

Annual Report 2004

GP STRATEGIES CORPORATION



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To our SHAREHOLDERS

What a quandary to be in. For the past four years, we've sought refuge from reality in our hopes for the future.

Well, the future is now.

Our spin-off is complete, and one can view GP Strategies in its purest form for the first time in years. By every analytical barometer, business is going extremely well. Backlog is up over 30% (hovering over \$100 million); revolving credit bank debt, which was once as high as \$54 million, is completely paid off; and we currently have a cash balance of approximately \$5 million. Revenues (without our 57% interest in GSE) are up this year by 23%, and operating profit has grown dramatically. Growth is coming from across the company, most notably in our corporate clients. Corporate growth has been fueled by both new client relationships and by expanding our relationships with existing clients. Government, for the past four years has been our solid core, representing approximately 38% of revenues. Good things keep happening. We have recently won a \$13.7 million net award in an arbitration proceeding against EDS. Our fraud litigation against EDS and MCI is still pending.

GENERAL PHYSICS CORPORATION

I am frequently asked if corporate education and performance improvement is a secure and growth-oriented business to be in. My answer is always a resounding “yes.” Advances in technology and the rate at which information doubles mean that what is learned before entering the workforce will not see employees through to the end of their careers. A company’s human capital is often its greatest competitive advantage, and no organization can afford to get behind the knowledge curve. In addition, the talent drain created by high turnover can be mitigated with professional development and training. As a result, organizations have quickly realized that continuing professional development is not a luxury; it’s a necessity for survival.

According to *Training* magazine’s “The 23rd Annual Industry Report” for 2004, organizations spent \$51.4 billion on training in the U.S. The American Society for Training and Development adds that the percentage of expenditure for external services is increasing. GP is in a prime position to take advantage of today’s upswing in the economy and the increased investment that organizations are making in their employees.

The key initiatives that we identified in 2004 have paid off. We have a good, strong client base with sustainable work, and we developed processes that positioned us well—not only to support the current work we are doing but also to expand our service offering. In 2005, we look forward to expanding work within our customer base as well as developing new customers.

MAINTAINING A STRONG E-LEARNING PRESENCE IN GOVERNMENT

GP's significant involvement with the federal government-wide e-Training initiative continued in 2004. We provided such services as Learning Management System (LMS) integration and hosting, and ongoing technical and call center support. Agencies for which we provide all or some of these e-Learning services include the Bureau of Alcohol, Tobacco, Firearms and Explosives; the Department of Transportation; the Internal Revenue Service; the United States Department of Agriculture; and the Department of Veterans Affairs.

We also expanded our focus to include custom web-based content development, which we believe will be the next phase in support of the e-Training initiative. Agencies will need web-based content that is relevant and specific to their mission. We are in the advantageous position to develop additional strategies, as well as web-based training content because we are already providing LMS services for many of these agencies. Further, we have been translating these e-Learning successes in the government sector into opportunities in the commercial sector.

BUILDING ON OUR SUCCESSES IN TRAINING OUTSOURCING

For training outsourcing, 2004 was the year to expand on the services we were already offering existing customers, to increase awareness and brand name recognition in the marketplace, and to grow our new tuition assistance program management offering. We are now one of the top three recognized companies for tuition assistance program management, and the technology solution we developed to support this service adds to our competitive advantage. Customers include United Technologies, the State of Ohio, and Ford Motor.

In addition, we have begun to recognize a return on our efforts for entering new markets, such as the financial and insurance industry. We continue to believe that these markets are primed for business process outsourcing and training services. With our training outsourcing service line and our consistent interface with our customers, we are in a unique position to seize the opportunity to become our customers' total solution provider. As a result, training outsourcing presents us with an excellent opportunity to become a true business partner of our customers.

CAPITALIZING ON RICH OPPORTUNITIES IN LIFE SCIENCES

In the life sciences industry, our strategy of diversification and cross-selling our services to existing customers was extremely successful. Services we provide to customers in this industry include information technology support, non-technical workplace solutions, training outsourcing, engineering analysis, web-based training, and custom content development. Through those services, GP's revenue in this market sector increased by 33% in 2004. We currently provide services to 9 of the top 15 pharmaceutical companies. Our strategy for 2005 is to remain focused on these customers and expand our business by continuing to find solutions to help them achieve their business goals. With increased sales forces and budgets, reduced physician access, and compliance issues driving the industry, the need for GP's services in this seemingly recession-proof industry is ripe for growth.

EXPANDING OUR LEADERSHIP IN HOMELAND SECURITY

Homeland Security is a good example of both sustaining customers, while also expanding services to them. Our work with the Department of Homeland Security (DHS) continues to grow. In support of this effort, GP operates the Domestic Preparedness 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. To date, GP's mobile technical training teams have provided customized instruction to 1,012 agencies with 3,924 classes in 43 states and one territory. We have taught nearly 56,000 first responders, including 5,700 participants in vital "tabletop" emergency response exercises.

We also continue to provide program support for the U.S. Army Chemical (Agent) Demilitarization Training, which we have supported since 1989, and the American Red Cross Clara Barton Center® for Domestic Preparedness, which we have supported since its inception in the year 2000. GP's expansion of Homeland Security services at the state and local levels was significant in 2004, whether it was assisting counties in Florida recover from the aftermath of the hurricanes or providing homeland security exercise and evaluation services to the State of Tennessee.

MAKING ENORMOUS STRIDES IN OUR ENGINEERING SERVICES

Our engineering services and products provide performance improvement solutions for many of our customers by offering streamlined operations, regulatory compliance, and improved facilities and systems. GP released a thermodynamic modeling framework, Virtual Plant™, for EtaPRO™, GP's industry-leading real-time performance monitoring and optimization system that is installed on over 250 generating units worldwide. Virtual Plant allows power plant operators the ability to simulate their plant operations, both offline and online. In addition, we introduced an energy management system, which is used to forecast the efficiency and capacity of a power plant and maintain cost effectiveness throughout the system.

LOOKING AHEAD TO ANOTHER YEAR OF GROWTH

Across every industry we serve and in each niche of our business, 2004 was not only a year of growth, but also a year of strategic positioning for years to come. As long as businesses count on human resources and proprietary processes to maintain their competitiveness, there will always be a need for the expertise GP offers to our customers. For nearly 40 years, performance improvement and training have been the backbone of our business, and each year makes us stronger. So when I'm asked about the security of our industry, I can't help but think it's the most secure industry there is.

Beyond that, however, I also consider it the most rewarding. To help individuals and businesses achieve their personal and professional best performances year after year is a privilege and a gift. And it's also something we've come to expect from ourselves here at GP. The year 2004 was great for GP, and we're excited about what 2005 offers.

We are now a lean and highly focused organization and look forward to expanding shareholder value in the months to come. Thank you for giving us the opportunity to reach this point, and join us as we pursue our future.

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

Chairman and Chief Executive Officer

March 18, 2005



CORPORATE DIRECTORY AND CORPORATE DATA

BOARD OF DIRECTORS

Jerome I. Feldman¹

Scott N. Greenberg¹

Harvey P. Eisen^{1 2 3}

Marshall S. Geller^{2 3}

Richard C. Pfenniger, Jr.⁴

Scott R. Peppet^{3 4}

Ogden R. Reid⁴

Matthew Zell^{2 3 4}

Chairman and Chief Executive Officer

President and Chief Financial Officer

Chairman and Managing Member of Bedford Oak Management, LLC

Senior Managing Director and Co-Founder of St. Cloud Capital LLC

Chairman, President and Chief Executive Officer of Continucare Corporation

Associate Professor of Law, University of Colorado School of Law

Former U.S. Congressman, Former U.S. Ambassador to Israel

Managing Director of Equity Group Investments, L.L.C.

¹ Member of the Executive Committee

² Member of the Compensation Committee

³ Member of the Nominating/Corporate Governance Committee

⁴ Member of the Audit Committee

CORPORATE OFFICERS

Jerome I. Feldman

Scott N. Greenberg

Andrea D. Kantor

Lydia M. DeSantis

Chairman and Chief Executive Officer

President and Chief Financial Officer

Vice President and General Counsel

Corporate Secretary

Barry F. Blatt

Carole Nussbaum

Director of Taxes

Assistant Treasurer

OPERATING COMPANIES

General Physics Corporation
6095 Marshalee Drive
Elkridge, MD 21075

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

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services LLC
P. O. Box A3504
Chicago, IL 60690-3504
(312) 360-5430

CERTIFIED PUBLIC ACCOUNTANTS

KPMG LLP
111 South Calvert Street
Baltimore, MD 21202

SHAREHOLDER INFORMATION

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:

777 Westchester Avenue
Fourth Floor
White Plains, NY 10604

Our Chief Executive Officer, Jerome I. Feldman provided the required certification to the New York Stock Exchange on November 30, 2004 pursuant to Section 303A.12(a) of the New York Stock Exchange's Corporate Governance listing standards.

Our Chief Executive Officer, Jerome I. Feldman and our Chief Financial Officer, Scott N. Greenberg provided the required certification to the Securities and Exchange Commission as an exhibit to our 2004 Annual Report on Form 10-K regarding the quality of our public disclosures pursuant to Section 302 of the Sarbanes-Oxley Act.



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