



2003 Annual Report

GP STRATEGIES CORPORATION

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TO OUR SHAREHOLDERS

If you've seen Seabiscuit, you'll understand where we're heading. The finish line is in sight. We are finally in the last phase of our spin-off — and it should happen before the end of this quarter. Good things are happening. Our economy has improved, and so has your company. In the last year we have acquired majority control of GSES, and increased our ownership to 64% of Five Star, raised \$7,500,000 in a subordinated loan from the Gabelli Funds, and most importantly have seen the client base, backlog, and proposal level at General Physics finally resume their upward climb... If one looks around at our "competition," it's a field strewn with failed companies, but the bloodletting is over. Not only have we survived, but we have become a much stronger company. Revolving debt under our senior credit facility has been reduced from \$22.1 million on December 31, 2002 to \$9.6 million on December 31, 2003. Operating revenues and profits for the year 2004 are expected to increase. And post-spin-off, those adventurous souls who will hold their shares in the new National Patent Development Corporation should have a ride to remember. We can't promise a new soft contact lens, or a U.S. Surgical, or a GTS Duratek, or a Millennium Cell, but

GENERAL PHYSICS CORPORATION

“No pain, no gain.” At the onset of 2003, our objective was to rigorously reduce operating costs while steadily strengthening our position—to make tough decisions and find opportunities. It wasn’t easy, but we met that objective.

The difficult economy proved to be an invaluable road map, putting us on the path of investing our resources in markets that were not only in great demand for our services, but could also stimulate future growth. Our profitability grew incrementally each quarter. We created a positive balance sheet, and substantially improved cash flow. The investments we made in markets and services with growth opportunities, while realigning our resources in our mature power, automotive and steel markets, paid off. Contract backlog is up and the future looks promising.

E-LEARNING IN GOVERNMENT

As part of a government-wide e-Training Initiative, agencies are developing learning programs that provide greater access to high-quality training and competency development for their employees. Many agencies are turning to GP to satisfy their needs for the development of an e-learning business case and strategy, Learning Management System selection, integration and hosting, and web-based training custom content development. New customers for these services include the Departments of Transportation, Agriculture, Veterans Affairs, Treasury, Commerce and Justice. GP’s involvement in developing an agency’s e-Learning business case, the first phase of many e-Learning strategies, provides us the opportunity to develop long-term learning solutions for our government customers.

TRAINING OUTSOURCING

It’s more than a trend; it’s smart business. GP’s Training Outsourcing practice has emerged as the premier solution in training business process outsourcing, and we are working hard to improve our position through innovation, customer service and service expansion. GP now includes strategic planning, tuition outsource processing, LMS hosting and LMS technical administration as part of this service. The result has been new outsourcing awards, and global expansion. In the past two years more than fourteen companies have chosen GP as their training outsource provider, and our practice now extends beyond North America to Europe and the Asia Pacific.

With our ISO registered processes, GP is recognized for driving efficiencies throughout the training supply chain. GP customers can be confident in the quality of the services we deliver. With GP's training outsourcing, improved performance is our mission – training is our business.

LIFE SCIENCES

GP provides extensive services to the Life Sciences market such as: information technology support and non-technical workplace solutions to Pfizer, training administration for Eli Lilly, engineering analysis for Merck, web-based training customer content development for Johnson & Johnson as well as GlaxoSmithKline, and technology/knowledge transfer for Abbott Laboratories.

Currently the Life Sciences industry is impacted by huge employment growth, mergers, transfers, regulatory compliance issues and other big changes. GP is positioned to deliver the entire spectrum of performance improvement solutions that will help companies remain focused, continue innovating, respond quickly to change, and stay competitive.

HOMELAND SECURITY

It's a goal, it's a process, and GP's value is ever present. Serving the preparedness needs of our country is of the utmost importance to us. Our work with the Department of Homeland Security (DHS) continues to grow. To date, GP's mobile technical training teams have provided customized programs of instruction to 486 local agencies with 2,147 courses. We have taught nearly 30,000 fire, law enforcement, emergency management and other personnel within the first responder community, including 2,700 participants in vital 'table top' emergency response exercises. In support of this effort, GP operates the Domestic Preparedness (ODP) Equipment Technical Assistance Program, the training portion of the joint DHS/DOE Homeland Defense Equipment Reuse Program, and the Quality Assurance Inspection component of the Office for Domestic Preparedness Prepositioned Equipment Program.

This work, combined with our program support for the U.S. Army Chemical (Agent) Demilitarization Training, and the American Red Cross Clara Barton Center® for Domestic Preparedness, has earned GP an exceptional and nationwide reputation as an experienced leader in preparedness and emergency response services. As funding

reaches the state level, GP is there, as evidenced by our 'Bioterrorism Preparedness' support for the State of Tennessee, and 'State Homeland Security Assessments and Strategy' for Mississippi and West Virginia. When local agencies are in need, GP is there as well, providing services that help them respond to DHS's 'Urban Areas Security Initiatives' for cities and 'Emergency Response in Crisis Management Initiatives' for county governments. GP is dedicated to our Homeland Security and will continue to provide optimal services for the war on terrorism.

ENGINEERING SERVICES

Stalwart within GP are niche, or specialty, engineering and consulting services. We provide customers with significant performance improvement through advanced operations, improved facilities and systems, and regulatory compliance. For example, our 38 years of plant operation and maintenance experience has culminated into leading products in Performance Monitoring. With over 100,000 megawatts of power generators monitored worldwide with our EtaPro™ system, GP is enhancing efficiency and capacity to our customers' plant operations. Our engineers and technicians also provide design, analysis, construction, and inspection support at government research, development, test, and other facilities across the country. Complex, inherently hazardous and capital intensive facilities often require our customers' compliance with EPA, OSHA, NRC, DOT, FDA, or other regulations. GP's consulting and engineering services provide customers with compliant and competitive solutions for their facility, design, remediation and restoration needs.

As you can see, the tough decisions we made and the opportunities we recognized throughout the year, have positioned GP for growth. We have worked through the "pain" and are ready for the "gain."

GSE SYSTEMS, INC.

Service companies are great, but how nice it is to have a leading edge technology that fits with our services. That's why we bought control of GSES. GSES is a leading software company in the expanding world of simulation. Originally confined to the power industry, under new leadership GSES is broadening its base to include the process, industrial, and medical sectors. Simulation in its simplest form is a training tool—so it's a natural fit with GP, and should be synergistic to both.

SPIN-OFF PROPERTIES

FIVE STAR PRODUCTS, INC.

Walking through the New Jersey warehouse, a homeowner would feel like a child in a candy store. Stains, hardware, brushes, paints, even shovels for winter snows. Closing in on \$100 million revenues, Five Star has an important role — the creation of cash to fuel NPDC.

MXL INDUSTRIES, INC.

A disappointment for a second year in a row. We purchased equipment to add some laser technology to our offerings — especially for the military. This obviously is a crucial year for this 100%-owned precision molding subsidiary.

VALERA PHARMACEUTICALS, INC.

Valera (once called “Hydro Med Sciences”) — better to own 25% of an exciting venture than 100% of a cash-starved technology. Valera has raised over \$20 million in the last two years from the venture capital world. This has permitted Valera to complete its Phase III clinicals which were filed with the FDA in December 2003. A third round of financing to raise \$15 million is in progress, permitting Valera to be ready to commence urological sales in the fall of 2004, when its product is anticipated to be approved by the FDA. Let us remind those of you who are new to GP what Valera is all about. Valera has developed a small hydrophilic plastic implant (about the size of a matchbook match) which would deliver for one year a hormone, Histrelin. This implant treats metastatic prostate cancer. Its action is through stemming the flow of testosterone, inducing chemical castration, and inhibiting the spread of the cancer. By the way, the U.S. market potential of the drug LHRH, of which Histrelin is one analog, currently exceeds \$1.2 billion and sales are anticipated to increase each year. A lot of room there.

There are other assets in the spin-off company. Real estate (though the Pawling parcel is being held as security for the \$7.5 million subordinated loan, 6% coupon debt with a convertible warrant at \$8 by the Gabelli Funds), approximately 1,000,000 shares of Millennium Cell and \$2.8 million of debt owed to NPDC by Five Star. And our most important asset is our people, or as Shakespeare said in Henry V's St. Crispin Day speech, "We few, we happy few, we band of brothers." We expect GP, once liberated from the confusion of hardware, drug delivery implants, and motorcycle helmet shields, to improve on a quarterly basis with steadily increasing revenues and earnings. We expect National Patent to seek that elusive spark that once made it one of the more exciting companies in America.

Quite a perfecta.

A handwritten signature in black ink, appearing to read "J. V. Stalder", with a long horizontal flourish extending to the right.

Chairman and Chief Executive Officer

April 21, 2004



CORPORATE DIRECTORY AND CORPORATE DATA

BOARD OF DIRECTORS

Jerome I. Feldman ¹	Chairman of the Board and Chief Executive Officer
Scott N. Greenberg ¹	President and Chief Financial Officer
Harvey P. Eisen ²	Chairman and Managing Member of Bedford Oak Management, LLC
Marshall S. Geller ⁴	Chairman, Chief Executive Officer and Founding Partner of Geller & Friend Capital Partners, Inc.
Roald Hoffmann, Ph.D. ^{1,3}	Nobel Laureate (1981), Professor of Physical Science, Cornell University
Bernard M. Kauderer ³	Vice Admiral, U.S. Navy (Ret.)
Mark A. Radzik ³	Managing Director of Equity Group Investments, L.L.C.
Ogden R. Reid ³	Former U.S. Congressman, Former U.S. Ambassador to Israel
Gordon Smale ^{2,4}	President, Atlantic Oil Company

- ¹ Member of the Executive Committee
- ² Member of the Compensation Committee
- ³ Member of the Audit Committee
- ⁴ Member of the Corporate Governance Committee

CORPORATE OFFICERS

Jerome I. Feldman	Chairman of the Board and Chief Executive Officer
Scott N. Greenberg	President and Chief Financial Officer
Andrea D. Kantor	Vice President and General Counsel
Lydia M. DeSantis	Corporate Secretary

Barry F. Blatt	Director of Taxes
Carole Nussbaum	Assistant Treasurer

OPERATING COMPANIES

Five Star Products, Inc.
903 Murray Road
E. Hanover, NJ 07936

General Physics Corporation
6095 Marshalee Drive
Elkridge, MD 21075

GSE Systems, Inc.
9189 Red Branch Road
Columbia, MD 21045

MXL Industries, Inc.
1764 Rohrerstown Road
Lancaster, PA 17601

INFORMATION AVAILABLE TO SHAREHOLDERS

Copies of the Company's Form 10-K, proxy statement, press releases and other documents are available through GP Strategies home page on the Internet at the following address: www.gpstrategies.com. Copies of these materials also are available without charge upon written request to the office of the Secretary at:

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REGISTRAR AND TRANSFER AGENT

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