment for a period of at least six months. The deferral period will automatically renew unless Mr. Feldman gives a termination notice at least 30 days prior to the expiration of the deferral period. However, no deferral period may end later than May 31, 2007. A deferral notice with respect to any incentive payment earned prior to December 31, 2003 must be given prior to December 1, 2003 (which deferral notice was timely given by Mr. Feldman) and a deferral notice with respect to any incentive payment earned on or after December 31, 2003 must be given at least five business days prior to the date that such incentive payment is earned. A deferral notice cannot be given, and any deferral period will end, if any outstanding loan from the Company to Mr. Feldman is due and payable and is not otherwise paid. Interest

15. Related party transactions (Continued)

accrues on each deferred amount at the prime rate minus 1%, which is 1% less

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

than the interest rate accrued on the Company's outstanding loans to Mr. Feldman.

In prior years, the Company made unsecured loans to Mr. Feldman in the amount of approximately \$334,000, which unsecured loans primarily bear interest at the prime rate of Fleet Bank.

For a description of certain transactions pursuant to which the Company received proceeds from the sale of Common Stock and Class B Common Stock to certain related parties, see Note 12.

In 2002, the Company and Redstorm Scientific, Inc. ("RSS") entered into an agreement pursuant to which the Company agreed to provide general business and administrative support to RSS. RSS is a privately held computational drug design company focused on utilizing bio-informatics and computer aided molecular design to assist pharmaceutical and biotechnology companies. The Company performed and completed all necessary services for RSS during the third quarter of 2002. In consideration for such services, RSS agreed to grant the Company a five-year option to purchase shares of RSS common stock. The Company also has an option to purchase additional equity in RSS upon the occurrence of certain events. Michael Feldman is the Chief Executive Officer of RSS and owns approximately 25.5% of the outstanding common stock of RSS. Michael Feldman is the son of Jerome Feldman, Chief Executive Officer of the Company. Jerome Feldman owns less than 1% of the outstanding common stock of RSS. In addition, Roald Hoffmann, a director of the Company, is a director of RSS and has options to purchase shares of RSS common stock.

In 2001, the Company sold 200,000 shares of Millennium common stock at \$8.50 per share and 300,000 shares of Millennium common stock at \$3.50 per share, to an affiliated entity of Liberty Wanger Asset Management L.P., a 5% stockholder of the Company.

16. Commitments and contingencies

(a) The Company has various noncancellable leases for real property and machinery and equipment. Such leases expire at various dates with, in some cases, options to extend their terms. Lease commitments related to facilities closed as part of the restructuring (see Note 14) are not included below.

16. Commitments and contingencies (Continued)

Minimum rentals under long-term operating leases are as follows (in thousands):

| | Real property | Machinery & equipment | Total |
|------------|------------------|--------------------------|---------|
| 2004 | \$4,862 | \$1,888 | \$6,750 |
| 2005 | 4,724 | 941 | 5,665 |
| 2006 | 4,319 | 552 | 4,871 |
| 2007 | 2,620 | 360 | 2,980 |
| 2008 | 1,501 | 76 | 1,577 |
| Thereafter | 2,956 | | 2,956 |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | | |
|-------|----------|---------|----------|
| Total | \$20,982 | \$3,817 | \$24,799 |
|-------|----------|---------|----------|

Several of the leases contain provisions for rent escalation based primarily on increases in real estate taxes and operating costs incurred by the lessor. Rent expense was approximately \$5,051,000, \$4,042,000 and \$5,350,000 for 2003, 2002 and 2001, respectively.

(b) On March 23, 2003, the Company extended its guarantee of up to \$1,800,000 of GSE debt pursuant to GSE's previous credit facility through March 31, 2004 (see Note 6). In consideration for the extension of the guarantee, the Company received 150,000 shares of GSE common stock with a value of \$180,000. A deferred credit of \$180,000 was recorded for the receipt of these shares which is being amortized to income over the term of the guarantee. During the year ended December 31, 2003, the Company recorded \$135,000 to other income in the Statement of Operations. The guarantee was extended through May 31, 2004. On March 30, 2004, GSE was added as a borrower under the Genral Physics Credit Agreement (see Note 6). The Company agreed to guarantee GSE's allocated portion (\$1,500,000) of the Credit Agreement.

(c) The Company has guaranteed the leases for Five Star's New Jersey and Connecticut warehouses, totaling approximately \$1,347,000 per year through the first quarter of 2007, and an aggregate of \$116,000 for certain equipment leases through April 2004. The Company's guarantee of such leases was in effect when Five Star was originally a wholly-owned subsidiary of the Company prior to the sale by the Company in 1998 of substantially all of the operating assets of Five Star Group to the predecessor company of Five Star. As part of this transaction, the landlord of the New Jersey and Connecticut facilities and the lessor of the equipment did not consent to the release of the Company's guarantee, as part of its fee under the Management Services Agreement.

17. Litigation

On January 3, 2001, the Company commenced an action alleging that MCI Communications Corporation ("MCI"), MCI's Systemhouse subsidiaries ("Systemhouse"), and Electronic Data Systems Corporation, as successor to Systemhouse ("EDS"), committed fraud in connection with the Company's 1998 acquisition of Learning Technologies from the defendants for \$24.3 million. The

Company seeks actual damages in the amount of \$117.9 million plus interest, punitive damages in an amount to be determined at trial, and costs.

The complaint alleges that the defendants created a doctored budget to conceal the poor performance of the United Kingdom operation of Learning Technologies. The complaint also alleges that the defendants represented that Learning Technologies would continue to receive new business from Systemhouse even though the defendants knew that the sale of Systemhouse to EDS was imminent and that such new business would cease after such sale. In February 2001, the defendants filed answers denying liability. No counterclaims against the plaintiffs have been asserted. Although discovery had not yet been completed, defendants made a motion for summary judgment, which was submitted in April 2002. The motion was denied by the court due to the MCI bankruptcy described below.

The defendants other than MCI then made an application to the court to stay the fraud action until a later-commenced arbitration, alleging breach of

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

the acquisition agreement and of a separate agreement to refer business to General Physics on a preferred provider basis, is concluded. In a decision dated May 9, 2003, the court granted the motion and stayed the fraud action pending the outcome of the arbitration. Limited discovery was conducted in connection with the arbitration. The arbitration hearings are scheduled to begin on May 17, 2004 before JAMS, a private dispute resolution firm.

MCI filed for bankruptcy protection in July 2002. As a result, the action was automatically stayed as to MCI. The Company and its subsidiary, General Physics, both filed timely Proofs of Claim in the United States Bankruptcy Court against MCI and WorldCom, Inc., among others. On or around April 22, 2003, MCI served objections to these Proofs of Claim. On May 15, 2003, the Company and General Physics submitted their opposition to the objections. The Company and General Physics subsequently made a motion in Bankruptcy Court to lift the automatic stay to permit the litigation to proceed against MCI. In February 2004, the Bankruptcy Court granted the motion of the Company and General Physics to the extent that they sought to have the stay lifted so that the state court could rule on the merits of MCI's summary judgment motion. On February 19, 2004, the Company and General Physics notified the state court that of the Bankruptcy Court's decision.

The Company will make a capital contribution to NPDC, which in turn will transfer to MXL, the right to receive the first \$5 million of any proceeds (net of certain litigation expenses), and 50% of any proceeds (net of certain litigation expenses) in excess of \$15 million, received with respect to the foregoing claims. The Company is not a party to any legal proceeding, the outcome of which is believed by management to have a reasonable likelihood of having a material adverse effect upon the financial condition and operating results of the Company.

GP Strategies
Corporation
and Subsidiaries

Supplementary Data

SELECTED QUARTERLY FINANCIAL DATA

(unaudited) (in thousands, except per share data)

| | | | | | three months ended | |
|------------------------------|-------------------|------------------|-------------------|------------------|--------------------|----|
| | March 31, 2003 | June 30, 2003 | Sept. 30, 2003 | Dec. 31, 2003 | March 31, 2002 | J |
| Sales | \$36,087 | \$36,038 | \$34,227 | \$62,326 | \$40,226 | \$ |
| Gross margin | 3,828 | 4,313 | 4,613 | 10,688 | 5,448 | |
| Net income (loss) | (703) | (2,866) | (2,847) | (1,860) | 205 | |
| Net income (loss) per share: | | | | | | |
| Basic | (.04) | (.17) | (.16) | (.11) | .01 | |
| Diluted | (.04) | (.17) | (.16) | (.11) | .01 | |

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Jerome I. Feldman is founder and since 1959 has been Chief Executive Officer and a Director of the Company. He has also been Chairman of the Board of the Company since 1999. He was President of the Company from 1959 until 2001. He has been Chairman of the Board of Five Star Products, Inc. ("Five Star"), a wholesale distributor of home decorating, hardware and finishing products, since 1994, a Director of GSE Systems, Inc. ("GSE"), a real-time simulation company, since 1994, and Chairman of the Board of GSE since 1997. Mr. Feldman is also Chairman of the New England Colleges Fund and a trustee of Northern Westchester Hospital Center. Age 75.

Scott N. Greenberg has been a Director of the Company since 1987 and President and Chief Financial Officer since 2001. He was Executive Vice President and Chief Financial Officer from 1998 to 2001, Vice President and Chief Financial Officer from 1989 to 1998, and Vice President, Finance from 1985 to 1989. He has been a director of GSE since 1999. Age 47.

Harvey P. Eisen has been a Director of the Company since 2002. He has been Chairman and Managing Member of Bedford Oak Management, LLC since 1998. Prior thereto, Mr. Eisen served as Senior Vice President of Travelers, Inc. and of Primerica prior to its merger with Travelers in 1993. Mr. Eisen has over thirty years of asset management experience, is often consulted by the national media for his views on all phases of the investment marketplace, and is frequently quoted in The Wall Street Journal, The New York Times, PensionWorld, U.S. News & World Report, Financial World and Business Week, among others. Mr. Eisen also appears regularly on such television programs as Wall Street Week, CNN, and CNBC. Mr. Eisen is a trustee of the University of Missouri Business School where he established the first accredited course on the Warren Buffet Principles of Investing. He is also a trustee at the Rippowam Cisca School in Bedford, New York and the Northern Westchester Hospital Center. Age 60.

Marshall S. Geller has been a Director of the Company since 2002. Mr. Geller is Co-Founder and a Senior Managing Member of St. Cloud Capital Partners, L.P., an SBIC (Small Business Investment Company) formed in December 2001. He is also Chairman of the Board, Chief Executive Officer, and Founding Partner of Geller & Friend Capital Partners, Inc., a private merchant bank formed in November 1995. From 1991 to October 1995, Mr. Geller was the Senior Managing Partner of Golenberg & Geller, Inc., a merchant banking investment company. Mr. Geller has spent more than thirty years in corporate finance and investment banking, including twenty years as Senior Managing Director for Bear, Stearns and Company, with oversight of all operations in Los Angeles, San Francisco, Chicago, Hong Kong and the Far East. Mr. Geller currently serves as a director of ShopNBC/Value Vision Media, Inc. and is on the Board of Governors of Cedars-Sinai Medical Center, Los Angeles. Mr. Geller also serves on the Dean's Advisory Council for the College of Business & Economics at California State University, Los Angeles. Age 65.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Roald Hoffmann, Ph.D. has been a Director of the Company since 1988. He has been the Frank H. T. Rhodes Professor of Humane Letters and Professor of Chemistry since 2001 and from 1974 to 2001 was the John Newman Professor of Physical Science at Cornell University. Dr. Hoffmann is a member of the National Academy of Sciences and the American Academy of Arts and Sciences. In 1981, he shared the Nobel Prize in Chemistry with Dr. Kenichi Fukui. Age 67.

Bernard M. Kauderer has been a Director of the Company since 1997. He retired from the United States Navy in 1986 as Vice Admiral. He was Former Commander, Submarine Force, United States Atlantic and Pacific Fleets. He has been a consultant to industry and government since 1986. Age 72.

Mark A. Radzik, a designee of EGI-Fund (02-04) Investors, L.L.C. ("EGI"), has been a Director of the Company since 2002. He has served as a Managing Director of EGI since 1998. Prior to 1998, Mr. Radzik was a vice president of the Merchant Banking Group of Banque Paribas and a manager at Arthur Andersen. Age 39.

Ogden R. Reid has been a Director of the Company since 1979. Mr. Reid had been Editor and Publisher of the New York Herald Tribune and of its International Edition; Chairman of the Executive Committee of MGM; United States Ambassador to Israel; Chairman of the New York State Commission for Human Rights; a six-term member of the United States Congress and a New York State Environmental Commissioner. He is currently the Chairman of the Council of American Ambassadors. Age 78.

Gordon Smale has been a Director of the Company since 1997. He has been President and a Director of Atlantic Oil Corporation, a producing oil and gas company, since 1970; President of Atmic, Inc., an oil and gas management company, since 1983; Chairman of the Board of Stephen Energy Company LLC, an oil and gas exploration and development company, since 1992; and Manager of Cedar Ridge LLC, a methane coal gas exploration and development company, since 1994. Age 72.

Douglas E. Sharp has been the President of GPC since 2002. Mr. Sharp has had a broad range of experience at GPC having worked in all of the market sectors served by GPC during his 21-year tenure at GPC. Mr. Sharp, who is a mechanical engineer, had most recently served as Chief Operating Officer of GPC. Mr. Sharp holds professional engineering registrations in the states of Arizona, Florida, Ohio, South Carolina, Tennessee and Washington. He is a member of the American Society of Training and Development, American Society of Mechanical Engineers and the American Institute of Chemical Engineers. He has been a director of GSE since October 2003. Age 45

Andrea D. Kantor has been Vice President and General Counsel since 2001, Vice President and Corporate Counsel from 1999 to 2001, and Associate General Counsel from 1988 to 1999. She has been a director of GSE since October 2003. Ms. Kantor practiced law as a corporate associate in New York City at Schulte Roth & Zabel LLP, and prior to that at Sidley Austin Brown & Wood LLP. Ms. Kantor is a member of the Association of the Bar of the City of New York and a member of the Corporate and Securities Law Committee of the American Corporate Counsel Association. Age 46.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than 10% of a registered class of the

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Company's securities, to file reports of ownership and changes in ownership with the SEC and the New York Stock Exchange, and to furnish such reports to the Company.

Based solely on a review of copies of such reports for 2003 the Company believes that during 2003, all reports applicable to its officers, directors and greater than 10% beneficial owners were filed on a timely basis.

Audit Committee

The Company has established an Audit Committee of the Board of Directors consisting of Ogden R. Reid, Roald Hoffmann, Mark A. Radzik and Bernard M. Kauderer. The Board of Directors has determined that Mr. Radzik qualifies as an "audit committee financial expert" under applicable SEC regulations and is independent under the NYSE listing standards that currently apply to the Company, although he may not be independent under the NYSE listing standards that will become applicable to the Company at the time of its next annual meeting of stockholders. See Item 13 - "Certain Relationships and Related Transactions."

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics for directors, officers and employees of the Company and its subsidiaries, including, but not limited to, the chief executive officer, the chief financial officer, the director of finance and the senior officers in the accounting and finance department of the Company and its subsidiaries. A copy of this Code of Business Conduct and Ethics is incorporated by reference into this report as Exhibit 14.1. If the Company makes any substantive amendments to the Code of Ethics for its executive officers or directors or grants any waiver from a provision of the Code of Ethics for its executive officers or directors, the Company will within five (5) business days disclose the nature of such amendment or waiver in a Report on Form 8-K or on its website at www.gpstrategies.com.

ITEM 11. EXECUTIVE COMPENSATION

The following table and notes present the compensation paid by the Company and subsidiaries to its Chief Executive Officer and the Company's other executive officers.

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation | | | Other Annual Compensation (\$) | Long Term Compensation Underlying Securities (#) |
|-----------------------------|------|---------------------|---------------|----|--------------------------------|--|
| | | Salary (\$) | Bonus (\$) | | | |
| Jerome I. Feldman..... | 2003 | 508,583 | 3,000,000 (1) | | | |
| Chairman and Chief | 2002 | 436,015 | -- | -- | 100,000 (| |

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

| | | | | | |
|-------------------------|------|-------------|----|----|-----------|
| Executive Officer | 2001 | 413,915 | -- | -- | -- |
| Scott N. Greenberg..... | 2003 | 285,500 | | | |
| President and Chief | 2002 | 239,393 | -- | -- | 100,000 (|
| Financial Officer | 2001 | 233,158 | | -- | -- |
| Douglas E. Sharp..... | 2003 | 317,725 (9) | | | 5,000 (|
| President, GPC | 2002 | 280,618 (9) | -- | -- | 75,100 (|
| | 2001 | 249,894 (9) | -- | -- | 100 (|
| Andrea D. Kantor..... | 2003 | 218,490 | | | |
| Vice President and | 2002 | 188,003 | -- | -- | 50,000 (|
| General Counsel | 2001 | 192,410 | | -- | -- |

- (1) Bonus earned pursuant to the Incentive Compensation Agreement dated April 1, 2002, as amended. (See Item 13 "Certain Relationships and Related Transactions.").
- (2) Includes a \$4,404 matching contribution to the GP Retirement Saving Plan (the "GP Plan") and \$32,867 for life insurance premiums. Also includes \$36,000 paid to Mr. Feldman during the year ended December 31, 2003 by GSE as compensation for serving as a director of GSE. GSE became a majority-owned subsidiary of the Company effective October 23, 2003.
- (3) Consists of options to purchase shares of Common Stock granted pursuant to the Company's 1973 Non-Qualified Stock Option Plan, as amended (the "Plan").
- (4) Includes a \$4,489 matching contribution to the GP Plan; \$23,792 for split dollar life insurance premiums; and \$4,233 for group term life insurance premiums.
- (5) Includes \$50,000 for services rendered to GPC; a \$4,589 matching contribution to the GP Plan; \$19,752 for split dollar life insurance premiums; and \$8,281 for group term life insurance premiums.
- (6) Includes a \$6,056 matching contribution to the GP Plan and \$1,278 for life insurance premiums. Also includes \$17,250 paid to Mr. Greenberg during the year ended December 31, 2003 by GSE as compensation for serving as a director of GSE. GSE became a majority-owned subsidiary of the Company effective October 23, 2003.
- (7) Includes a \$6,270 matching contribution to the GP Plan; \$568 for split dollar life insurance premiums and \$617 for group term life insurance premiums.
- (8) Includes a \$5,985 matching contribution to the GP Plan; \$533 for split dollar life insurance premiums; and \$603 group term life insurance premiums.
- (9) Paid by GPC for services rendered solely to GPC.
- (10) Includes a \$4,271 matching contribution to the GP Plan and \$1,113 for life insurance premiums paid by GPC.
- (11) Includes a \$4,467 matching contribution to the GP Plan; \$555 for split dollar life insurance premiums paid by GPC; and \$288 for group term life insurance premiums.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

- (12) Includes a \$5,985 matching contribution to the GP Plan; \$492 for split dollar life insurance premiums paid by GPC; and \$300 for group term life insurance premiums.
- (13) Includes a \$6,075 matching contribution to the GP Plan and \$1,144 for life insurance premiums.
- (14) Includes a \$5,407 matching contribution to the GP Plan; \$439 for split dollar life insurance premiums; and \$617 for group term life insurance premiums.
- (15) Includes a \$6,043 matching contribution to the GP Plan; \$396 for split dollar life insurance premiums; and \$402 for group term life insurance premiums.

Option Grants in 2003

The following table and notes contain information concerning the grant of stock options in 2003 pursuant to the Plan to the named executive officers.

| Name | Options Granted (#) (1) | Individual Grants | | Expiration Date |
|-----------------------|-------------------------------|---|--------------------------------------|--------------------|
| | | Percent of Total Options Granted to Employees in 2003 | Exercise of Base Price (\$/Sh) | |
| Douglas E. Sharp..... | 5,000 | 2 | 4.90 | 2/21/08 |

(1) Options were granted at 100% of fair market value on the date of grant.

(2) The dollar amounts are the results of calculations of assumed annual rates of stock price appreciation from the exercise prices on the dates of the grant of the option awards to the dates of the exercise of such options of 5% and 10%, the two assumed rates being required under the rules of the SEC. Based on these assumed annual rates of stock appreciation of 5% and 10%, the Company's stock price at February 21, 2008, is projected to be \$6.254 and \$7.891, respectively. These assumptions are not intended to forecast future appreciation of the Company's stock price. Indeed, the Company's stock price may increase or decrease in value over the time period set forth above. The potential realizable value computation does not take into account federal or state income tax consequences of option exercises or sales of appreciated stock.

Aggregate Option Exercises in 2003
And Fiscal Year-End Option Values

The following table and notes contain information concerning the exercise of stock options under the Plan during 2003 and unexercised options under the Plan held at the end of 2003 by the named executive officers. Unless

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

otherwise indicated, options are to purchase shares of Common Stock.

| Name | Shares | Value | Exercisable/Unexercisable | | Val In-t Dec Exer |
|-------------------------|--------------------------------|------------------|-------------------------------------|--------|----------------------------|
| | Acquired on Exercise (#) | Realized (\$) | Options at December 31, 2003 (#) | | |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Jerome I. Feldman..... | -0- | -0- | 120,289 | 33,334 | 2 |
| Scott N. Greenberg..... | -0- | -0- | 166,666 | 33,334 | 2 |
| Douglas E. Sharp..... | -0- | -0- | 187,557 | 56,643 | 1 |
| Andrea D. Kantor..... | -0- | -0- | 48,332 | 16,668 | 1 |

(1) Calculated based on \$8.00, which was the closing price of the Common Stock as reported by the New York Stock Exchange on December 31, 2003.

Directors Compensation

During 2003, directors who were not employees of the Company or its subsidiaries received an annual fee of \$10,000, payable quarterly, in cash or Common Stock, at their option. In addition, the directors received \$1,500 for each meeting of the Board of Directors attended, and generally do not receive any additional compensation for service on the committees of the Board of Directors other than the Audit Committee. Dr. Hoffmann was eligible to receive \$6,000 for attending meetings of the Executive Committee in 2003. Employees of the Company or its subsidiaries do not receive additional compensation for serving as directors.

Employment Agreements

Jerome I. Feldman. As of June 1, 1999, Jerome I. Feldman and the Company entered into an employment agreement pursuant to which Mr. Feldman is employed as Chief Executive Officer of the Company until May 31, 2004, unless sooner terminated. The Employment Agreement also provides that Mr. Feldman is employed as President of the Company, but effective June 12, 2001, Mr. Feldman

resigned as President of the Company and Scott Greenberg was elected to that office. On April 1, 2002, the Compensation Committee extended Mr. Feldman's Employment Agreement until May 31, 2007, which extension was ratified unanimously by the Board of Directors on May 3, 2002, with Mr. Feldman abstaining.

Commencing June 1, 1999, Mr. Feldman's base annual salary is \$400,000, with annual increases of \$25,000. The Company and Mr. Feldman also agreed to negotiate in good faith to formulate an annual incentive based compensation arrangement based on the Company's achieving certain financial milestones which will be fair and equitable to Mr. Feldman and the Company and its stockholders. Pursuant to such provision, the Compensation Committee approved an Incentive Compensation Agreement (the "Incentive Agreement") with Mr. Feldman on April 1, 2002, which Incentive Agreement was ratified unanimously by the Board of Directors on May 3, 2002, with Mr. Feldman abstaining. The Incentive Agreement provides that Mr. Feldman is eligible to receive from the Company up to five payments in an amount equal to \$1 million each, based on the closing price of the Common Stock sustaining or averaging increasing specified levels over

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

periods of at least 10 consecutive trading days. To the extent there are any outstanding loans from the Company to Mr. Feldman at the time an incentive payment is payable, the Company will set off the payment of such incentive payment against the outstanding principal and interest under such loans. The Incentive Agreement will terminate on the earlier to occur of (a) May 3, 2007 and (b) the date of termination of Mr. Feldman's employment with the Company (other than termination by (i) the Company in breach of Mr. Feldman's Employment Agreement or (ii) Mr. Feldman for Good Reason). Each incentive payment is payable on the date earned, except that any incentive payment earned prior to December 31, 2003 is payable on the Company's last payroll date in December. On June 11, 2003, July 23, 2003, and December 22, 2003, Mr. Feldman earned an incentive payment of \$1 million each. On October 1, 2003, the Incentive Agreement was amended to allow Mr. Feldman to defer receipt of any incentive payment for a period of at least six months. The deferral period will automatically renew unless Mr. Feldman gives a termination notice at least 30 days prior to the expiration of the deferral period. However, no deferral period may end later than May 31, 2007. A deferral notice with respect to any incentive payment earned prior to December 31, 2003 must be given prior to December 1, 2003 (which notice was timely given by Mr. Feldman to defer all such payments to January 2, 2005), and a deferral notice with respect to any incentive payment earned on or after December 31, 2003 must be given at least five business days prior to the date that such incentive payment is earned. A deferral notice cannot be given, and any deferral period will end, if any outstanding loan from the Company to Mr. Feldman is due and payable and is not otherwise paid. Interest accrues on each deferred amount at the prime rate minus 1%, which is 1% less than the interest rate accrued on the Company's outstanding loans to Mr. Feldman. See "Certain Transactions."

Pursuant to the employment agreement entered into in 1999, the Company granted Mr. Feldman under the Company's option plan, options to purchase 100,000 shares of the Company's Common Stock at an exercise price of \$8.00 per share, the market price on the date of grant. Such options vested 20% immediately and 20% on each June 1 commencing June 1, 2000 and expire on May 31, 2004. The Company is required to provide Mr. Feldman with an automobile, to pay for

country club dues, which membership is to be used primarily to further the Company's business, and to maintain the existing life and disability insurance covering Mr. Feldman. The maturity date of the Company's presently outstanding loans to Mr. Feldman was extended to May 31, 2004, and all contractual restrictions imposed by the Company on the disposition by Mr. Feldman of shares of Class B Stock were terminated. On April 1, 2002, the Compensation Committee amended the Employment Agreement to extend the maturity date of such loans to May 31, 2007, which amendment was ratified unanimously by the Board of Directors on May 3, 2002, with Mr. Feldman abstaining.

The Company may terminate the employment agreement for Cause, which is defined as (i) the willful and continued failure by Mr. Feldman to substantially perform his duties or obligations or (ii) the willful engaging by Mr. Feldman in misconduct which is materially monetarily injurious to the Company. If the employment agreement is terminated for Cause, the Company is required to pay Mr. Feldman his full salary through the date his employment is terminated. If Mr. Feldman's employment is terminated by his death, the Company is required to pay to his heirs, in a lump sum, an amount equal to his full salary for the period ending May 31, 2007. If, as a result of Mr. Feldman's incapacity due to physical or mental illness, he is absent from his duties on a full-time basis for the entire period of six consecutive months, and he does not return within 30 days of notice, the Company may terminate his employment. Mr. Feldman is entitled to receive his full salary during the disability period until his employment is terminated.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Mr. Feldman can terminate the employment agreement for Good Reason, which is defined to include (i) a change in control of the Company or (ii) a failure by the Company to comply with any material provision of the employment agreement which has not been cured within ten days after notice. A "change in control" of the Company is defined as (i) a change in control of a nature that would be required to be reported in response to Item 1(a) of Current Report on Form 8-K ("Form 8-K") pursuant to Section 13 or 15(d) of the Exchange Act, other than a change of control resulting in control by Mr. Feldman or a group including Mr. Feldman, (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than Mr. Feldman or a group including Mr. Feldman, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, or (iii) at any time individuals who were either nominated for election or elected by the Board of Directors of the Company cease for any reason to constitute at least a majority of the Board.

If the Company wrongfully terminates the employment agreement or Mr. Feldman terminates the employment agreement for Good Reason, then (i) the Company is required to pay Mr. Feldman his full salary through the termination date; (ii) the Company is required to pay as severance pay to Mr. Feldman an amount equal to (a) Mr. Feldman's average annual cash compensation received from the Company during the three full calendar years immediately preceding the termination date, multiplied by (b) the greater of (i) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated and (ii) three, such payment to be made (c) if termination is based on a change of control of the Company, in a lump sum or (d) if termination results from any other cause, in

substantially equal semimonthly installments payable over the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated; (iii) all options to purchase the Company's Common Stock granted to Mr. Feldman under the Company's option plan or otherwise immediately become fully vested and terminate on such date as they would have terminated if Mr. Feldman's employment by the Company had not terminated and, if Mr. Feldman's termination is based on a change of control of the Company and Mr. Feldman elects to surrender any or all of such options to the Company, the Company is required to pay Mr. Feldman a lump sum cash payment equal to the excess of (a) the fair market value on the termination date of the securities issuable upon exercise of the options surrendered over (b) the aggregate exercise price of the options surrendered; (iv) the Company is required to maintain in full force and effect, for a number of years equal to the greater of (a) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated and (b) three, all employee benefit plans and programs in which Mr. Feldman was entitled to participate immediately prior to the termination date; and (v) if termination of the employment agreement arises out of a breach by the Company, the Company is required to pay all other damages to which Mr. Feldman may be entitled as a result of such breach.

Notwithstanding the foregoing, the Company shall not be obligated to pay any portion of any amount otherwise payable to Mr. Feldman if the Company could not reasonably deduct such portion solely by operation of Section 280G ("Section 280G") of the Internal Revenue Code of 1986, as amended.

Scott N. Greenberg. As of July 1, 1999, Scott N. Greenberg and the Company entered into an employment agreement pursuant to which Mr. Greenberg is employed as the Executive Vice President of the Company. Effective June 12, 2001 Mr. Greenberg was elected President of the Company. Unless sooner terminated pursuant to its terms, the employment agreement terminates on June 30, 2004,

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

provided that if the employment agreement has not been terminated prior to June 30, 2002, the employment agreement is extended on June 30, 2002 to June 30, 2005. On April 1, 2002, the Compensation Committee amended Mr. Greenberg's employment agreement, which amendment was ratified unanimously by the Board of Directors on May 3, 2002, with Mr. Greenberg abstaining, to provide that the employment agreement now terminates on June 30, 2007, provided that if the employment agreement has not been terminated prior to June 30, 2005, the employment agreement is extended on June 30, 2005 to June 30, 2008.

Commencing July 1, 1999, Mr. Greenberg's base annual salary is \$250,000, with annual increases to be determined by the Board of Directors of not less than the greater of (i) 3% and (ii) the percentage increase in the Consumer Price Index. The Company agreed to pay Mr. Greenberg a signing bonus in 1999 of \$300,000, which Mr. Greenberg waived. Mr. Greenberg is entitled to an annual bonus based upon the percentage increase in GPC's earnings before interest, taxes, depreciation and amortization, excluding extraordinary or unusual nonrecurring items of income and expense ("EBITDA"), from GPC's EBITDA for the prior year, up to 50% of his base salary. Pursuant to the employment agreement entered into in 1999, the Company has granted Mr. Greenberg under the Company's option plan, options to purchase 100,000 shares of the Company's Common Stock at an exercise price of \$8.00 per share, the market price on the date of grant. Such options vest 20% immediately and 20% on each July 1 commencing July 1, 2000 and expire on June 30, 2004. The Company is required to provide Mr. Greenberg with an automobile and to maintain the existing life and disability insurance covering Mr. Greenberg.

The Company may terminate the employment agreement for Cause, which is defined as (i) the willful and continued failure by Mr. Greenberg to substantially perform his duties or obligations or (ii) the willful engaging by Mr. Greenberg in misconduct which is materially monetarily injurious to the Company. If the employment agreement is terminated for Cause, the Company is required to pay Mr. Greenberg his full salary through the date his employment is terminated. If Mr. Greenberg's employment is terminated by his death, the Company is required to pay to his spouse or estate his full salary for a period of one year. If, as a result of Mr. Greenberg's incapacity due to physical or mental illness, he is absent from his duties on a full-time basis for the entire

period of six consecutive months, and he does not return within 30 days of notice, the Company may terminate his employment. Mr. Greenberg is entitled to receive his full salary during the disability period until his employment is terminated.

Mr. Greenberg can terminate the employment agreement for Good Reason, which is defined to include (i) a change in control of the Company, (ii) a management change in control of the Company, or (iii) a failure by the Company to comply with any material provision of the employment agreement which has not been cured within ten days after notice. A "change in control" of the Company is defined as any of the following, but only if not approved by the Board of Directors, (i) a change in control of a nature that would be required to be reported in response to Item 1(a) of Form 8-K, other than a change of control resulting in control by Mr. Feldman or Mr. Greenberg or a group including Mr. Feldman or Mr. Greenberg, (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than Mr. Feldman or Mr. Greenberg or a group including Mr. Feldman or Mr. Greenberg, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, (iii) the Company and its affiliates owning less than a majority of the voting stock of GPC, (iv) the sale of all or substantially all of the assets of GPC, or (v) at any time when there has not been a management change of control of the Company,

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

individuals who were either nominated for election or elected by the Board of Directors of the Company cease for any reason to constitute at least a majority of the Board. A "management change in control" of the Company is defined as (i) an event that would have constituted a change of control of the Company if it had not been approved by the Board of Directors or (ii) a change in control of the Company of a nature that would be required to be reported in response to Item 1(a) of Form 8-K, resulting in control by a buy-out group including Mr. Feldman but not Mr. Greenberg.

If the Company wrongfully terminates the employment agreement or Mr. Greenberg terminates the employment agreement for Good Reason (other than as a result of a management change of control), (i) the Company is required to pay Mr. Greenberg his full salary and provide him his benefits through the termination date, and pay him his full annual bonus for the calendar year in which termination occurs; (ii) the Company is required to pay as severance pay to Mr. Greenberg an amount equal to (a) Mr. Greenberg's average annual cash compensation received from the Company during the three full calendar years immediately preceding the termination date, multiplied by (b) the greater of (I) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended and (II) three, such payment to be made (c) if termination is based on a change of control of the Company, in a lump sum or (d) if termination results from any other cause, in substantially equal semimonthly installments payable over the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended; (iii) all options to purchase the Company's Common Stock granted to Mr. Greenberg under the Company's option plan or otherwise immediately become fully vested and terminate on such date as they would have terminated if Mr. Greenberg's employment by the Company had not terminated and, if Mr. Greenberg's termination is based on a change of control of the Company and Mr. Greenberg elects to surrender any or all of such options to the Company, the Company is required to pay Mr. Greenberg a lump sum cash payment equal to the excess of (a) the fair market value on the termination date of the securities issuable upon exercise of the options surrendered over (b) the aggregate exercise price of the options surrendered; (iv) the Company is required to maintain in full force and effect, for a number of years equal to the greater of (a) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended and (b) three, all employee benefit plans and programs in which Mr. Greenberg was entitled to participate immediately prior to the termination date; and (v) if termination of the employment agreement arises out of a breach by the Company, the Company is required to pay all other damages to which Mr. Greenberg may be entitled as a result of such breach.

If Mr. Greenberg terminates the employment agreement for Good Reason as a result of a management change of control, (i) the Company is required to pay Mr. Greenberg his full salary and provide him his benefits through the termination date, and pay him his full annual bonus for the calendar year in which termination occurs; (ii) the Company is required to pay as severance pay to Mr. Greenberg a lump sum amount equal to twice Mr. Greenberg's average annual cash compensation received from the Company during the three full calendar years immediately preceding the termination date; (iii) all options to purchase the Company's Common Stock granted to Mr. Greenberg under the Company's option plan or otherwise immediately become fully vested and terminate on such date as they would have terminated if Mr. Greenberg's employment by the Company had not terminated and, if Mr. Greenberg elects to surrender any or all of such options to the Company, the Company is required to pay Mr. Greenberg a lump sum cash payment equal to the excess of (a) the fair market value on the termination date

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

of the securities issuable upon exercise of the options surrendered over (b) the aggregate exercise price of the options surrendered; and (iv) the Company is required to maintain in full force and effect for two years all employee benefit plans and programs in which Mr. Greenberg was entitled to participate immediately prior to the termination date.

Notwithstanding the foregoing, the Company shall not be obligated to pay any portion of any amount otherwise payable to Mr. Greenberg if the Company could not reasonably deduct such portion solely by operation of Section 280G.

Douglas E. Sharp. As of July 1, 1999, Douglas E. Sharp and GPC entered into an employment agreement pursuant to which Mr. Sharp was employed as Group President of GPC. Mr. Sharp was elected President of GPC on September 4, 2002. Unless sooner terminated pursuant to its terms, the employment agreement terminates on June 30, 2004, provided however, that since the employment agreement was not terminated prior to June 30, 2002, the employment agreement was extended on June 30, 2002 to June 30, 2005.

Commencing July 1, 1999, Mr. Sharp's base annual salary is \$230,000, with annual increases to be determined by the Board of Directors of GPC of not less than 3%. GPC paid Mr. Sharp a signing bonus in 1999 of \$300,000. Mr. Sharp is entitled to an annual bonus based upon the percentage increase in GPC's EBITDA from GPC's EBITDA for the prior year, up to 50% of his base salary. Pursuant to the employment agreement entered into in 1999, the Company has granted Mr. Sharp under the Company's option plan, options to purchase 100,000 shares of the Company's Common Stock at an exercise price of \$8.00 per share, the market price on the date of grant. Such options vest 20% immediately and 20% on each July 1 commencing July 1, 2000 and expire on June 30, 2004. GPC is required to provide Mr. Sharp with an automobile.

GPC may terminate the employment agreement for Cause, which is defined as (i) the willful and continued failure by Mr. Sharp to substantially perform his duties or obligations or (ii) the willful engaging by Mr. Sharp in misconduct which is materially monetarily injurious to GPC. If the employment agreement is terminated for Cause, GPC is required to pay Mr. Sharp his full salary through the date his employment is terminated. If Mr. Sharp's employment is terminated by his death, GPC is required to pay to his spouse or estate his full salary for a period of one year. If, as a result of Mr. Sharp's incapacity due to physical or mental illness, he is absent from his duties on a full-time basis for the entire period of six consecutive months, and he does not return within 30 days of notice, GPC may terminate his employment. Mr. Sharp is entitled to receive his full salary during the disability period until his employment is terminated.

Mr. Sharp can terminate the employment agreement for Good Reason, which is defined to include (i) a change in control of the Company, (ii) a management change in control of the Company, or (iii) a failure by GPC to comply with any material provision of the employment agreement which has not been cured within ten days after notice. A "change in control" of the Company is defined as any of the following, but only if not approved by the Board of Directors, (i) a change in control of a nature that would be required to be reported in response to Item 1(a) of Form 8-K, other than a change of control resulting in control by Mr. Feldman or a group including Mr. Feldman or Mr. Greenberg, (ii) any "person" (as

such term is used in Sections 13(d) and 4(d) of the Exchange Act), other than Mr. Feldman or Mr. Greenberg or a group including Mr. Feldman or Mr. Greenberg, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, (iii) the Company and its affiliates owning less than a majority of

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

the voting stock of GPC, (iv) the sale of all or substantially all of the assets of the Company, or (v) at any time when there has not been a management change of control of the Company, individuals who were either nominated for election or elected by the Board of Directors of the Company cease for any reason to constitute at least a majority of the Board. A "management change in control" of the Company is defined as (i) an event that would have constituted a change of control of the Company if it had not been approved by the Board of Directors or (ii) a change in control of the Company of a nature that would be required to be reported in response to Item 1(a) of Form 8-K, resulting in control by a buy-out group including Mr. Feldman but not Mr. Greenberg.

If GPC wrongfully terminates the employment agreement or Mr. Sharp terminates the employment agreement for Good Reason, (i) GPC is required to pay Mr. Sharp his full salary and provide him his benefits through the termination date, and pay him his full annual bonus for the calendar year in which termination occurs; (ii) GPC is required to pay as severance pay to Mr. Sharp an amount equal to (a) Mr. Sharp's average annual cash compensation received from GPC during the three full calendar years immediately preceding the termination date, multiplied by (b) the greater of (I) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended and (II) three, such payment to be made (c) if termination is based on a change of control of the Company, in a lump sum or (d) if termination results from any other cause, in substantially equal semimonthly installments payable over the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended; (iii) all options to purchase the Company's Common Stock granted to Mr. Sharp under the Company's option plan or otherwise immediately become fully vested and terminate on such date as they would have terminated if Mr. Sharp's employment by GPC had not terminated and, if Mr. Sharp's termination is based on a change of control of the Company and Mr. Sharp elects to surrender any or all of such options to GPC, GPC is required to pay Mr. Sharp a lump sum cash payment equal to the excess of (a) the fair market value on the termination date of the securities issuable upon exercise of the options surrendered over (b) the aggregate exercise price of the options surrendered; (iv) GPC is required to maintain in full force and effect, for a number of years equal to the greater of (a) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended and (b) three, all employee benefit plans and programs in which Mr. Sharp was entitled to participate immediately prior to the termination date; and (v) if termination of the employment agreement arises out of a breach by GPC, GPC is required to pay all other damages to which Mr. Sharp may be entitled as a result of such breach.

Notwithstanding the foregoing, GPC shall not be obligated to pay any portion of any amount otherwise payable to Mr. Sharp if GPC could not reasonably deduct such portion solely by operation of Section 280G.

The Company guaranteed the performance by GPC of its obligations under Mr. Sharp's employment agreement.

Andrea D. Kantor. As of May 1, 2001, Andrea D. Kantor and the Company entered into an employment agreement pursuant to which Ms. Kantor is employed as the Vice President and General Counsel of the Company. Unless sooner terminated pursuant to its terms, the employment agreement terminates on June 30, 2004, provided however, that since the employment agreement was not terminated prior to June 30, 2002, the employment agreement was extended on June 30, 2002 to June 30, 2005.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Commencing May 1, 2001, Ms. Kantor's base annual salary is \$190,000, with annual increases to be determined by the Board of Directors of not less than the greater of (i) 3% and (ii) the percentage increase in the Consumer Price Index. Ms. Kantor is entitled to an annual bonus, as determined by the Board based upon the Company's revenues, profits or losses, financing activities, and such other factors deemed relevant by the Board.

The Company may terminate the employment agreement for Cause, which is defined as (i) the willful and continued failure by Ms. Kantor to substantially perform her duties or obligations or (ii) the willful engaging by Ms. Kantor in misconduct which is materially monetarily injurious to the Company. If the employment agreement is terminated for Cause, the Company is required to pay Ms. Kantor her full salary through the date her employment is terminated. If Ms. Kantor's employment is terminated by her death, the Company is required to pay to her spouse or estate her full salary for a period of one year. If, as a result of Ms. Kantor's incapacity due to physical or mental illness, she is absent from her duties on a full-time basis for the entire period of six consecutive months, and she does not return within 30 days of notice, the Company may terminate her employment. Ms. Kantor is entitled to receive her full salary during the disability period until her employment is terminated.

Ms. Kantor can terminate the employment agreement for Good Reason, which is defined to include (i) a change in control of the Company, (ii) a management change in control of the Company, or (iii) a failure by the Company to comply with any material provision of the employment agreement which has not been cured within ten days after notice. A "change in control" of the Company is defined as any of the following, but only if not approved by the Board of Directors, (i) a change in control of a nature that would be required to be reported in response to Item 1(a) of Form 8-K, other than a change of control resulting in control by Mr. Feldman or Mr. Greenberg or a group including Mr. Feldman or Mr. Greenberg, (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than Mr. Feldman or Mr. Greenberg or a group including Mr. Feldman or Mr. Greenberg, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, (iii) the Company and its affiliates owning less than a majority of the voting stock of GPC, (iv) the sale of all or substantially all of the assets of GPC, or (v) at any time when there has not been a management change of control of the Company, individuals who were either nominated for election or elected by the Board of Directors of the Company cease for any reason to constitute at least a majority of the Board. A "management change in control" of the Company is defined as (i) an event that would have constituted a change of control of the Company if it had not been approved by the Board of Directors or (ii) a change in control of the Company of a nature that would be required to be reported in response to Item 1(a) of Form 8-K, resulting in control by a buy-out group including Mr. Feldman but not Mr. Greenberg.

If the Company wrongfully terminates the employment agreement or Ms. Kantor terminates the employment agreement for Good Reason (other than as a result of a management change of control), (i) the Company is required to pay Ms. Kantor her full salary and provide her benefits through the termination date, and pay her full annual bonus for the calendar year in which termination occurs; (ii) the Company is required to pay as severance pay to Ms. Kantor an amount equal to (a) Ms. Kantor's average annual cash compensation received from the Company during the three full calendar years immediately preceding the termination date, multiplied by (b) the greater of (I) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended and (II) three, such payment to be made (c) if termination is based on a change of control of the Company, in a lump sum or (d) if termination results from any other cause, in substantially equal semimonthly

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

installments payable over the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended; (iii) all options to purchase the Company's Common Stock granted to Ms. Kantor under the Company's option plan or otherwise immediately become fully vested and terminate on such

date as they would have terminated if Ms. Kantor's employment by the Company had not terminated and, if Ms. Kantor's termination is based on a change of control of the Company and Ms. Kantor elects to surrender any or all of such options to the Company, the Company is required to pay Ms. Kantor a lump sum cash payment equal to the excess of (a) the fair market value on the termination date of the securities issuable upon exercise of the options surrendered over (b) the aggregate exercise price of the options surrendered; (iv) the Company is required to maintain in full force and effect, for a number of years equal to the greater of (a) the number of years (including partial years) that would have been remaining in the employment period if the employment agreement had not so terminated but was not subsequently extended and (b) three, all employee benefit plans and programs in which Ms. Kantor was entitled to participate immediately prior to the termination date; and (v) if termination of the employment agreement arises out of a breach by the Company, the Company is required to pay all other damages to which Ms. Kantor may be entitled as a result of such breach.

If Ms. Kantor terminates the employment agreement for Good Reason as a result of a management change of control, (i) the Company is required to pay Ms. Kantor her full salary and provide her benefits through the termination date, and pay her full annual bonus for the calendar year in which termination occurs; (ii) the Company is required to pay as severance pay to Ms. Kantor a lump sum amount equal to twice Ms. Kantor's average annual cash compensation received from the Company during the three full calendar years immediately preceding the termination date; (iii) all options to purchase the Company's Common Stock granted to Ms. Kantor under the Company's option plan or otherwise immediately become fully vested and terminate on such date as they would have terminated if Ms. Kantor's employment by the Company had not terminated and, if Ms. Kantor elects to surrender any or all of such options to the Company, the Company is required to pay Ms. Kantor a lump sum cash payment equal to the excess of (a) the fair market value on the termination date of the securities issuable upon exercise of the options surrendered over (b) the aggregate exercise price of the options surrendered; and (iv) the Company is required to maintain in full force and effect for two years all employee benefit plans and programs in which Ms. Kantor was entitled to participate immediately prior to the termination date.

Notwithstanding the foregoing, the Company shall not be obligated to pay any portion of any amount otherwise payable to Ms. Kantor if the Company could not reasonably deduct such portion solely by operation of Section 280G.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the number of shares of Class B Stock and Common Stock beneficially owned as of March 15, 2004, by each person who is known by the Company to own beneficially more than 5% of the Company's outstanding Class B Stock or Common Stock.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

PRINCIPAL STOCKHOLDERS

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership |
|----------------|--|---|
| Class B Stock | Jerome I. Feldman c/o GP Strategies Corporation 777 Westchester Avenue Fourth Floor White Plains, NY 10604 | 568,750 shares (2) |
| Class B Stock | Bedford Oak Partners, L.P. 100 South Bedford Road Mt. Kisco, NY 10549 | 300,000 shares (3) |
| Class B Stock | EGI-Fund (02-04) Investors, L.L.C. Two N. Riverside Plaza Chicago, IL 60606 | 300,000 shares (4) |
| Common Stock | Jerome I. Feldman | 744,580 shares (2) (5) |
| Common Stock | Bedford Oak Partners, L.P. 100 South Bedford Road Mt. Kisco, NY 10549 | 2,431,500 shares (3) (6) |
| Common Stock | Gabelli Asset Management, Inc. One Corporate Center Rye, NY 10580 | 1,412,200 shares (7) |
| Common Stock | EGI-Fund (02-04) Investors, L.L.C. | 1,390,000 shares (4) (8) |
| Common Stock | Caxton International Limited 315 Enterprise Drive Plainsboro, NJ 08536 | 1,251,200 shares (9) |
| Common Stock | Dimensional Fund Advisors, Inc. 1299 Ocean Avenue Santa Monica, CA 90401 | 878,955 shares (10) |
| Common Stock | Columbia Wanger Asset Management L.P 227 West Monroe Street Chicago, IL 60606 | 870,000 shares (11) |
| Common Stock | Pequot Capital Management, Inc. 500 Nyala Farm Road Westport, CT 06880 | 845,400 shares (12) |

(1) The percentage of class calculation for Class B Stock assumes for each beneficial owner that no shares of Class B Stock are converted into Common Stock by the named beneficial owner or any other stockholder. The percentage of class calculation for Common Stock assumes for each beneficial owner that (i) all options are exercised in full and all shares of Class B Stock are converted into Common Stock only by the named beneficial owner and (ii) no other options are exercised and no other shares of Class B Stock are converted by any other stockholder.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

- (2) On December 29, 1998, Martin M. Pollak granted certain rights of first refusal with respect to his Class B Stock and options to purchase Class B Stock to Mr. Feldman and his family, and Mr. Feldman granted certain tag-along rights with respect to Class B Stock and options to purchase Class B Stock to Mr. Pollak and his family. In addition, Mr. Pollak agreed that, until May 31, 2004, during any period commencing on the date any person or group commences or enters into, or publicly announces an intention to commence or enter into, and ending on the date such person abandons a tender offer, proxy fight, or other transaction that may result in a change in control of the Company, he will vote his shares of Common Stock and Class B Stock on any matter in accordance with the recommendation of the Board of Directors. Mr. Pollak retired as the Executive Vice President and Treasurer of the Company on May 31, 1999.
- (3) Based on a Schedule 13D filed by jointly by Bedford Oak Partners, L.P. ("Bedford Oak"), Bedford Oak Advisors, LLC and Harvey P. Eisen with the Securities and Exchange Commission ("SEC") on July 25, 2002. See "Certain Relationships and Related Transactions."
- (4) Based on a Schedule 13D filed by EGI-Fund (02-04) Investors, L.L.C. ("EGI") with the SEC on May 13, 2002. See "Certain Relationships and Related Transactions."
- (5) Includes (i) 1,173 shares of Common Stock held by members of Mr. Feldman's family, (ii) 568,750 shares of Common Stock issuable upon conversion of Class B Stock held by Mr. Feldman, (iii) 153,623 shares of Common Stock issuable upon exercise of currently exercisable stock options held by Mr. Feldman and (iii) 4,134 shares of Common Stock allocated to Mr. Feldman's account pursuant to the provisions of the GP Plan. Mr. Feldman disclaims beneficial ownership of the 1,173 shares of Common Stock held by members of his family.
- (6) Includes 300,000 shares of Common Stock issuable upon conversion of Class B Stock held by Bedford Oak.
- (7) Based on a Schedule 13D filed jointly by Gabelli Funds, LLC, GAMCO Investors, Inc., MJG Associates, Inc. and Gabelli Advisors, Inc. (collectively "Gabelli Asset Management, Inc.") with the SEC on August 20, 2003. Includes 937,500 shares issuable upon exercise of warrants to purchase shares of the Company's Common Stock. See "Certain Transactions."
- (8) Includes 300,000 shares of Common Stock issuable upon conversion of Class B Stock held by EGI.
- (9) Based on a Schedule 13D/A filed jointly by Caxton International Limited, Caxton Equity Growth (BVI) Ltd., Caxton Equity Growth LLC, and Caxton Associates, L.L.C. with the SEC on June 4, 2002.
- (10) Based on a Schedule 13G/A filed by Dimensional Fund Advisors Inc. ("Dimensional") with the SEC on February 6, 2004. Dimensional has informed the Company that the shares are owned by advisory clients of Dimensional and that Dimensional disclaims beneficial ownership of such shares.
- (11) Based on a Schedule 13G/A filed by Columbia Wanger Asset Management, L.P. ("CWAM") with the SEC on February 10, 2004. CWAM has informed the

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Company that the shares have been acquired by CWAM on behalf of its discretionary clients.

- (12) Based on a Schedule 13G/A filed by Pequot Capital Management, Inc. with the SEC on February 13, 2004.

SECURITY OWNERSHIP OF DIRECTORS AND NAMED EXECUTIVE OFFICERS

The following table sets forth, as of March 15, 2004, the beneficial ownership of Common Stock, Class B Stock, and voting stock by each director, each of the named executive officers, and all directors and executive officers as a group.

| | Total Number of Shares of Common Stock Beneficially Owned | Percent of Common Stock Owned(1) | Total Number of Shares of Class B Stock Beneficially Owned | Perce CL Sto |
|---|--|--|---|--------------------|
| Jerome I. Feldman(4)..... | 744,580 (5) | 4.4% | 568,750 (6) | 4 |
| Scott N. Greenberg(4)..... | 226,911 (7) | 1.4% | -- | |
| Harvey P. Eisen(8)..... | 2,432,817 (9) | 14.6% | 300,000 (10) | |
| Marshall S. Geller..... | 214,478 (11) | 1.3% | -- | |
| Roald Hoffmann(4) (12)..... | 12,934 (11) | * | -- | |
| Bernard M. Kauderer(12)..... | 14,613 (11) | * | -- | |
| Mark A. Radzik(12) (13)..... | 2,627 (14) | * | -- (15) | |
| Ogden R. Reid(12)..... | 13,363 (11) | * | -- | |
| Gordon Smale(8)..... | 14,934 (11) | * | -- | |
| Andrea D. Kantor..... | 70,122 (11) (16) | * | -- | |
| Douglas E. Sharp..... | 155,645 (11) (17) | 1.1% | -- | |
| Directors and Executive Officers as a Group (11 persons) | 3,926,263 (18) | 21.9% | 868,750 | |

*The number of shares owned is less than one percent of the outstanding shares or voting stock.

- (1) The percentage of class calculation for Common Stock assumes for each beneficial owner and directors and executive officers as a group that (i) all options are exercised in full and all shares of Class B Stock are converted into Common Stock only by the named beneficial owner or members of the group and (ii) no other options are exercised and no other shares of Class B Stock are converted by any other stockholder.
- (2) The percentage of class calculation for Class B Stock assumes for each beneficial owner and directors and executive officers as a group that no shares of Class B Stock are converted into Common Stock by the named beneficial owner, members of the group, or any other stockholder.
- (3) The percentage of voting stock calculation sets forth the percentage of the aggregate number of votes of all holders of Common Stock and Class B Stock represented by the Common Stock and Class B Stock beneficially owned by each beneficial owner and directors and executive officers as a group and assumes for each beneficial owner and directors and

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

executive officers as a group that (i) all options are exercised in full only by the named beneficial owner or members of the group, (ii) no other options are exercised by any other stockholder, and (iii) no shares of Class B Stock are converted into Common Stock by the named beneficial owner, members of the group, or any other stockholder.

- (4) Member of the Executive Committee.
- (5) See footnotes 2 and 5 to Principal Stockholders Table.
- (6) See footnote 2 to Principal Stockholders Table.
- (7) Includes (i) 200,000 shares of Common Stock issuable upon exercise of currently exercisable stock options held by Mr. Greenberg, (ii) 5,193 shares of Common Stock allocated to Mr. Greenberg's account pursuant to the provisions of the GP Plan and (iii) 4,000 shares of Common Stock held by members of his family. Mr. Greenberg disclaims beneficial ownership of the 4,000 shares held by members of his family.
- (8) Member of the Compensation Committee.
- (9) Includes 2,431,500 shares of Common Stock beneficial owned by Bedford Oak. Mr. Eisen is deemed to have beneficial ownership of such shares by virtue of his position as managing member of Bedford Oak Advisors, LLC, the investment manager of Bedford Oak. See footnotes 3 and 6 of Principal Stockholders Table.
- (10) Includes 300,000 shares of Common Stock beneficial owned by Bedford Oak. Mr. Eisen is deemed to have beneficial ownership of such shares by virtue of his position as managing member of Bedford Oak Advisors, LLC, the investment manager of Bedford Oak. See footnote 3 of Principal Stockholders Table.
- (11) Includes 10,000 shares for each of Messrs. Geller, Hoffmann, Kauderer, Reid and Smale, 65,000 shares for Ms. Kantor and 172,485 for Mr. Sharp issuable upon exercise of currently exercisable stock options.
- (12) Member of the Audit Committee.
- (13) Designee of EGI.
- (14) Does not include 1,390,000 shares of Common Stock beneficially owned by EGI. Mr. Radzik disclaims beneficial ownership of such shares. See footnotes 4 and 8 of Principal Stockholders Table.
- (15) Does not include 300,000 shares of Class B Stock beneficially owned by EGI. Mr. Radzik disclaims beneficial ownership of such shares. See footnote 4 of Principal Stockholders Table.
- (16) Includes 5,122 shares of Common Stock allocated to Ms. Kantor's account pursuant to the provisions of the GP Plan.
- (17) Includes 6,399 shares of Common Stock allocated to Mr. Sharp's account pursuant to the provisions of the GP Plan.
- (18) Includes (i) 641,108 shares of Common Stock issuable upon exercise of currently exercisable stock options, (ii) 868,750 shares of Common Stock issuable upon conversion of Class B Stock, and (iii) 20,848 shares of Common Stock allocated to accounts pursuant to the provisions

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

of the GP Plan.

EQUITY COMPENSATION PLAN INFORMATION

The following is information as of December 31, 2003 about shares of Company Common Stock that may be issued upon the exercise of options, warrants and rights under the Company's Non-Qualified Stock Option Plan and 2003 Incentive Stock Plan. For a description of the material terms of the Company's Non-Qualified Stock Option Plan and 2003 Incentive Stock Plan, see Note 12 to the Notes to the Consolidated Financial Statements included in the Company's Annual Report for the year ended December 31, 2003.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of remaining a future iss equity co plans (securities column |
|--|---|--|--|
| | (a) | (b) | (c) |
| ----- | ----- | ----- | ----- |
| Equity compensation plans approved by | | | |
| security holders | 0 | - | 2,000,0 |
| ----- | ----- | ----- | ----- |
| Equity compensation plans not approved by | | | |
| security holders | 2,552,397 (i) | \$6.91 (i) | 711,3 |
| ----- | ----- | ----- | ----- |
| Total | 2,552,397 | \$6.91 | 2,711 |
| ----- | ----- | ----- | ----- |

(i) Does not include warrants to purchase 300,000 shares of Common Stock issued to a financial consulting firm at an exercise price of \$4.60 per share and warrants to purchase 937,500 shares issued and sold to four Gabelli funds in conjunction with the 6% Conditional Subordinated Notes due 2008.

(ii) Does not include shares of Common Stock that may be issued to directors of the Company as director's fees.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On August 8, 2003, pursuant to a Note and Warrant Purchase Agreement, the Company issued and sold to Gabelli Asset Management, Inc. \$7,500,000

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

aggregate principal amount of 6% Conditional Subordinated Notes due 2008 (the "Notes") and 937,500 warrants ("GP Warrants"), each entitling the holder thereof to purchase (subject to adjustment) one share of the Company's Common Stock. The aggregate purchase price for the Notes and GP Warrants was \$7,500,000. Gabelli Asset Management, Inc. beneficially owns approximately 8.7% of the Company's common stock based on a Schedule 13D filed with the SEC on August 20, 2003. "See Principal Stockholders."

The Notes mature August 2008 with interest at the rate of 6% per annum payable semi-annually commencing on December 31, 2003. The Notes are secured by a mortgage on the Company's property located in Pawling, New York. At any time that less than \$1,875,000 principal amount of Notes are outstanding, the Company may defease the obligations secured by the mortgage and obtain a release of the lien of the mortgage by depositing with an agent for the Noteholders bonds or government securities with an investment grade rating by a nationally recognized rating agency which, without reinvestment, will provide cash on the maturity date of the Notes in an amount not less than the outstanding principal amount of the Notes.

The GP Warrants have an exercise price of \$8.00 per share and are exercisable at any time until August 2008. The exercise price may be paid in cash, by delivery of Notes, or a combination of the two. The GP Warrants contain anti-dilution provisions for stock splits, reorganizations, mergers, and similar

transactions. The Company has agreed to file a registration statement to register the resale of the shares of the Common Stock issuable on exercise of the GP Warrants, and to certain other registration rights in favor of the holders of the GP Warrants.

On December 8, 2003, a registration statement covering the resale of the shares of common stock issuable on exercise of the GP Warrants was declared effective by the Securities and Exchange Commission.

In July 2002, the Company announced that it was actively considering a spin-off of certain of its non-core assets, including MXL Industries, Inc. ("MXL"), into a separate corporation named National Patent Development Corporation ("NPDC"). In the spin-off, it is contemplated that each holder of the Company's Common Stock will receive one share of NPDC common stock for each share of the Company's Common Stock or Class B Stock held. The Note and Warrant Purchase Agreement provides that, on completion of the spin-off, NPDC will issue warrants ("NPDC Warrants") to the holders of the GP Warrants. The NPDC Warrants will entitle the holders to purchase, in the aggregate, a number of shares of NPDC common stock equal to 8% of the number of shares outstanding at completion of the spin-off, subject to reduction for any GP Warrants exercised prior to the spin-off. The NPDC Warrants will be issued to the holders of the GP Warrants on the record date for the spin-off, and allocated among them pro-rata based on the respective number of GP Warrants held by them on such date. The exercise price of the GP Warrants will be adjusted to take into account the spin-off and issuance of the NPDC Warrants by multiplying the exercise price of the GP Warrants in effect immediately prior to the spin-off by a fraction, the numerator of which is the average closing price of the Company's Common Stock over the 20 consecutive trading days commencing on the record date of the spin-off, and the denominator is the sum of the average closing prices of the Company's Common Stock and NPDC common stock over the same period (assuming the issuance in the spin-off of one share of NPDC common stock for each share of the Company's Common Stock or Class B Stock held). The exercise price of the NPDC Warrants will be 160% of the average closing price of the NPDC common stock over the 20 consecutive trading days commencing on the record date of the spin-off. The NPDC Warrants will be exercisable at any time after their exercise price is calculated through August 2008. The NPDC Warrants will have similar

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

anti-dilution provisions similar to those contained in the GP Warrants. NPDC has agreed to provide the holders of the NPDC Warrants with registration rights similar to those provided by the Company to the holders of the GP Warrants.

In connection with the proposed spin-off, the Company intends to contribute the Pawling property, subject to the mortgage, to MXL. MXL will assume the mortgage, but without liability for repayment of the Notes or any other obligations of the Company under the Note and Warrant Purchase Agreement (other than foreclosure on such property). If there is a foreclosure on the mortgage for payment of the Notes, the Company has agreed to indemnify MXL for loss of the value of the property.

On February 12, 2004, NPDC filed documents with the Securities and Exchange Commission relating to the proposed spin-off and the Company anticipates that the spin-off will occur at the conclusion of the SEC review process. If the spin-off does not occur prior to February 2005, the Noteholders

will have the right to require the Company to redeem the Notes in April 2005. There can be no assurance that the spin-off will be consummated.

On October 19, 2001, the Company sold 300,000 shares of Class B Stock (the "Bedford Shares") of the Company for an aggregate purchase price of \$900,000 to Bedford Oak in a private placement transaction pursuant to the Bedford Oak Agreement. Upon the disposition of any of the Bedford Shares (other than to an affiliate of Bedford Oak who agrees to be bound by the provisions of the Bedford Oak Agreement) or at the request of the Board of Directors of the Company, Bedford Oak is required to exercise the right to convert all of the Bedford Shares then owned by Bedford Oak into an equal number of shares of Common Stock of the Company.

Pursuant to an agreement dated May 3, 2002 (the "EGI Agreement"), the Company sold to EGI in a private placement transaction 1,000,000 shares of Common Stock (the "EGI Common Shares") of the Company for an aggregate purchase price of \$3,500,000 and 300,000 shares of Class B Stock (the "EGI Class B Shares") of the Company for an aggregate purchase price of \$1,260,000.

Until such time as EGI has disposed of more than 50% of the aggregate number of EGI Common Shares and EGI Class B Shares, EGI is entitled to designate one representative to serve as a member of the Board, subject to the approval of the Company, which approval shall not be unreasonably denied or delayed. Mark Radzik, a designee of EGI, has been serving as a director of the Company since 2002.

Upon the disposition of any of the EGI Class B Shares (other than to an affiliate of EGI or to a transferee approved by the Board who in each case agrees to be bound by the provisions of the EGI Agreement), EGI is required to exercise the right to convert all of the EGI Class B Shares then owned by EGI into an equal number of shares of Common Stock (the "EGI Underlying Shares") of the Company. Until May 3, 2003, the Company had the right to purchase all, but not less than all, of the EGI Class B Shares then owned by EGI at a price per share equal to the greater of (i) the 90 day trailing average of the closing prices of the Common Stock and (ii) \$5.25. If the Company had exercised such right, EGI had the right to sell to the Company all or part of the EGI Common Shares then owned by EGI at a price per share of \$3.50. On April 14, 2003, the Company irrevocably waived its right to exercise such call option with respect to the EGI Class B Shares.

The Company and EGI have entered into an advisory services agreement providing that, to the extent requested by the Company and deemed appropriate by EGI, EGI shall assist the Company in developing, identifying, evaluating,

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

negotiating, and structuring financings and business acquisitions. The Company has agreed to pay EGI a transaction fee equal to 1% of the proceeds received by the Company in a financing, or of the consideration paid by the Company in a business acquisition, in respect of which EGI has provided material services.

Until November 3, 2003, EGI had agreed not to (a) effect, propose to effect, or participate in (i) any acquisition of any assets of the Company or any of its subsidiaries; (ii) any tender or exchange offer, merger, or other business combination involving the Company or any of its subsidiaries not

approved by the Board; (iii) any recapitalization, restructuring, liquidation, dissolution, reverse stock split, or other extraordinary transaction with respect to the Company or any of its subsidiaries not approved by the Board; or (iv) any solicitation of a proxy to vote any voting securities of the Company; (b) form, join, or participate in a group with non-affiliates; (c) otherwise seek to control or influence the management, Board, or policies of the Company, except through EGI's designee on the Board in his or her capacity as a member of the Board; (d) take any action which might obligate the Company to make a public announcement regarding any of the types of matters set forth in (a) above; or (e) enter into any discussions or arrangements with any third party with respect to any of the foregoing.

On April 1, 2002, Jerome I. Feldman and the Company entered into an incentive compensation agreement pursuant to which Mr. Feldman is eligible to receive from the Company up to five payments in an amount of \$1 million each, based on the closing price of the Company's Common Stock sustaining or averaging increasing specified levels over periods of at least 10 consecutive trading days. On June 11, 2003, July 23, 2003 and December 22, 2003, Mr. Feldman earned an incentive payment of \$1 million each, which payments will be made on January 2, 2005 unless further deferred as set forth above in "Employment Agreement." To the extent there are any outstanding loans from the Company to Mr. Feldman at the time an incentive payment is payable, the Company has the right to set-off the payment of such incentive payment first against the outstanding accrued interest under such loans and next against any outstanding principal. See "Employment Agreement."

The Company has made loans to Jerome I. Feldman, the Chairman of the Board and Chief Executive Officer of the Company. Mr. Feldman primarily utilized the proceeds of such loans to exercise options to purchase Class B Stock. Such loans bear interest at the prime rate of Wachovia Bank and are secured by the purchased Class B Stock and certain other assets. The largest aggregate amount of indebtedness (including principal and accrued interest) outstanding since January 1, 2003 was \$5,678,785. As of March 31, 2004, the aggregate amount of indebtedness outstanding under the loan, after giving effect to the applications of the three \$1 million incentive payments to Mr. Feldman described above was \$2,772,209. See "Employment Agreement."

On July 1, 2002, the Company made a loan to Douglas Sharp, the President of GPC, in the principal amount of \$150,000 in connection with Mr. Sharp's relocation. The loan bears interest at the prime rate of Wachovia Bank. The largest aggregate amount of indebtedness (including principal and interest) outstanding since January 1, 2003 was \$152,123. As of March 31, 2004, the aggregate amount of indebtedness outstanding under the loan was \$105,920.

During the fourth quarter of 2003, due to the Company's acquisition of additional shares of GSE, bringing its ownership of the common stock to GSE from approximately 22% to approximately 58%, GSE became a majority owned subsidiary of the Company.

In December 2003, GSE's Board of Directors elected John Moran, an

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

executive of the Company with experience in the power industry and simulation technology, as Chief Executive Officer. Mr. Moran will continue as an employee of the Company, however, Mr. Moran will devote 100% of his time to the performance of his duties as CEO of GSE. For 2003, GSE reimbursed the Company

\$35,000 for his compensation and benefits and in 2004 GSE will reimburse the Company \$300,000 for Mr. Moran's compensation and benefits.

In December 2003, GSE agreed to pay to GPC approximately \$35,000 for services performed by GPC personnel in the fourth quarter 2003 for the implementation of the Management Services Agreement, described below, which became effective January 1, 2004. In addition, GSE agreed to reimburse GPC \$30,000 for coverage under GPC's directors and officers liability and umbrella insurance for November and December 2003.

In March of 2000, the Company agreed to guarantee up to \$1,800,000 of GSE's credit facility and received a warrant to purchase 150,000 shares of GSE common stock which warrant expired unexercised, in consideration of such guarantee. On March 23, 2003, the Company extended its guarantee and received 150,000 shares of GSE common stock with a value of \$180,000.

On March 30, 2004, GSE was added as an additional borrower under the Financing and Security Agreement between GPC and a financial institution which expires on August 23, 2005. Under the terms of the agreement, \$1.5 million of GPC's available credit facility has been carved out for use by GSE. The line is collateralized by substantially all of GSE's assets and provides for borrowings of up to 80% of eligible accounts receivable and 80% of eligible unbilled receivables, up to a maximum of \$1.5 million. The Company agreed to guarantee GSE's borrowings as part of its fee pursuant to the Management Services Agreement described below.

On January 1, 2004, GSE entered into a Management Services Agreement with the Company pursuant to which the Company agreed to provide corporate support services to GSE, including accounting, finance, human resources, legal, network support and tax. In addition, GSE will use GPC's financial system. GSE will pay an annual fee to GPC of \$685,000. The term of the agreement is one year. The agreement can be renewed for successive one-year terms.

Five Star purchased its business from the Company in 1998 for approximately \$16,500,000 in cash and a five-year 8% unsecured senior note in the original principal amount of \$5,000,000 (the "Five Star Note"). In 2001, the maturity of the Five Star Note was extended until September 30, 2004 and on March 31, 2004 was further extended until June 30, 2005.

On October 8, 2003, the Company exchanged \$500,000 principal amount of the Five Star Note for 2,000,000 shares of Five Star common stock, reducing the outstanding principal amount of the Five Star Note to \$3,000,000, as described below, and increasing the Company's ownership of Five Star common stock to approximately 54% of the then outstanding shares. In consideration for the Company agreeing to exchange the debt for common stock at a conversion price of \$0.25 per share, which was more than twice the \$0.11 closing market price of Five Star's common stock on the day prior to approval of the transaction, Five Star agreed to terminate the voting agreement between Five Star and the Company. The voting agreement, which by its terms would in any case have terminated on June 30, 2004, provided that the Company (i) would vote its shares of Five Star common stock so that not more than 50% of the members of Five Star's board of directors would be officers or

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

directors of the Company and (ii) would vote on matters other than the election of directors in the same proportion as Five Star's other shareholders. The transaction was approved by a Special Committee of Five Star's board of directors; the Special Committee consisted of an independent non-management director who is unaffiliated with the Company.

On June 20, 2003, the Company entered into an Agreement of Subordination and Assignments (the "Subordination Agreement") with Five Star and its lenders that permits the annual repayment of principal on the Five Star Note. Pursuant to the provisions of the Subordination Agreement, in each of June and July 2003, the Company received a partial repayment from Five Star in the amount of \$500,000, reducing the outstanding principal amount of the Five Star Note from \$4,500,000 to \$3,500,000. On October 8, 2003 (as described above), the Company exchanged \$500,000 principal amount of the Five Star Note for 2,000,000 shares of Five Star common stock, reducing the outstanding principal amount of the Five Star Note to \$3,000,000. Pursuant to the provision of the Subordination Agreement, in December 2003, the Company received a partial repayment from Five Star in the amount of \$200,000, further reducing the outstanding principal amount of the Five Star Note to \$2,800,000. The Five Star Note and all the shares of Five Star common stock owned by the Company, along with the Company's rights under the Subordination Agreement, will be transferred to NPDC prior to the spin-off.

On February 6, 2004, Five Star announced an issuer tender offer through which it would repurchase up to 5,000,000 shares, or approximately 30% of its common stock currently outstanding, at \$0.21 per share, originally set to expire on March 16, 2004. On March 17, 2004, Five Star announced that it had increased the price it was offering to pay for the shares in the tender offer to \$0.25 per share and extended the offer to March 31, 2004. Based on the final tabulation by the depository for the tender offer, approximately 2,648,000 shares of common stock were tendered and acquired by Five Star. The effect of the tender offer was to increase the Company's ownership in Five Star to approximately 64%.

In connection with the tender offer, the Company and Five Star agreed that, if Five Star had acquired at least 3,750,000 shares of its common stock pursuant to the tender offer, the Company would exchange certain of the principal of the Five Star Note for shares of Five Star common stock to allow the Company to increase its ownership to at least 80% of Five Star's common stock. If the Company were to increase its ownership to at least 80% of Five Star's common stock, Five Star would become, for federal tax purposes, part of the affiliated group of which the Company is the common parent. As a member of such affiliated group, Five Star would be included in the Company's consolidated federal income tax returns, Five Star's income or loss would be included as part of the income or loss of the affiliated group and any of Five Star's income so included might be offset by the consolidated net operating losses, if any, of the affiliated group. The agreement between the Company and Five Star also provided that, if Five Star became a member of the affiliated group, the Company

and Five Star would enter into a tax sharing agreement pursuant to which Five Star would make tax sharing payments to the Company equal to 80% of the amount of taxes Five Star would pay if Five Star were to file separate consolidated tax returns but did not pay as a result of being included in the Company affiliated group. The Company and Five Star intend to enter into such a tax sharing agreement if, in the future, the Company acquires a number of shares of Five Star common stock such that Five Star becomes a member of the affiliated group. If the Company completes the spin-off of NPDC, which would then hold the Company's interest in Five Star, NPDC would enter into such tax sharing agreement in lieu of the Company.

Five Star leases 236,000 square feet in New Jersey and 111,000 square

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

feet in Connecticut. Five Star's operating lease for the New Jersey facility expires in March, 2007 and the annual rent is \$1,187,000. Five Star's lease for the Connecticut facility expires in February, 2007 and its annual rent is \$402,000. Five Star's White Plains, New York office space is provided by the Company pursuant to the Management Services Agreement. The Company has guaranteed the leases for Five Star's New Jersey and Connecticut warehouses totaling approximately \$1,347,000 per year through the first quarter of 2007 and an aggregate of \$116,000 for certain Five Star equipment leases through April 2004.

As of January 1, 1994, Five Star and the Company entered into a three-year Management Services Agreement pursuant to which certain direct and indirect services will be provided to Five Star by the Company. The services provided by the Company include legal, tax, business development, insurance and employee benefit administration services. Five Star pays the Company a fee of up to \$10,000 per month during the term of the Agreement. The Agreement is automatically renewable for successive one-year terms unless one of the parties notifies the other in writing at least six months prior to the end of the initial term or any renewal thereof. The Agreement was renewed for 2003 and 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Auditors Fees

The following table sets forth the fees billed to the Company and its subsidiaries for the fiscal years ended December 31, 2003 and 2002 for professional services rendered by the Company's independent auditors, KPMG LLP:

| | December 31, 2003 (a) | December 31, 2002 |
|------------------------------|--------------------------|----------------------|
| | ---- | ---- |
| Audit Fees (b) | \$ 917,750 | \$ 634,850 |
| Audit-Related Fees (c) | \$ 53,500 | \$ 26,000 |
| Tax Fees (d) | \$ 213,530 | \$ 284,850 |
| All other Fees (e) | \$ -0- | \$ -0- |

-
- (a) The amount for 2003 include fees for GSE, which became a majority owned subsidiary of the Company effective October 23, 2003. KPMG's fees attributable to GSE were \$149,000 for Audit fees, \$9,500 for Audit-related fees, and \$118,718 for Tax fees.
 - (b) Audit fees consisted principally of fees for the audit of the annual financial statements and reviews of the condensed consolidated financial statements included in the Company's quarterly reports on Form 10-Q and review of registration statements.
 - (c) Audit-related fees consisted of the audit of the financial statements of the Company's employee benefit plan.
 - (d) Includes fees for tax compliance, tax advice and tax planning.
 - (e) All other fees consisted of permitted non-audit services that do not fall into any other specified categories.

Policy on Pre-Approval of Services Provided by Independent Auditor

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the terms of the engagement of KPMG are subject to specific pre-approval policies of the Audit Committee. All audit and permitted non-audit services to be performed by KPMG require pre-approval by the Audit Committee in accordance with pre-approval policies established by the Audit Committee. The procedures require all proposed engagements of KPMG for services of any kind be directed to the Company's General Counsel and then submitted for approval to the Audit Committee prior to the beginning of any service.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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

Jerome I. Feldman
Chief Executive Officer

Dated: April 29, 2004

EXHIBIT INDEX

Exhibit

- 3.1 Amendment to the Registrant's Restated Certificate of Incorporation filed on March 5, 1998. Incorporated herein by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
- 3.2 Amended and Restated By-Laws of the Registrant. Incorporated herein by reference to Exhibit 1 of the Registrant's Form 8-K filed on September 1, 1999.
- 10.1 1973 Non-Qualified Stock Option Plan of the Registrant, as amended on June 26, 2000. Incorporated herein by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.2 GP Strategies Corporation 2003 Incentive Stock Plan. Incorporated herein by reference to Exhibit 4 of the Registrant's Form 10-K for the quarter ended September 30, 2004.
- 10.3 GP Strategies' Millennium Cell, LLC Option Plan. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.4 Employment Agreement, dated as of June 1, 1999, between the Registrant and Jerome I. Feldman. Incorporated herein by reference to Exhibit 10 of the Registrant's Form 10-Q for the second quarter ended June 30, 1999.
- 10.5 Amended and Restated Incentive Compensation Agreement dated as June

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

11, 2003 between the Registrant and Jerome I. Feldman. Incorporated here in by reference to Exhibit 10 to the Registrant's Form 10-Q for the Quarter Ended September 30, 2003.

- 10.6 Amendment dated as of October 1, 2003 to the Amended and Restated Incentive Compensation Agreement dated June 11, 2003 between GP Strategies Corporation and Jerome I. Feldman. Incorporated herein by reference to Exhibit 10.1 to the Registrants Form 10-Q for the Quarter Ended September 30, 2003.
- 10.7 Amended and Restated Incentive Compensation Agreement dated November 17, 2003 between GP Strategies Corporation and Jerome I. Feldman. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the Quarter Ended September 30, 2003.

Exhibit

- 10.8 Employment Agreement, dated as of July 1, 1999, between the Registrant and Scott N. Greenberg. Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q for the third quarter ended September 30, 1999.
- 10.9 Separation Agreement, dated as of September 3, 2002, between the General Physics Corporation and John C. McAuliffe. Incorporated herein by reference to Exhibit 10 of the Registrant's Form 8-K filed on September 4, 2002.
- 10.10 Employment Agreement dated as of May 1, 2001 between the Registrant and Andrea D. Kantor. Incorporated herein by reference to Exhibit 10 of the Registrant's Form 10-Q for the second quarter ended June 30, 2001.
- 10.11 Employment Agreement, dated as of July 1, 1999, between the Registrant and Douglas E. Sharp.**
- 10.12 Termination of Merger Agreement, dated February 11, 2000, to the Agreement and Plan of Merger dated as of October 6, 1999, by and among the Registrant, VS&A Communications Partners III, L.P., VS&A Communications Parallel Partners III, L.P., VS&A-GP, L.L.C. and VS&A-GP Acquisitions, Inc. Incorporated herein by reference to Exhibit 10 of the Registrants Form 8-K filed on February 14, 2000.
- 10.13 Registrant's 401(k) Savings Plan, dated January 29, 1992, effective March 1, 1992. Incorporated herein by reference to Exhibit 10.12 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
- 10.14 Asset Purchase Agreement, dated as of June 3, 1998, by and among SHL Systemhouse Co., MCI Systemhouse Corp., SHL Computer Innovations Inc., SHL Technology Solutions Limited and General Physics Corporation. Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 8-K dated June 29, 1998.
- 10.15 Preferred Provider Agreement, dated as of June 3, 1998, by and among SHL Systemhouse Co., MCI Systemhouse Corp., SHL Computer Innovations Inc., SHL Technology Solutions Limited and General Physics

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Corporation. Incorporated herein by reference to Exhibit 10.2 of the Registrant's Form 8-K dated June 29, 1998.

Exhibit

- 10.16 Financial and Security Agreement dated August 13, 2003 by and between General Physics Corporation, MXL Industries, Inc. and Wachovia Bank National Association. Incorporated herein by reference to Exhibit 10.10 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.17 Guaranty of Payment Agreement dated August 13, 2003 by GP Strategies Corporation for the benefit of Wachovia Bank, National Association. Incorporated herein by reference to Exhibit 10.11 to the Registrant's Form 10-Q for the quarter ended June 30, 2003
- 10.18 Limited Guaranty of Payment Agreement dated August 13, 2003 by MXL Industries, Inc. for the benefit of Wachovia Bank, National Association. Incorporated herein by reference to Exhibit 10.12 to the Registrant's Form 10-Q for the quarter ended June 30, 2003
- 10.19 Rights Agreement, dated as of June 23, 1997, between National Patent Development Corporation and Computershare Investor Services LLC, as Rights Agent, which includes, as Exhibit A thereto, the Resolution of the Board of Directors with respect to Series A Junior Participating Preferred Stock, as Exhibit B thereto, the form of Rights Certificate and as Exhibit C thereto the form of Summary of Rights. Incorporated herein by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on July 17, 1997.
- 10.20 Amendment, dated as of July 30, 1999, to the Rights Agreement dated as of June 23, 1997, between the Computershare Investor Services LLC, as Rights Agent. Incorporated herein by reference to Exhibit 4.2 of the Registrant's report on Form 8-A12B/A filed on August 2, 1999.
- 10.21 Amendment, dated as of December 16, 1999, to the Rights Agreement dated as of June 23, 1997, between the Registrant and Computershare Investor Services LLC, as Rights Agent. Incorporated herein by reference to Exhibit 4.2 of the Company's report on Form 8-A12B/A filed on December 17, 1999.
- 10.22 Consulting and Severance Agreement dated December 29, 1998 between the Registrant and Martin M. Pollak. Incorporated herein by reference to Exhibit 10.10 of the Registrant's Form 10K for the year ended December 31, 1998.

Exhibit

- 10.23 Agreement dated, December 29, 1998, among the Registrant, Jerome I. Feldman and Martin M. Pollak. . Incorporated herein by reference to Exhibit 10.11 of the Registrant's Form 10K for the year ended December 31, 1998.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

- 10.24 Amendment No. 1, dated March 22, 1999, to Agreement dated December 29, 1998 among the Registrant, Jerome I. Feldman and Martin M. Pollak. Incorporated herein by reference to Exhibit 10.12 of the Registrant's Form 10K for the year ended December 31, 1998.
- 10.25 Agreement dated September 22, 1999 among GP Strategies Corporation, Jerome I. Feldman and Martin M. Pollak. Incorporated herein by reference to Exhibit 9 of Jerome I. Feldman's Amendment No. 1 to Schedule 13D filed on September 27, 1999.
- 10.26 Subscription Agreement dated as of October 19, 2001 between the Registrant and Bedford Oak Partners, L.P. Incorporated herein by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.27 Subscription Agreement dated as of May 3, 2002 by and between the Registrant and Bedford Oak Partners, L.P. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 10-Q for the second quarter ended March 31, 2002.
- 10.28 Investor Rights Agreement dated as of December 27, 2001 among the Registrant, Hydro Med Sciences and certain Institutional Investors. Incorporated herein by reference to Exhibit 10.23 to the Registrants Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.29 Stock Purchase Agreement dated as of December 27, 2001 among the Registrant, Hydro Med Sciences and certain Institutional Investors. Incorporated herein by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.30 Right of First Refusal Co-Sale Agreement dated as of December 27, 2001 among the Registrant, Hydro Med Sciences and certain Institutional Investors. Incorporated herein by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

Exhibit

- 10.31 Termination Agreement dated as of December 21, 2001 between Hydro med Sciences and Shire US Inc. Incorporated herein by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.
- 10.32 Stock Purchase Agreement dated as of May 30, 2003, by and among Hydro Med Sciences, Inc. and Investors.**
- 10.33 Amendment No. 1 to Stock Purchase Agreement dated November 18, 2003 by and among Valera Pharmaceutical, Inc. (f/k/a Hydro Med Sciences, Inc.) and Investors.**
- 10.34 Amended and Restated Investor Rights Agreement dated May 30, 2003, by and among Hydro Med Sciences, Inc. and Investors.**
- 10.35 Amended and Restated Investor Right of First Refusal and Co-Sale Agreement dated as of May 30, 2003 by and among Hydro Med Sciences, Inc. and Investors.**

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

- 10.36 Amended Note dated December 19, 2003 in the amount of \$2,800,000 payable by Five Star Products, Inc. to JL Distributors, a wholly owned subsidiary of the Registrant.**
- 10.37 Amended Note dated March 31, 2003 in the amount of \$2,800,000 payable by Five Star Products, Inc. to JL Distributors, a wholly owned subsidiary of the Registrant.**
- 10.38 Tax Sharing Agreement dated as of February 1, 2004 between Registrant and Five Star Products.**
- 10.39 Conversion Letter dated January 22, 2004 between the Registrant and Five Star Products.**
- 10.40 Agreement of Subordination & Assignment dated as of June 30, 2003 by JL Distributors in Favor of Fleet Capital Corporation.**
- 10.41 Stock Purchase Agreement dated as of May 3, 2002 by and between the Registrant and EGI-Fund(02)04 Investors, L.L.L. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the second quarter ended March 31, 2002.

Exhibit

- 10.42 Advisory Services Agreement dated as of May 3, 2002 by and between the Registrant and Equity Group Investments, L.L.C. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the second quarter ended March 31, 2002.
- 10.43 Subscription Agreement dated as of May 3, 2002 by and between the Registrant and Marshall Geller. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Form 10-Q for the second quarter ended March 31, 2002.
- 10.44 Form of Officer's Pledge Agreement. Incorporated herein by reference to Exhibit 10.33 to the Registrant's Form 10-K for the year ended December 31, 2002.
- 10.45 Form of Officer's Promissory Note. Incorporated herein by reference to Exhibit 10.34 to the Registrant's Form 10-K for the year ended December 31, 2002.
- 10.46 Sublease Agreement dated as of December 13, 2002 between the Registrant and Austin Nichols & Company, Inc. Incorporated herein by reference to Exhibit 10.35 to the Registrant's Form 10-K for the year ended December 31, 2002.
- 10.47 Lease Agreement dated as of July 5, 2002 between the Registrant's wholly-owned subsidiary, General Physics Corporation and Riggs Company. Incorporated herein by reference to Exhibit 10.36 to the Registrant's Form 10-K for the year ended December 31, 2002.
- 10.48 Note and Warrant Purchase Agreement dated August 8, 2003 among GP Strategies Corporation, National Patent Development Corporation and Gabelli Funds, LLC. Incorporated herein by reference to Exhibit 10.0 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

- 10.49 Form of GP Strategies Corporation 6% Conditional Subordinated Note due 2008 dated August 14, 2003. Incorporated herein by reference to Exhibit 10.01 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.50 Form of GP Strategies Corporation Warrant Certificate dated August 14, 2003. Incorporated herein by reference to Exhibit 10.02 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.

Exhibit

- 10.51 Form of National Patent Development Corporation Warrant Certificate dated August 14, 2003. Incorporated herein by reference to Exhibit 10.03 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.52 Mortgage Security Agreement and Assignment of Leases dated August 14, 2003 between GP Strategies Corporation and Gabelli Funds, LLC. Incorporated herein by reference to Exhibit 10.04 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.53 Registration Rights Agreement dated August 14, 2003 between GP Strategies and Gabelli Funds, LLC. Incorporated herein by reference to Exhibit 10.05 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.54 Registration Rights Agreement dated August 14, 2003 between National Patent Development Corporation and Gabelli Funds, LLC. Incorporated herein by reference to Exhibit 10.06 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.55 Indemnity Agreement dated August 14, 2003 by GP Strategies Corporation for the benefit of National Patent Development Corporation and MXL Industries, Inc. Incorporated herein by reference to Exhibit 10.07 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.56 Subordination Agreement dated August 14, 2003 among GP Strategies Corporation, Gabelli Funds, LLC, as Agent on behalf of the holders of the Company's 6% Conditional Subordinated Notes due 2008 and Wachovia Bank, National Association. Incorporated herein by reference to Exhibit 10.08 to the Registrant's Form 10-Q for the quarter ended June 30, 2003.
- 10.57 Purchase and Sale Agreement dated October 21, 2003 by and between GP Strategies Corporation and ManTech International. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K dated October 23, 2003.
- 10.58 Teaming Agreement dated October 21, 2003 by and between GP Strategies Corporation and ManTech International. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K dated October 23, 2003.
- 10.59 \$5,250,955 Promissory Note dated October 21, 2003 of GP Strategies Corporation. Incorporated herein by reference to Exhibit 10.3 of the Registrant's Form 8-K dated October 23, 2003.

Edgar Filing: GP STRATEGIES CORP - Form 10-K/A

Exhibit #

- 10.60 Management Service Agreement dated January 1, 2004 between the Registrant and GSE Systems, Inc.**
- 10.61 Form of Management Agreement between the Registrant and National Patent Development Corporation. Incorporated herein by reference to Exhibit 10.1 to National Patent's Form 10 filed on February 12, 2004.
- 10.62 Form of Management Agreement between National Patent Development Corporation and the Registrant. Incorporated herein by reference to Exhibit 10.2 to National Patent's Form 10 filed on February 12, 2004.
- 10.63 Form of Tax Sharing Agreement between the Registrant and National Patent Development Corporation. Incorporated herein by reference to Exhibit 10.4 of National Patent's Form 10 filed on February 12, 2004.
- 14.1 Code of Ethics Policy**
- 18 Not Applicable
- 19 Not Applicable
- 20 Not Applicable
- 21 Subsidiaries of the Registrant**
- 22 Not Applicable
- 23 Consent of KPMG LLP, Independent Auditors**
- 23.1 Consent of Eisner LLP, Independent Auditors**
- 28 Not Applicable
- 31.1 Certification of Chief Executive Officer*
- 31.2 Certification of Chief Financial Officer*
- 32.1 Certification Pursuant to Section 18 U.S.C. Section 1350.*

* Filed herewith.
**Previously Filed