

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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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 March 31, 1994

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	10019
(Address of principal executive offices)	(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 May 12, 1994:

Common Stock	20,310,706 shares
Class B Capital	250,000 shares

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

	March 31, 1994 (unaudited)	December 31, 1993 *
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,848	\$ 10,976
Accounts and other receivables	37,667	36,285
Inventories	26,616	22,605
Costs and estimated earnings in excess of billings on uncompleted contracts	15,528	13,081
Prepaid expenses and other current assets	3,613	4,160
Total current assets	93,272	87,107
Investments and advances	27,282	28,303
Property, plant and equipment, at cost	35,255	33,873
Less accumulated depreciation	(20,786)	(20,035)
	14,469	13,838
Intangible assets, net of amortization	29,607	30,104
Investment in financed assets	2,246	2,797
Other assets	3,226	3,908
	\$170,102	\$166,057

* The Consolidated Condensed Balance Sheet as of December 31, 1993 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)

	March 31, 1994	December 31, 1993
LIABILITIES AND STOCKHOLDERS' EQUITY	(unaudited)	*
Current liabilities		
Current maturities of long-term debt and notes payable	\$ 17,281	\$ 6,750
Short-term borrowings	26,537	21,390
Accounts payable and accrued expenses	22,492	20,256
Billings in excess of costs and estimated earnings on uncompleted contracts	4,693	5,487
Total current liabilities	71,003	53,883
Long-term debt less current maturities	25,778	36,638
Notes payable for financed assets		579
Minority interests and other	3,287	3,277
Common stock issued subject to repurchase obligation	3,876	4,242
Stockholders' equity		
Common stock	192	190
Class B capital stock	2	2
Capital in excess of par value	107,452	106,274
Deficit	(41,488)	(39,028)
Total stockholders' equity	66,158	67,438
	\$170,102	\$166,057

* The Consolidated Condensed Balance Sheet as of December 31,

1993 has been summarized from the Company's audited Consolidated Balance sheet as of that date.

See accompanying notes to the consolidated condensed financial statements.

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NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three months ended March 31,	
	1994	1993
Revenues		
Sales	\$ 45,232	\$ 44,964
Investment and other income, net	(752)	1,908
	44,480	46,872
Costs and expenses		
Costs of goods sold	36,985	38,771
Selling, general & administrative	8,198	8,297
Research & development	120	1,190
Interest	1,503	2,473
	46,806	50,731
Minority interests	(68)	920
Loss before income tax expense and extraordinary item	(2,394)	(2,939)
Income tax benefit (expense)	(66)	35

Loss before extraordinary item	(2,460)	(2,904)
Extraordinary item		
Early extinguishment of debt, net of income tax in 1993		126
Net loss	\$ (2,460)	\$ (2,778)
Income (loss) per share		
Loss before extraordinary item	\$ (.13)	\$ (.18)
Extraordinary item		.01
Net loss per share	\$ (.13)	\$ (.17)
Dividends per share	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)

Three months
ended March 31,

	1994	1993
Cash flows from operations:		
Net loss	\$ (2,460)	\$ (2,778)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,248	1,579
Income tax benefit allocated to continuing operations		(73)
Gains from early extinguishment of debt		(126)
Changes in other operating items	(5,680)	(3,232)
Total adjustments	(4,432)	(1,852)
Net cash used for operations	(6,892)	(4,630)
Cash flows from investing activities:		
Reduction in marketable securities		299
Additions to property, plant & equipment	(1,382)	(673)
Additions to intangible assets		(387)
Reduction in (additions to) investments and other assets, net	1,685	(1,322)
Net cash provided by (used for) investing activities	303	(2,083)
Cash flows from financing activities:		
Net proceeds from (repayments of) short-term borrowings	5,147	(204)
Proceeds from issuance of long-term debt	924	626
Reduction of long-term debt	(778)	(1,769)
Proceeds from issuance of common stock	88	
Exercise of common stock options and warrants	80	36
Net cash provided by (used for) financing activities	5,461	(1,311)
Net decrease in cash and cash equivalents	(1,128)	(8,024)
Cash and cash equivalents at the beginning of the periods	10,976	17,921
Cash and cash equivalents at the end of the periods	\$ 9,848	\$ 9,897

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(in thousands)

	Three months ended March 31,	
	1994	1993
Supplemental disclosures of cash flow information:		
Cash paid during the periods for:		
Interest	\$ 919	\$ 2,603
Income taxes	\$ 143	\$ 212

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 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):

	March 31, 1994	December 31, 1993
Raw materials	\$ 2,682	\$ 2,836
Work in process	675	675
Finished goods	20,559	16,394
Land held for resale	2,700	2,700
	\$ 26,616	\$ 22,605

2. Long-term debt

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

	March 31, 1994	December 31, 1993
8% Swiss bonds	\$ 4,910	\$ 4,572
Swiss convertible bonds	15,887	15,300
New 5% convertible bonds	2,300	2,300
12% Subordinated debentures	6,790	6,829
Other	10,582	11,857
	40,469	40,858
Less current maturities	14,691	4,220
	\$ 25,778	\$ 36,638

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(Unaudited)

3. Subsequent event

On April 7, 1994, General Physics Corporation (GP) entered

into an agreement with GPS Technologies, Inc. (GPS) and the Company to acquire substantially all of the operating assets of GPS and certain of its subsidiaries. The Company currently owns approximately 92% of the outstanding common stock of GPS and approximately 28% of the outstanding common stock of GP. GP agreed to pay GPS a purchase price with current present value of approximately \$36 million based on current market prices. The purchase price will be payable to GPS as follows: \$10 million in cash; 3.5 million shares of GP common stock valued at approximately \$13,500,000 (based upon the price per share of GP common stock prior to the announcement of the transaction which was \$3.875); warrants to acquire 1,000,000 shares of GP common stock at \$6.00 per share valued at approximately \$1,300,000; warrants to acquire up to 475,644 additional shares of GP common stock at \$7 per share valued at approximately \$500,000; and 6% Senior Subordinated Debentures due 2004 (the "Debentures"), in the aggregate principal amount of \$15,000,000, valued at approximately \$10,700,000. The values assigned to each component of consideration were based upon discussions with the independent investment banker to the Independent Committee of GP and the investment banker to GPS. Portions of the cash and stock consideration of the purchase price will be (a) used to repay outstanding bank debt of \$5,650,000 and long-term debt of GPS of \$8,809,000 to be repaid to the Company and (b) held in escrow.

The transaction is contingent upon the occurrence of certain events, including, without limitation, the approval of the transaction by the stockholders of GP and GPS. The transaction is anticipated to close as soon as practicable in the second half of 1994, if all necessary approvals are obtained and conditions satisfied. The Company anticipates that, if the aforementioned transaction is consummated, it will own approximately 52% of the outstanding common stock of GP, and if the Company were to exercise all of its warrants, it would own approximately 58% of the outstanding common stock of GP. The Company will account for this transaction as a purchase by the Company of GP.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company had a loss before income taxes and extraordinary item of \$(2,394,000) for the quarter ended March 31, 1994 compared to \$(2,939,000) for the quarter ended March 31, 1993. During the first quarter of 1994, the Company realized net foreign currency transaction losses of \$(897,000), as compared to a gain of \$670,000 for the first quarter of 1993 as a result of the weakness of the U.S. dollar relative to the Swiss Franc and the Company's decision not to hedge its Swiss currency obligations. At March 31, 1994, there was an aggregate of SFr. 26,318,000 of Swiss denominated indebtedness outstanding, of which SFr. 23,823,000 represents principal amount outstanding and SFr. 2,495,000 represents interest accrued thereon. Foreign currency valuation fluctuations may adversely affect the results of operations and financial condition of the Company. In order to protect itself against currency valuation fluctuations, the Company has at times swapped or hedged a portion of its obligations denominated in Swiss Francs. At March 31, 1994, the Company had not hedged its Swiss Franc obligations. If the value of the Swiss Franc to the U.S. dollar increases, the Company will recognize transaction losses on its Swiss Franc obligations. On March 31, 1994, the value of the Swiss Franc to the U.S. dollar was 1.4120 to 1. There can be no assurance that the Company will be able to swap or hedge obligations denominated in foreign currencies at prices acceptable to the Company or at all. The Company will continue to review this policy on a continuing basis.

The foreign currency transaction loss was offset by reduced interest expense due to a reduction in long-term debt, as well as improved operating results within the Optical Plastics and Physical Science Groups. The Optical Plastics Group achieved improved operating results due to increased sales and gross margin percentages. The Physical Science Group achieved improved results due to a favorable change in the mix of products and services provided to its customers.

Sales

For the quarter ended March 31, 1994, consolidated sales increased by \$268,000 to \$45,232,000 from the \$44,964,000 in the corresponding quarter of 1993. The increased sales were the result of increased sales within the Distribution and Optical Plastics Groups, offset by reduced sales by the Physical Science Group due to the end of a long-term staff augmentation contract at GTS Duratek, Inc. (Duratek).

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Gross margin

Consolidated gross margin of \$8,247,000, or 18%, for the quarter ended March 31, 1994, increased by \$2,054,000 compared to the consolidated gross margin of \$6,193,000, or 14%, for the quarter ended March 31, 1993. The increased gross margin in 1994 was primarily the result of increased sales and gross margin percentage achieved by the Optical Plastics Group, as well increased gross margin achieved by the Physical Science Group due to the higher gross margin generated by Duratek's Environmental Services business and a more profitable mix of services generated by GPS Technologies, Inc.

Selling, general and administrative expenses

For the three months ended March 31, 1994, selling, general and administrative (SG&A) expenses were \$8,198,000 compared to the \$8,297,000 incurred in the first quarter of 1993. The decrease in SG&A for the first quarter of 1994 was the result of ISI being accounted for on the equity method since the third quarter of 1993, partially offset by increased costs incurred by the Distribution, Optical Plastics and Physical Sciences Groups.

Interest expense

For the three months ended March 31, 1994, interest expense was \$1,503,000 compared to \$2,473,000 for the three months ended

March 31, 1993. The decreased interest expense for the quarter was the result of reduced long-term debt.

Investment and other income, net

Investment and other income, net of \$(752,000) for the quarter ended March 31, 1994, decreased by \$2,660,000 as compared to \$1,908,000 for the first quarter of 1993. The reduced investment and other income was principally due to the effect of the following two factors; \$(897,000) and \$670,000 of foreign currency transaction gains (losses), for the quarters ended March 31, 1994 and 1993, respectively, and a loss of \$(770,000) realized in the quarter ended March 31, 1994, on the share of losses of 20% to 50% owned subsidiaries, compared to \$175,000 earned in the quarter ended March 31, 1993, as a result of the results of Interferon Sciences, Inc. (ISI) being accounted for on the equity basis since the third quarter of 1993. For the quarter ended March 31, 1994, the Company's share of ISI's loss was \$845,000. In the quarter ended March 31, 1993, ISI was included in the consolidated results of the Company and its loss was therefore not reflected in Investment and other income, net.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES

The Company believes that it has sufficient cash, cash equivalents and borrowing availability under existing and potential lines of credit to satisfy its cash requirements until the first scheduled maturity of its Swiss Franc denominated indebtedness on March 1, 1995. However, in order for the Company to meet its long-term cash needs, which include the repayment of

\$13,518,000 of Swiss Franc denominated indebtedness scheduled to mature in 1995 and \$7,279,000 of Swiss Franc denominated indebtedness which is scheduled to mature in 1996, the Company must obtain additional funds from among various sources. The Company has historically reduced its long-term debt through the issuance of equity securities in exchange for long-term debt. In addition to its ability to issue equity securities, the Company believes that it has sufficient marketable long-term investments, as well as the ability to obtain additional funds from its operating subsidiaries and the potential to enter into new credit arrangements. The Company reasonably believes that it will be able to accomplish some or all of the above transactions in order to fund the scheduled repayment of the Company's long-term Swiss debt in 1995.

At March 31, 1994, the Company had cash and, cash equivalents totaling \$9,848,000. GPS Technologies, Inc. and GTS Duratek, Inc. had cash and, cash equivalents of \$392,000 at March 31, 1994. The minority interests of these two 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 purpose of the parent.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

QUALIFICATION RELATING TO FINANCIAL INFORMATION

March 31, 1994

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 for a fair statement of the results for the interim periods. The results for the 1994 interim period are not necessarily indicative of results to be expected for the entire year.

NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

none

b. Reports

none

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NATIONAL PATENT DEVELOPMENT CORPORATION AND SUBSIDIARIES

March 31, 1994

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: May 13, 1994

BY: Jerome I. Feldman
President and Chief
Executive Officer

DATE: May 13, 1994

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

