

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

NATIONAL PATENT DEVELOPMENT CORP

CIK: **70415** | IRS No.: **131926739** | State of Incorporation: **DE** | Fiscal Year End: **1231**
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarter ended September 30, 1996

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

NATIONAL PATENT DEVELOPMENT CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

13-1926739

(State or other jurisdiction of
incorporation or organization)

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

9 West 57th Street, New York, NY
(Address of principal executive offices)

10019
(Zip code)

(212) 826-8500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange act of 1934 during the preceding 12 months (or for such shorter period) that the registrant was required to file such reports and (2) has been subject to such filing requirements for the past 90 days.

Yes

X

No

Number of shares outstanding of each of issuer's classes of common stock as of November 7, 1996:

Common Stock

7,503,372 shares

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	Page No.
Part I. Financial Information	
Consolidated Condensed Balance Sheets - September 30, 1996 and December 31, 1995	1
Consolidated Condensed Statements of Operations- Three Months and Nine Months Ended September 30, 1996 and 1995	3
Consolidated Condensed Statements of Cash Flows - Nine Months Ended September 30, 1996 and 1995	5
Notes to Consolidated Condensed Financial Statements	7
Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Qualification Relating to Financial Information	14
Part II. Other Information	15
Signatures	16

PART I. FINANCIAL INFORMATION

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

	September 30, 1996 (unaudited)	December 31, 1995 (a)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23,371	\$ 8,094

Marketable securities	3,280	3,563
Accounts and other receivables, of which \$15,354 and \$13,013 is from government contracts	45,243	39,466
Inventories	20,871	20,444
Costs and estimated earnings in excess of billings on uncompleted contracts, of which \$645 and \$1,473 relates to government contracts	10,125	9,118
Prepaid expenses and other current assets	3,540	3,640
Total current assets	106,430	84,325
Investments and advances	23,392	21,452
Property, plant and equipment, at cost	35,740	33,367
Less accumulated depreciation	(26,521)	(24,374)
	9,219	8,993
Intangible assets, net of amortization	33,987	33,053
Other assets	3,682	3,897
	\$176,710	\$151,720

(a) The Consolidated Condensed Balance Sheet as of December 31, 1995 has been summarized from the Company's audited Consolidated Balance Sheet as of that date.

See accompanying notes to the consolidated condensed financial statements.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (Continued)

(in thousands)

	September 30, 1996 (unaudited)	December 31, 1995 (a)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 8,910	\$ 4,167
Short-term borrowings	21,540	18,043
Accounts payable and accrued expenses	24,825	20,865
Billings in excess of costs and estimated		

earnings on uncompleted contracts	8,395	8,301
Total current liabilities	63,670	51,376
Long-term debt less current maturities	11,853	19,765
Minority interests and other	9,903	9,581
Stockholders' equity		
Common stock	73	68
Class B capital stock	1	1
Capital in excess of par value	130,080	125,419
Deficit	(40,501)	(52,139)
Net unrealized gain (loss) on available-for-sale securities	2,542	(1,440)
Minimum pension liability adjustment	(911)	(911)
Total stockholders' equity	91,284	70,998
	\$176,710	\$151,720

(a) The Consolidated Condensed Balance Sheet as of December 31, 1995 has been summarized from the Company's audited Consolidated Balance sheet as of that date.

See accompanying notes to the consolidated condensed financial statements.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Revenues				
Sales	\$ 53,332	\$ 47,551	\$152,536	\$142,519
Investment and other income, net	1,132	246	2,658	924
	54,464	47,797	155,194	143,443
Costs and expenses				
Costs of goods sold	45,255	39,444	129,623	119,310
Selling, general & administrative	8,089	9,419	22,269	23,968
Interest	1,123	1,203	3,142	3,636
	54,467	50,066	155,034	146,914

Minority interests	(402)	(314)	(1,094)	(818)
Loss on investments			(4,000)	
Unrealized gain on transfer from long-term investment to trading securities	1,842		1,842	
Gain on issuance of stock by affiliates		5,912	1,938	5,912
Gain on disposition of stock of a subsidiary and affiliate			12,200	2,567
Income before income taxes, discontinued operation and extraordinary item	1,437	3,329	11,046	4,190
Income tax benefit (expense)	(685)	(248)	592	(1,073)
Income before discontinued operation and extraordinary item	752	3,081	11,638	3,117
Discontinued operation		(1,015)		(2,154)
Income before extraordinary item	752	2,066	11,638	963
Extraordinary item Extinguishment of debt, net of income tax		(87)		(79)
Net income	\$ 752	\$ 1,979	\$11,638	\$ 884

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (Continued)

(Unaudited)

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Income per share				
Income before discontinued operation and extraordinary item	\$.10	\$.45	\$ 1.58	\$.47
Discontinued operation		(.15)		(.33)
Extraordinary item		(.01)		(.01)
Income per share	\$.10	\$.29	\$ 1.58	\$.13
Dividends per share	none	none	none	none

See accompanying notes to the consolidated condensed financial statements.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine months ended September 30,	
	1996	1995
Cash flows from operations:		
Net income	\$ 11,638	\$ 884
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for discontinued operation		2,075
Depreciation and amortization	3,919	3,640
Loss from extinguishment of debt		79
Gain on disposition of stock of an affiliate	(12,200)	(2,567)
Gain on issuance of stock by affiliates	(1,938)	(5,912)
Loss on investments	4,000	
Reduction in valuation allowance for deferred tax asset	(2,386)	
Unrealized gain on transfer from long-term investments to trading securities	(1,842)	
Change in other operating items	(3,685)	3,792
Net cash (used for) provided by operations	(2,494)	1,991
Cash flows from investing activities:		
Proceeds from sale of stock of a subsidiary	17,700	5,000
Additions to property, plant & equipment	(2,373)	(1,701)

Additions to intangible assets	(2,706)	(988)
Reduction of investments and other assets, net	1,238	139
Net cash provided by investing activities	\$ 13,859	\$ 2,450

See accompanying notes to the consolidated condensed financial statements.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(in thousands)

	Nine months ended September 30,	
	1996	1995
Cash flows from financing activities:		
Proceeds from short-term borrowings	\$ 5,247	\$ 7,160
Repayments of short-term borrowings	(1,750)	(11,020)
Proceeds from issuance of long-term debt	1,400	4,910
Reduction of long-term debt	(3,545)	(8,728)
Exercise of common stock options and warrants	7	
Proceeds from issuance of common stock	2,553	
Net cash provided by (used for) financing activities	3,912	(7,678)
Net increase (decrease) in cash and cash equivalents	15,277	(3,237)
Cash and cash equivalents at the beginning of the periods	8,094	10,075
Cash and cash equivalents at the end of the periods	\$ 23,371	\$ 6,838

Supplemental disclosures of cash
flow information:

Cash paid during the periods for:

Interest	\$ 3,449	\$ 3,939
Income taxes	\$ 836	\$ 421

See accompanying notes to the consolidated condensed financial statements.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Inventories

Inventories are valued at the lower of cost or market, principally using the first-in, first-out (FIFO) method. Inventories consisting of material, labor, and overhead are classified as follows (in thousands):

	September 30, 1996	December 31, 1995
Raw materials	\$ 780	\$ 580
Work in process	230	219
Finished goods	19,861	19,645
	\$ 20,871	\$ 20,444

2. Long-term debt

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

	September 30, 1996	December 31, 1995
8% Swiss bonds due 1995	\$	\$ 247
8% Swiss bonds due 2000	2,301	2,365
Swiss convertible bonds		1,751
5% Convertible bonds due 1999	1,740	2,249
12% Subordinated debentures due to 1997	6,732	6,749
Term loans with banks	7,470	8,713
Other	2,520	1,858
	20,763	23,932
Less current maturities	8,910	4,167
	\$ 11,853	\$ 19,765

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

3. General Physics Corporation

In September 1996, the Company and General Physics Corporation (GP) reached an agreement pursuant to which the Company would acquire the remaining 5,039,732 shares (48% of the outstanding shares) of GP that it does not already own. The agreement was recommended to the Board of Directors of GP by a Special Committee of the Board composed of independent directors. Based on an agreed upon price of the Company's Common Stock on September 18, 1996 (\$9.625), the Company would issue .5299 shares of its common stock, par value \$.01 per share, for each outstanding share of GP Common Stock not owned by the Company. The exchange ratio, which is subject to certain adjustments, would provide approximately \$5.10 in value for each outstanding share of GP. The proposed transaction is subject, among other things, to the execution of a definitive merger agreement, the approval by stockholders of each of the Company and GP, receipt of a fairness opinion from the investment banker for GP, and registration under the Securities Act of 1933 of the shares of the Company's Common Stock to be issued in the proposed transaction.

On September 27, 1996, General Physics, all of the directors of General Physics and the Company were named as defendants in a complaint filed in the Court of Chancery of the State of Delaware in and for New Castle County, styled Dunlop v. Pollak, et al., Civil Action No. 15237-NC. The complaint was brought by an alleged stockholder of General Physics, individually and purportedly as a class action on behalf of all other stockholders of General Physics. The complaint alleges purported breaches of fiduciary duty by the directors of General Physics, including certain directors who are also directors of the Company, and purported breaches of fiduciary duty by the Company, as an alleged majority and controlling shareholder, arising primarily from the Merger. The complaint alleges, among other things, that the Merger has been timed to allow the Company to take advantage of the current trading price of GP Common Stock, which plaintiff alleges is depressed. The complaint seeks, among other things, injunctive relief prohibiting the Merger or, if the Merger is consummated, an order rescinding the Merger or granting plaintiff and the other members of the purported class damages. Plaintiff has granted the defendants extensions of the time in which to answer the complaint and to respond to plaintiff's pending request to review documents relating to the Merger. The defendants believe that the claims set forth in the complaint are without merit, and intend vigorously to defend the litigation.

4. Short-term borrowings

On September 30, 1996, the Five Star Group, Inc. (Five Star) and MXL Industries, Inc. (MXL) entered into an extension of, as well as various amendments to the Five Star Loan Agreement and MXL Loan Agreement. The amended agreements expire on September 30, 1997. Under the terms of the amendments, several Five Star covenants, including provisions regarding working capital, tangible net worth, capital expenditures and cash flow ratios were revised.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company realized income before income taxes, discontinued operation and extraordinary item of \$1,437,000 and \$11,046,000 for the quarter and nine months ended September 30, 1996, as compared with income of \$3,329,000 and \$4,190,000 for the corresponding periods of 1995. The improvement in the Company's results before discontinued operation and extraordinary item for the nine months is due to several factors. In April 1996, the Company sold 1,000,000 shares of the Company's GTS Duratek, Inc. (Duratek) common stock, realized proceeds of \$17,700,000 and recognized a gain of \$12,200,000. In the third quarter of 1996, the Company recorded an unrealized gain totaling \$1,842,000 on the transfer of 200,000 shares of Duratek common stock from long-term investments to trading securities. These gains were partially offset by a \$4,000,000 loss recognized on the Company's investments in American White Cross, Inc. (AWC), due to AWC filing for protection under Chapter 11 of the United States Bankruptcy Code in July 1996. In addition, in April 1996, Interferon Sciences, Inc. (ISI), the Company's approximately 17% owned affiliate, issued additional shares of common stock, which resulted in the Company recognizing a gain of \$1,938,000. For the nine months ended September 30, 1996, the Company's share of loss of an affiliate (ISI) due to the buy back of certain marketing rights was \$563,000. In January 1995, the Company realized a \$2,567,000 gain on the sale of 1,666,667 shares of the Company's Duratek common stock. As a result of such transaction, the Company's ownership fell below 50% and commencing in January 1995, the Company accounted for its investment in Duratek on the equity basis. At September 30, 1996, the Company owns approximately 15% of the outstanding common stock of Duratek and currently accounts for its investment as a combination of marketable securities, long-term investments and as long-term available-for-sale equity securities. Included in investment and

other income, net for the nine months ended September 30, 1996, is \$80,000 of foreign currency transaction gain, compared to a loss of \$(1,061,000) for the nine months ended September 30, 1995.

The reduced income before income taxes, discontinued operation and extraordinary item for the quarter ended September 30, 1996, is primarily due to a \$5,912,000 gain recognized during the third quarter of 1995 as a result of the issuance of common stock by ISI and the initial public offering by GSE Systems, Inc. (GSES). At September 30, 1996, the Company controls approximately 21% of GSES. The effect of the gain recorded in 1995 was partially offset by improved operating results within the Physical Science and Distribution Groups in 1996 partially offset by reduced operating profits within the Optical Plastics Group and at the Company's Hydro Med Sciences (HMS) division. In addition, for the nine months ended September 30, 1996, the Company also achieved reduced interest expense at the corporate level, as a result of reduced long-term debt.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Sales

For the quarter ended September 30, 1996, consolidated sales increased by \$5,781,000 to \$53,332,000 from the \$47,551,000 recorded in the corresponding quarter of 1996. For the nine months ended September 30, 1996, consolidated sales increased by \$10,017,000 to \$152,536,000 from \$142,519,000 recorded for the nine months ended September 30, 1995. The increased sales for the quarter and nine months ended September 30, 1996, were the result of increased sales within the Distribution Group and Physical Science Group, partially offset by reduced sales within the Optical Plastics Group and by the Company's Hydro Med Sciences division (HMS) for the nine months ended September 30, 1996. The increased sales within the Physical Science Group were the result of General Physics Corporation's (GP) expansion of managerial and technical training services in manufacturing and process industries, partially offset by reduced activity at commercial nuclear power utilities and U.S. Department of Energy facilities. The increased sales within the Distribution Group, which is comprised of the Five Star Group, Inc. (Five Star), were the result of sales generated by a major retail chain, which was not a customer of Five Star during the first nine months of 1995,

as well as an overall increase in sales of hardware products. The reduced sales within the Optical Plastic Group were due to a slowdown by MXL Industries, Inc.'s (MXL) major customer as a result of the customer's decision to reduce its inventory level. The reduced sales within HMS were due to the timing of sales to two customers.

Gross margin

Consolidated gross margin of \$8,077,000, or 15%, for the quarter ended September 30, 1996, decreased by \$30,000 when compared to the consolidated gross margin of \$8,107,000, or 17%, for the quarter ended September 30, 1995. For the nine months ended September 30, 1996, consolidated gross margin of \$22,913,000 or 15% of consolidated sales decreased by \$296,000 when compared to \$23,209,000 or 16% of consolidated sales earned in the nine months ended September 30, 1995. These decreases were principally the result of decreased gross margin achieved by MXL and HMS as a result of reduced sales levels partially offset by increased gross margin generated by Five Star and GP, as a result of increased sales. In addition, Five Star and MXL achieved lower gross margin percentages due to a change in their customer mix.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Selling, general and administrative expenses

For the quarter and nine months ended September 30, 1996, selling, general and administrative expenses (SG&A) of \$8,089,000 and \$22,269,000 were \$1,330,000 and \$1,699,000 lower than the \$9,419,000 and \$23,968,000 of SG&A expenses incurred during the quarter and nine months ended September 30, 1995. The decrease in SG&A for the quarter and nine months ended September 30, 1996, was principally the result of efforts by GP during 1995 to consolidate and streamline its organization, which has been realized in the current periods, partially offset by increased selling expenses incurred by Five Star as a result of increased sales.

Interest expense

For the quarter and nine months ended September 30, 1996, interest expense was \$1,123,000 and \$3,142,000, compared to \$1,203,000 and \$3,636,000 for the third quarter and nine months

ended September 30, 1995. The decreased interest expense for the quarter and nine months ended September 30, 1996, was the result of reduced long-term debt.

Investment and other income, net

Investment and other income, net of \$1,132,000 and \$2,658,000 for the quarter and nine months ended September 30, 1996 increased by \$886,000 and \$1,734,000, respectively, as compared to \$246,000 and \$924,000 for the corresponding periods of 1995. The change for the periods was principally due to an \$80,000 foreign currency transaction gain recognized during the nine months ended September 30, 1996, compared to a loss of \$(1,061,000) for the nine months ended September 30, 1995. In addition, for the quarter and nine months ended September 30, 1996 the Company had increased investment income due to increased cash and cash equivalents, reduced losses related to ISI, the Company's 17% owned affiliate, which effective in the third quarter of 1996 was accounted for on the cost basis and increased consulting revenues earned by the Company's 54% owned American Drug Company subsidiary.

Income tax expense

For the quarter and nine months ended September 30, 1996, the Company had an income tax benefit (expense) of \$(685,000) and \$592,000, respectively, compared to an expense of \$248,000 and \$1,073,000 for the corresponding periods of 1995. The benefit recognized in 1996 is the result of the reduction of \$2,386,000 in the valuation allowance for deferred tax assets due to management's assessment that it is more likely than not that the Company will realize the benefits of this amount of deferred tax assets, based upon unrealized gains on the Company's investments and other factors, offset by state and local taxes, as well as GP's Federal income tax expense. GP is not included in the Company's Federal income tax return. The expense in 1995 relates primarily to state and local taxes and GP's Federal income tax expense.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Recent accounting developments

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Statement 121 requires the Company to estimate the future cash flows expected to result from the use and eventual disposition of its property, plant and equipment and other long lived assets, and if the sum of such cash flows is less than the carrying amount of these assets, to recognize an impairment loss to the extent, if any, that the carrying amount of the assets exceeds their fair values. The Company believes that expected future cash flows derived from these assets will be at least equal to their carrying values, and that no impairment loss will be indicated.

In December 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), effective for years beginning after December 15, 1995. Under SFAS 123, the Company may elect either a "fair value" based method or the current "intrinsic value" based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees," for its stock-based compensation arrangements. Under the "intrinsic value" based method, the Company will be required to disclose in the footnotes to the consolidated financial statements net income and earnings per share computed under the "fair value" based method. The Company has elected to continue accounting for stock-based compensation arrangements using the "intrinsic value" based method; therefore, the adoption of SFAS 123 will not impact the Company's results of operations or financial condition.

Forward-Looking Statements. This report contains certain forward-looking statements reflecting management's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements, including, but not limited to, ability to reverse its history of the Company's operating losses; the Company's dependence on its subsidiaries and its investments as its primary source to service outstanding debt and to fund its operations; and the Company's ability to comply with financial covenants in connection with various loan agreements.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1996, the Company had cash and cash equivalents totaling \$23,371,000. GP, SGLG, Inc. and American Drug Company had cash and cash equivalents of \$1,028,000 at September 30, 1996. The minority interests of these three companies are owned by the general public, and therefore the assets of these subsidiaries have been dedicated to the operations of these companies and may not be readily available for the general corporate purposes of the parent.

In April 1996, the Company sold 1,000,000 shares of Duratek common stock, and realized net proceeds of \$17,700,000. The Company currently owns approximately 1,846,000 shares of Duratek common stock. During the first quarter of 1996, the Company completed a private placement of its common stock, totaling approximately \$2,300,000. The Company used the proceeds from this transaction to retire long-term debt, which was currently due. As a result of the above transactions, the Company has sufficient cash, cash equivalents and marketable securities and borrowing availability under existing and potential lines of credit to satisfy its cash requirements for the repayment of approximately \$6,732,000 of 12% Subordinated Debentures scheduled to mature in 1997. In addition to its ability to issue equity securities, the Company believes that it has sufficient marketable long-term investments, the ability to obtain additional funds from its operating subsidiaries and the potential to enter into new credit arrangements in order to fund its working capital requirements.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

QUALIFICATION RELATING TO FINANCIAL INFORMATION

September 30, 1996

The financial information included herein is unaudited. In addition, the financial information does not include all disclosures required under generally accepted accounting principles because certain note information included in the Company's Annual Report has been omitted; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary to a fair statement of the results for the interim periods. The results for the 1996 interim period are not necessarily indicative of results to be expected for the entire year.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

1. Amendment dated September 30, 1996 to Loan Agreement dated April 29, 1993 by and among MXL Industries, Inc., the Bank and Fleet Bank, National Association (successor in interest to NatWest Bank, N.A.).
2. Amendment dated September 30, 1996 to Loan Agreement dated April 29, 1993 by and among Five Star Group, Inc., the Bank and Fleet Bank, National Association (successor in interest to NatWest Bank, N.A.).

b. Reports on Form 8-K

There were no reports filed on Form 8-K for the period ended September 30, 1996.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

September 30, 1996

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed in its behalf by the undersigned thereunto duly authorized.

NATIONAL PATENT DEVELOPMENT
CORPORATION

DATE: November 14, 1996

BY: Jerome I. Feldman
President & Chief
Executive Officer

DATE: November 14, 1996

BY: Scott N. Greenberg
Vice President &
Chief Financial Officer

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AMENDMENT TO
LOAN AGREEMENT

AGREEMENT, made this 30th day of September, 1996,
by and among:

MXL INDUSTRIES, INC., a Delaware corporation (the
"Borrower");

The Banks that have executed the signature pages
hereto (individually a "Bank" and collectively, the "Banks"); and

FLEET BANK, NATIONAL ASSOCIATION, a national
banking association (the successor in interest to NatWest Bank
N.A.), as Agent for the Banks (in such capacity, together with its
successors in such capacity, the "Agent");

W I T N E S S E T H:

WHEREAS:

A. The Borrower, the Banks and National
Westminster Bank N.J., as Agent (a predecessor in interest to the Agent)
have heretofore entered into a Loan Agreement dated April 29,
1993 (as such Loan Agreement has heretofore been amended, the "Original Loan
Agreement", and as the Original Loan Agreement is amended hereby
and as it may from time to time hereafter be amended and supplemented, the
"Loan Agreement");

B. The parties hereto wish to amend the Original Loan
Agreement as hereinafter set forth; and

C. Capitalized terms used herein which are defined in
the Original Loan Agreement and not otherwise defined herein shall
have the respective meanings ascribed thereto in the Original Loan
Agreement;

NOW, THEREFORE, for good and valuable consideration,
receipt of which is hereby acknowledged, the parties hereto
agree as follows:

Article 1. Amendments to the Loan Agreement

The Original Loan Agreement is hereby amended as follows:

Section 1.1 Article 1 of the Original Loan Agreement is amended as follows:

(a) The definition of "Agent's Main Office" is deleted in its entirety and the following new definition is substituted therefor:

"'Agent's Main Office' - the office of the Agent presently located at 51 Cragwood Road, South Plainfield, New Jersey 07080."

(b) The definition of "Principal Office" is deleted in its entirety, and the following new definition is substituted therefor:

"'Principal Office' - The office of Fleet Bank, National Association presently located at 1133 Avenue of the Americas, New York, New York 10036."

(c) The following new definitions are added, each in the appropriate alphabetical order:

"'Fleet' - Fleet Bank, National Association, a national banking association."

"'Summit' - Summit Bank, a national banking association."

Section 1.2 Section 2.8 of the Original Loan Agreement is amended as follows:

(a) The heading of Section 2.8 is deleted in its entirety, and the following new heading is substituted therefor:

"Section 2.8 Voluntary and Mandatory Changes in Commitments; Mandatory and Optional Prepayments of Loans."

(b) A new subsection (f) is added to Section 2.8 as follows:

"(f) In the event that Five Star shall prepay the full outstanding balance of all Loans under the Five Star Loan Agreement, or Five Star shall terminate the Commitments under the Five Star Loan Agreement, then, in such event, not later than such prepayment or such termination, as the case may be, (i) the Borrower shall prepay the full outstanding balance of all Loans hereunder together with all accrued interest and Fees, and (ii) the Commitments hereunder shall thereupon terminate."

Section 1.3 Section 10.9 of the Original Loan Agreement is amended by deleting subsection 10.9(c) and by substituting therefor the following:

"(c) If to the Agent:

Fleet Bank, National Association, as Agent
51 Cragwood Road
South Plainfield, NJ 07080
Attention: Murray Markowitz
Telecopier No.: (908)226-6205

with a copy (other than in the case of Borrowing Notices and reports and other documents delivered in compliance with Article 5 hereof) to:

Sullivan & Worcester LLP
767 Third Avenue
New York, New York 10017
Attention: Simon B. Posner, Esq.
Telecopier No.: (212)758-2151"

Section 1.4 The parties hereto acknowledge that:

(a) Fleet is the successor to NatWest Bank N.A., which in turn was a successor to National Westminster Bank USA, and that all references in the Loan Agreement to "NatWest USA" shall be deemed to refer to Fleet, in its capacity as a Bank under the Loan Agreement; and

(b) Summit is the successor to UJB, and that all references in the Loan Agreement to "UJB" shall be deemed to refer to Summit in its capacity as a Bank under the Loan Agreement.

Section 1.5 The Original Loan Agreement, the Loan Documents, and all agreements, instruments and documents executed and delivered in connection with any of the foregoing, shall each be deemed to be amended hereby to the extent necessary to give effect to the provisions of this Amendment and Supplement. Except as amended hereby, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their respective terms.

Article 2. Acknowledgments and Confirmations

Section 2.1 Each of Five Star and NPDC, as Guarantors, consents in all respects to the execution and delivery by the

Borrower of this Amendment, and acknowledges and confirms that its Guaranty continues to be valid and in full force and effect.

Section 2.2 Each of the Borrower, the Banks and the Agent hereby acknowledges and confirms that all references in the Loan Agreement, the other Loan Documents and any other agreement, instrument or document executed and delivered in connection herewith or therewith to the "Loan Agreement" or "this Agreement" (insofar as such term refers to the Loan Agreement) shall be deemed to refer to the Original Loan Agreement as amended hereby.

Section 2.3 The Borrower, the Banks, the Agent and the Guarantors acknowledge (i) that, concurrently herewith, the parties to the Five Star Loan Agreement are amending and supplementing the Five Star Loan Agreement pursuant to an Amendment and Supplement to Loan Agreement of even date herewith, and (ii) all references in the Loan Agreement and any of the other Loan Documents to the "Five Star Loan Agreement" shall be deemed to refer to the Five Star Loan Agreement as so amended and supplemented.

Article 3. Representations and Warranties

The Borrower hereby represents and warrants to the Agent and the Banks that after giving effect to the amendment of the Original Loan Agreement pursuant hereto and the consummation of the transactions contemplated hereby, (a) each of the representations and warranties set forth in Article 3 of the Loan Agreement is true and correct in all respects as if made on the date hereof, and (b) there exists no Default or Event of Default under the Loan Agreement.

Article 4. The Agent

(a) The Banks and the Agent agree and confirm that Article 9 of the Loan Agreement applies in all respects to this Amendment, the Loan Agreement as amended hereby and the transactions contemplated herein. Without limiting the generality of the foregoing, each Bank agrees that Section 9.6 of the Loan Agreement applies to this Amendment and the transactions contemplated hereby, and that each Bank has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter this Amendment.

(b) Each Bank acknowledges that Fleet Bank, National Association is the successor in interest to NatWest Bank N.A. in its capacity as Agent, and that Fleet Bank, National Association, in such capacity, is vested with all the rights, powers, privileges and duties with which NatWest Bank N.A. had been vested in its capacity as Agent, and each Bank consents to the foregoing in all

respects.

Article 5. Miscellaneous

Section 5.1 THIS AMENDMENT, THE LOAN AGREEMENT AS AMENDED HEREBY AND ALL OTHER AGREEMENTS, DOCUMENTS AND INSTRUMENTS EXECUTED AND DELIVERED IN CONNECTION HEREWITH AND THEREWITH SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 5.2 The provisions of this Amendment are severable, and if any clause or provision shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision in this Amendment and Supplement in any jurisdiction.

Section 5.3 This Amendment may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 5.4 This Amendment shall be binding upon and inure to the benefit of the Borrower and the Guarantors and their respective successors and to the benefit of each of the Agent and the Banks and its respective successors and assigns. The rights and obligations of the Borrower and the Guarantors under this Amendment shall not be assigned or delegated without the prior written consent of the Banks, and any purported assignment or delegation without such consent shall be void.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

MXL INDUSTRIES, INC.

By:
Title:

FLEET BANK, NATIONAL
ASSOCIATION

By:
Title:

[Signatures Continued on Next Page]

SUMMIT BANK

By:
Title:

FLEET BANK, NATIONAL
ASSOCIATION, as Agent

By:
Title:

Consented to and
Agreed in All Respects:

NATIONAL PATENT DEVELOPMENT
CORPORATION

By:
Title:

FIVE STAR GROUP, INC.

By:
Title:

AMENDMENT AND SUPPLEMENT
TO
LOAN AGREEMENT

AGREEMENT, made this 30th day of September, 1996,
by and among:

FIVE STAR GROUP, INC., a Delaware corporation (the
"Borrower");

The Banks that have executed the signature pages hereto
(individually a "Bank" and collectively, the "Banks"); and

FLEET BANK, NATIONAL ASSOCIATION, a national banking
association (the successor in interest to NatWest Bank N.A.), as
Agent for the Banks (in such capacity, together with its successors
in such capacity, the "Agent");

W I T N E S S E T H:

WHEREAS:

A. The Borrower, the Banks and National Westminster
Bank N.J., as Agent (a predecessor in interest to the Agent) have
heretofore entered into a Loan Agreement dated April 29, 1993 (as
heretofore amended, the "Original Loan Agreement", and as the
Original Loan Agreement is amended and supplemented hereby and as
it may from time to time hereafter be amended and supplemented, the
"Loan Agreement");

B. The parties hereto wish to amend and supplement the
Original Loan Agreement to provide for an extension of the Commitment
Termination Date, as defined therein, and for certain other matters as
hereinafter set forth; and

C. Capitalized terms used herein which are defined in
the Original Loan Agreement and not otherwise defined herein shall
have the respective meanings ascribed thereto in the Original Loan
Agreement;

NOW, THEREFORE, for good and valuable consideration,
receipt of which is hereby acknowledged, the parties hereto agree
as follows:

Article 1. Amendments to Loan Agreement

The Original Loan Agreement is hereby amended as follows:

Section 1.1 Article 1 of the Original Loan Agreement is amended as follows:

(a) The definition of "Agent's Main Office" is deleted in its entirety and the following new definition is substituted therefor:

"'Agent's Main Office' - the office of the Agent presently located at 51 Cragwood Road, South Plainfield, New Jersey 07080."

(b) The definition of "Applicable Margin" is deleted in its entirety and the following new definition is substituted therefor:

"'Applicable Margin' - as at any date of determination thereof, the applicable percentage set forth below opposite the ratio of Indebtedness of the Borrower as at such date of determination, to the Tangible Net Worth of the Borrower, as in effect on such date:

Ratio of Indebtedness to Tangible Net Worth	Applicable Margin
Equal to or greater than 2.50:1.00	2%
Equal to or greater than 2.00:1.00 and less than 2.50:1.00	1%
Equal to or greater than 1.75:1.00 and less than 2.00:1.00	3/4%
Equal to or greater than 1.50:1.00 and less than 1.75:1.00	1/2%
Equal to or greater than 1.00:1.00 and less than 1.50:1.00	1/4%
Less than 1.00:1.00	-0-

The determination of the applicable percentage

pursuant to the table set forth above shall be made on a quarterly basis based on an examination of the certified financial statements of the Borrower delivered pursuant to and in compliance with Section 5.1 or Section 5.2 hereof, which financial statements, whether annual or quarterly, shall be certified by the chief financial officer of the Borrower and shall indicate that there exists no Default or Event of Default hereunder. Each determination of the Applicable Margin shall be effective as of the first day of the calendar month following the date on which the financial statements on which such determination was based were received by the Agent. In the event that financial statements for the most recently completed fiscal period prior to such date of determination either: (i) have not been delivered to the Agent in compliance with Section 5.1 or 5.2 hereof, or (ii) if delivered, do not comply in form or substance with Section 5.1 or 5.2 hereof (in the sole judgment of the Agent), then the Agent may determine, in its reasonable judgment, the ratio referred to above which would have been in effect as at such date, and, consequently, the Applicable Margin in effect for the period commencing on such date."

(c) The definition of "Commitment Termination Date" is amended by deleting the date "September 30, 1996" and by substituting therefor the date "September 30, 1997".

(d) The definition of "Current Liabilities" is amended by adding at the conclusion thereof, before the period, the following:

" ,provided, however, that, notwithstanding the foregoing, all Indebtedness of the Borrower to NPDC and any of NPDC's Affiliates shall be deemed to be Long Term Debt and not Current Liabilities"

(e) The definition of "Principal Office" is deleted in its entirety, and the following new definition is substituted therefor:

" 'Principal Office' - The office of Fleet Bank, National Association presently located at 1133 Avenue of the Americas, New York, New York 10036."

(f) The definition of "Tangible Net Worth" is amended by deleting the proviso at the conclusion thereof and by substituting therefor the following:

"provided, however, that amounts receivable by the Borrower from NPDC or any Affiliate of NPDC, whether pursuant to bonds, notes, open account indebtedness or otherwise, shall be deemed to be intangibles for the purposes hereof to the extent that the aggregate amount of such amounts receivable exceed, at the time of determination of Tangible Net Worth, the aggregate amount payable at such time by the Borrower to NPDC or any Affiliate of NPDC whether pursuant to bonds, notes, open account indebtedness or otherwise."

(g) The following new definitions are added, each in the appropriate alphabetical order:

"'Fleet' - Fleet Bank, National Association, a national banking association."

"'Summit' - Summit Bank, a national banking association."

Section 1.2 Section 2.8 of the Original Loan Agreement is amended as follows:

(a) The heading of Section 2.8 is deleted in its entirety, and the following new heading is substituted therefor:

"Section 2.8 Voluntary and Mandatory Changes in Commitments; Mandatory and Optional Prepayments of Loans."

(b) A new subsection (f) is added to Section 2.8 as follows:

"(f) In the event that MXL shall prepay the full outstanding balance of all Loans under the MXL Loan Agreement, or MXL shall terminate the Commitments under the MXL Loan Agreement, then, in such event, not later than such prepayment or such termination, as the case may be, (i) the Borrower shall prepay the full outstanding balance of all Loans hereunder together with all accrued interest and Fees, and (ii) the Commitments hereunder shall thereupon terminate."

Section 1.3 Section 5.10 of the Original Loan Agreement is amended by deleting subsection 5.10(v) (B) and by substituting therefor the following:

"(B) monthly, as soon as available but in any event within twenty (20) days after the end of each

calendar month, a schedule of physicals of finished goods (including any resale items) and"

Section 1.4 Section 6.9 of the Original Loan Agreement is deleted in its entirety and the following new Section 6.9 is substituted therefor:

"Section 6.9 Financial Covenants.

(a) Have or maintain, as to the Borrower:

(i) Tangible Net Worth as at the last day of each fiscal quarter of the Borrower which day occurs in the years set forth below at not less than the respective amounts set forth opposite each such year:

Fiscal Quarter-End Date Occurring in:	Minimum Tangible Net Worth on Such Fiscal Quarter-End Date
1993	\$10,000,000
1994	11,500,000
1995	13,000,000
1996 and thereafter	14,500,000

(ii) The ratio of Indebtedness to Tangible Net Worth of the Borrower as at (1) the last day of each fiscal quarter of the Borrower through June 30, 1996 at not more than 3.00 to 1.00; and (2) the last day of each fiscal quarter of the Borrower from and after September 30, 1996 at not more than 2.50 to 1.00.

(iii) The excess of Current Assets over Current Liabilities of the Borrower as at (1) the last day of each fiscal quarter of the Borrower through June 30, 1996 at not less than \$2,500,000; and (2) the last day of each fiscal quarter of the Borrower from and after September 30, 1996 at not less than \$4,300,000.

(iv) Debt Service Coverage of the Borrower for the four full fiscal quarters ending on (1) the last day of each fiscal quarter of the Borrower through June 30, 1996 at not less than 120%; and (2) the last day of each fiscal quarter of the Borrower from and after September 30, 1996 at not less than 150%.

(b) Have or maintain, as to NPDC only, on an

unconsolidated basis, as at the last day of each fiscal quarter, available, unencumbered and unrestricted cash, cash equivalents and marketable securities (as such terms are defined in accordance with generally accepted accounting principles) of not less than \$5,000,000 in the aggregate, of which amount, not more than \$2,500,000 shall consist of marketable securities."

Section 1.5 Section 7.13 of the Original Loan Agreement is deleted in its entirety, and the following new Section 7.13 is substituted therefor:

"Section 7.13 Capital Expenditures

Make or become obligated to make Capital Expenditures in the aggregate for the Borrower during each fiscal year of the Borrower in excess of the respective amounts set forth below (provided, however, that the Capital Expenditures set forth on Exhibit M-2 annexed hereto shall not be included for purposes of determining compliance with this Section 7.13):

Fiscal Year Ending December 31	Maximum Capital Expenditures
1993	\$750,000
1994	250,000
1995	500,000
1996	450,000
1997 and each year thereafter	350,000"

Section 1.6 Section 7.14 of the Loan Agreement is amended by deleting the amount "\$2,500,000" and by substituting therefor the amount "\$2,800,000".

Section 1.7 Section 10.9 of the Original Loan Agreement is amended by deleting subsection 10.9(c) and by substituting therefor the following:

"(c) If to the Agent:

Fleet Bank, National Association, as Agent
51 Cragwood Road
South Plainfield, NJ 07080
Attention: Murray Markowitz

Telecopier No.: (908)226-6205

with a copy (other than in the case of Borrowing

Notices and reports and other documents delivered in compliance with Article 5 hereof) to:

Sullivan & Worcester LLP
767 Third Avenue
New York, New York 10017
Attention: Simon B. Posner, Esq.
Telecopier No.: (212)758-2151"

Section 1.8 The parties hereto acknowledge that:

(a) Fleet is the successor to NatWest Bank N.A., which in turn was a successor to National Westminster Bank USA, and that all references in the Loan Agreement to "NatWest USA" shall be deemed to refer to Fleet, in its capacity as a Bank under the Loan Agreement; and

(b) Summit is the successor to UJB, and that all references in the Loan Agreement to "UJB" shall be deemed to refer to Summit in its capacity as a Bank under the Loan Agreement.

Section 1.9 The Original Loan Agreement, the Loan Documents, and all agreements, instruments and documents executed and delivered in connection with any of the foregoing, shall each be deemed to be amended hereby to the extent necessary to give effect to the provisions of this Amendment and Supplement. Except as amended hereby, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their respective terms.

Article 2. Extension of Commitment Termination Date;
Amended and Restated Revolving Credit
Note; Mortgage Modification Agreements;
Amendment Facility Fee

Section 2.1 The parties hereto acknowledge that, pursuant to this Amendment and Supplement, the Commitment Termination Date in respect of the Revolving Credit Loans is being extended. The Revolving Credit Loans, as so extended, shall be evidenced by a single promissory note of the Borrower in form and substance satisfactory to the Agent and the Banks (the "Amended and Restated Revolving Credit Note"). The Amended and Restated Revolving Credit Note shall be dated the date of this Amendment and Supplement, shall be payable to the Agent for the ratable benefit of the Banks in a principal amount equal to the sum of the Banks' Revolving Credit Commitments as originally in effect and shall otherwise be duly completed. The Amended and Restated Revolving Credit Note shall be deemed to amend and restate the Revolving Credit Note executed and delivered in connection with the Original Loan Agreement, as heretofore amended (as so amended, the "Original Revolving Credit Note"), and upon the execution and delivery to the

Agent of the Amended and Restated Revolving Credit Note, the Agent shall mark the Original Revolving Credit Note "Paid by Substitution of New Note" and return it to the Borrower.

Section 2.2 Concurrently with the execution and delivery of this Amendment and Supplement, MXL shall execute and deliver to the Agent Mortgage Modification and Extension Agreements in form and substance satisfactory to the Agent and the Banks (the "Mortgage Modification Agreements") pursuant to which MXL agrees that the Guarantor Mortgages secure, without limitation, MXL's obligations in respect of its Guaranty of the indebtedness evidenced by the Amended and Restated Revolving Credit Note (the Mortgage Modification Agreements, the Amended and Restated Revolving Credit Note and this Amendment and Supplement, and all other documents executed and delivered in connection herewith or therewith, are sometimes hereinafter referred to collectively as the "Supplemental Loan Documents").

Section 2.3 Concurrently with the execution and delivery of this Amendment and Supplement, the Borrower shall pay a non-refundable amendment facility fee to Fleet in the amount of \$10,937.00 and to Summit in the amount of \$14,063.00.

Article 3. Acknowledgments and Confirmations

Section 3.1 (a) The Borrower acknowledges and confirms that any term used in the Security Documents to which the Borrower is a party to refer to the Borrower's Indebtedness, liabilities and obligations to the Banks and the Agent, includes, without limitation, the Indebtedness, liabilities and obligations of the Borrower to the Banks, whether now existing or hereafter arising under the Amended and Restated Revolving Credit Note and the Original Loan Agreement as amended hereby, and that all of the collateral security provided for in such Security Documents secures the Borrower's full payment and performance of such Indebtedness, liabilities and obligations of the Borrower.

(b) The Indebtedness, liabilities and obligations of the Borrower to the Banks and the Agent, whether now existing or hereafter arising, under the Amended and Restated Revolving Credit Note and the Original Loan Agreement as amended and supplemented hereby, are hereinafter referred to collectively as the "Supplemental Obligations".

Section 3.2 Each of MXL and NPDC, as Guarantors, consents in all respects to the execution and delivery by the Borrower of this Amendment and Supplement and the Amended and Restated Revolving Credit Note and the transactions contemplated herein, and acknowledges and confirms that:

(a) its Guaranty continues to be valid and in full force and effect, and guarantees, without limitation, the full payment and performance of the Supplemental Obligations as well as the Obligations; and

(b) any term used in the Security Documents to which such Guarantor is a party to refer to the Borrower's Indebtedness, liabilities and obligations to the Banks and the Agent, includes, without limitation, the Supplemental Obligations, and that all of the collateral security provided for in such Security Documents secures, without limitation, the full payment and performance by each Guarantor of the Indebtedness, liabilities and obligations of such Guarantor under its Guaranty, as acknowledged and confirmed hereby.

Section 3.3 Each of the Borrower, the Banks and the Agent hereby acknowledges and confirms that all references in the Loan Agreement, the other Loan Documents and any other agreement, instrument or document executed and delivered in connection herewith or therewith:

(a) to the "Revolving Credit Loans" shall be deemed to include the Revolving Credit Loans as amended hereby;

(b) to the "Revolving Credit Note" shall be deemed to refer to the Amended and Restated Revolving Credit Note;

(c) to the "Loan Agreement" or "this Agreement" (insofar as such term refers to the Loan Agreement) shall be deemed to refer to the Original Loan Agreement as amended and supplemented hereby;

(d) to the "Loan Documents" shall be deemed to include, without limitation, the Supplemental Loan Documents, and all other documents executed and delivered in connection herewith or therewith; and

(e) to the "Obligations" (or any other term used to describe or refer to the Borrower's Indebtedness, liabilities and Obligations to the Banks and the Agent) shall be deemed to include, without limitation, the Supplemental Obligations.

Article 4. Representations and Warranties

The Borrower hereby represents and warrants to the Agent and the Banks that:

Section 4.1 After giving effect to the amendment and supplement of the Original Loan Agreement pursuant hereto and the consummation of the transactions contemplated hereby, (a) each of the representations and warranties set forth in Article 3 of the Loan Agreement is true and correct in all respects as if made on

the date hereof, and (b) there exists no Default or Event of Default under the Loan Agreement.

Section 4.2 The Borrower and each Guarantor has the power to execute, deliver and perform the Supplemental Loan Documents to be executed by it. The Borrower and each Guarantor has taken all necessary action, corporate or otherwise, to authorize the execution, delivery and performance of the Supplemental Loan Documents to be executed by it. No consent or approval of any Person (including, without limitation, any stockholder of the Borrower or any Guarantor), no consent or approval of any landlord or mortgagee, no waiver of any Lien or right of distraint or other similar right and no consent, license, certificate of need, approval, authorization or declaration of any governmental authority, bureau or agency, is or will be required in connection with the execution, delivery or performance by the Borrower or any Guarantor, or the validity, enforcement or priority, of the Supplemental Loan Documents.

Section 4.3 The execution and delivery by the Borrower and each Guarantor of each Supplemental Loan Document to which it is a party and performance by it hereunder and thereunder, will not conflict with or result in a breach of any order, writ, injunction, ordinance, resolution, decree, or other similar document or instrument of any court or governmental authority, bureau or agency, domestic or foreign, or any certificate of incorporation or by-laws of the Borrower or any Guarantor, or create (with or without the giving of notice or lapse of time, or both) a default under or breach of any agreement, bond, note or indenture to which the Borrower or any Guarantor, is a party, or by which it is bound or any of its properties or assets is affected, or result in the imposition of any Lien of any nature whatsoever upon any of the properties or assets owned by or used in connection with the business of the Borrower or any Guarantor, except for the Liens created and granted pursuant to the Security Documents and acknowledged and confirmed hereby.

Section 4.4 This Amendment and Supplement and each other Supplemental Loan Document has been duly executed and delivered by each Loan Party that is a party thereto, and each constitutes the valid and legally binding obligations of each such Loan Party that is a party thereto, enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally and except that the remedy of specific performance and other equitable remedies are subject to judicial discretion.

Section 4.5 The Liens that have been created and granted pursuant to the Security Documents and confirmed hereby constitute valid perfected first Liens on the properties and

assets covered by the Security Documents, subject to no prior or equal Lien except as permitted by Section 7.2 of the Loan Agreement. Without limiting the generality of the foregoing, (a) there has been no change in the location of the chief place of business of the Borrower or MXL, or offices where their respective records are kept, or of other locations of Collateral owned by each of them, from the locations set forth in the respective Security Agreement executed by each of them, (b) there has been no change in the respective business and trade names set forth in the respective Security Agreement executed by each of them, and (c) all of the representations and warranties of the Borrower and MXL contained in their respective Security Agreements as to such locations and trade names are true, correct and complete as of the date hereof.

Article 5. Conditions to Amendment

The effectiveness of this Amendment and Supplement shall be subject to the fulfillment (to the satisfaction of the Agent and the Banks) of the following conditions precedent:

Section 5.1 The Borrower, the Banks and the Agent shall have executed and delivered this Amendment and Supplement.

Section 5.2 The Borrower shall have executed and delivered to the Agent its Amended and Restated Revolving Credit Note.

Section 5.3 MXL shall have executed and delivered to the Agent the Mortgage Modification Agreements.

Section 5.4 The Agent shall have received copies of (i) a certificate of an officer of the Borrower and the Guarantors to the effect that the Borrower's and Guarantors' respective certificates of incorporation and by-laws have not been amended, modified or changed in any respect since the date of delivery to the Agent of the certificates of incorporation and by-laws of the Borrower and the Guarantors in connection with the execution and delivery of the Original Loan Agreement; (ii) all corporate action taken by the Borrower and the Guarantors to authorize the execution, delivery and performance of each of this Amendment and Supplement, the Loan Agreement as amended hereby, the Amended and Restated Revolving Credit Note, the other agreements, instruments and documents executed in connection herewith and therewith and the consummation of the transactions contemplated hereby and thereby, certified by its secretary; and (iii) an incumbency certificate (with specimen signatures) with respect to the Borrower and the Guarantors.

Section 5.5 Counsel to the Borrower shall have delivered to the Agent an opinion in form and substance satisfactory to the Agent and its counsel.

Section 5.6 (a) The Borrower shall have complied and shall then be in compliance with all of the terms, covenants and conditions of this Amendment and Supplement and the Loan Agreement as amended hereby;

(b) After giving effect to the transactions contemplated hereby, there shall exist no Default or Event of Default under the Loan Agreement; and

(c) The representations and warranties contained in Article 3 of the Loan Agreement shall be true and correct on the date hereof and after giving effect to this Amendment and Supplement, the Loan Agreement as amended hereby and the transactions contemplated hereunder and thereunder;

and the Agent shall have received a Compliance Certificate dated the date hereof to the foregoing effect.

Section 5.7 All legal matters incident hereto shall be satisfactory to counsel to the Agent.

Article 6. The Agent

(a) The Banks and the Agent agree and confirm that Article 9 of the Loan Agreement applies in all respects to this Amendment and Supplement, the Loan Agreement as amended hereby and the transactions contemplated herein. Without limiting the generality of the foregoing, each Bank agrees that Section 9.6 of the Loan Agreement applies to this Amendment and Supplement and the transactions contemplated hereby, and that each Bank has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter this Amendment and Supplement.

(b) Each Bank acknowledges that Fleet Bank, National Association is the successor in interest to NatWest Bank N.A. in its capacity as Agent, and that Fleet Bank, National Association, in such capacity, is vested with all the rights, powers, privileges and duties with which NatWest Bank N.A. had been vested in its capacity as Agent, and each Bank consents to the foregoing in all respects.

Article 7. Miscellaneous

Section 7.1 THIS AMENDMENT AND SUPPLEMENT, THE AMENDED AND RESTATED REVOLVING CREDIT NOTE, THE LOAN AGREEMENT AS AMENDED HEREBY AND ALL OTHER AGREEMENTS, DOCUMENTS AND INSTRUMENTS EXECUTED

AND DELIVERED IN CONNECTION HERewith AND THEREwith SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 7.2 The provisions of this Amendment and Supplement are severable, and if any clause or provision shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision in this Amendment and Supplement in any jurisdiction.

Section 7.3 This Amendment and Supplement may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 7.4 This Amendment and Supplement shall be binding upon and inure to the benefit of the Borrower and the Guarantors and their respective successors and to the benefit of each of the Agent and the Banks and its respective successors and assigns. The rights and obligations of the Borrower and the Guarantors under this Amendment and Supplement shall not be assigned or delegated without the prior written consent of the Banks, and any purported assignment or delegation without such consent shall be void.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

FIVE STAR GROUP, INC.

By: _____
Title:

FLEET BANK, NATIONAL
ASSOCIATION

By: _____
Title:

SUMMIT BANK

By: _____
Title:

FLEET BANK, NATIONAL
ASSOCIATION, as Agent

By: _____
Title:

Consented to and
Agreed in All Respects:

NATIONAL PATENT DEVELOPMENT
CORPORATION

By: _____
Title:

MXL INDUSTRIES, INC.

By: _____
Title: