

NATIONAL PRESTO INDUSTRIES INC  
Form 10-Q  
August 09, 2013

**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 QUARTERLY PERIOD ENDED June 30, 2013

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 1-2451**

**NATIONAL PRESTO INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**WISCONSIN**

(State or other jurisdiction of incorporation or organization)

**39-0494170**

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

**3925 NORTH HASTINGS WAY  
EAU CLAIRE, WISCONSIN**

(Address of principal executive offices)

**54703-3703**

(Zip Code)

(Registrant's telephone number, including area code) **715-839-2121**

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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Yes  No

There were 6,898,251 shares of the Issuer's Common Stock outstanding as of August 1, 2013.

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## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

June 30, 2013 and December 31, 2012

(Unaudited)

(Dollars in thousands)

|   | 2013 |         | 2012    |         |
|---|------|---------|---------|---------|
| <b>ASSETS</b>                           |      |         |         |         |
| <b>CURRENT ASSETS:</b>                  |      |         |         |         |
| Cash and cash equivalents               | \$   | 35,632  | \$      | 37,437  |
| Marketable securities                   |      | 45,056  |         | 55,586  |
| Accounts receivable, net                |      | 72,426  |         | 76,443  |
| Inventories:                            |      |         |         |         |
| Finished goods                          | \$   | 46,653  | \$      | 33,851  |
| Work in process                         |      | 47,361  |         | 40,340  |
| Raw materials                           |      | 9,628   | 103,642 | 9,173   |
|   |      |         |         | 83,364  |
| Deferred tax assets                     |      | 8,906   |         | 8,906   |
| Other current assets                    |      | 12,462  |         | 9,018   |
| Total current assets                    |      | 278,124 |         | 270,754 |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>    |      | 136,805 |         | 123,418 |
| Less allowance for depreciation         |      | 65,699  | 71,106  | 61,553  |
|   |      |         |         | 61,865  |
| <b>GOODWILL &amp; OTHER INTANGIBLES</b> |      | 17,389  |         | 17,722  |
| <b>NOTE RECEIVABLE</b>                  |      | 3,633   |         | 3,571   |
|   | \$   | 370,252 | \$      | 353,912 |

The accompanying notes are an integral part of the consolidated financial statements.

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 June 30, 2013 and December 31, 2012  
 (Unaudited)  
 (Dollars in thousands)

|  | 2013           | 2012           |
|--|----------------|----------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                |                |
| <b>LIABILITIES</b>                         |                |                |
| <b>CURRENT LIABILITIES:</b>                |                |                |
| Accounts payable                           | \$ 41,404      | \$ 39,077      |
| Federal and state income taxes             | 12             | 1,642          |
| Accrued liabilities                        | 15,379         | 15,254         |
| <b>Total current liabilities</b>           | <b>56,795</b>  | <b>55,973</b>  |
| DEFERRED INCOME TAXES                      | 7,357          | 7,368          |
| <b>COMMITMENTS AND CONTINGENCIES</b>       |                |                |
| <b>STOCKHOLDERS EQUITY</b>                 |                |                |
| Common stock, \$1 par value:               |                |                |
| Authorized: 12,000,000 shares              |                |                |
| Issued: 7,440,518 shares                   | \$ 7,441       | \$ 7,441       |
| Paid-in capital                            | 4,739          | 4,472          |
| Retained earnings                          | 310,797        | 295,643        |
| Accumulated other comprehensive income     | 33             | 53             |
|  | 323,010        | 307,609        |
| Treasury stock, at cost                    | 16,910         | 17,038         |
| <b>Total stockholders equity</b>           | <b>306,100</b> | <b>290,571</b> |
|  | \$ 370,252     | \$ 353,912     |

The accompanying notes are an integral part of the consolidated financial statements.

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 Three and Six Months Ended June 30, 2013 and July 1, 2012  
 (Unaudited)  
 (In thousands except per share data)

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | 2013               | 2012       | 2013             | 2012       |
| Net sales   | \$ 101,396         | \$ 117,114 | \$ 184,586       | \$ 213,887 |
| Cost of sales                                     | 82,985             | 97,520     | 149,966          | 173,941    |
| Gross profit                                      | 18,411             | 19,594     | 34,620           | 39,946     |
| Selling and general expenses                      | 5,592              | 6,268      | 11,443           | 12,130     |
| Operating profit                                  | 12,819             | 13,326     | 23,177           | 27,816     |
| Other income                                      | 147                | 237        | 355              | 498        |
| Earnings before provision for income taxes        | 12,966             | 13,563     | 23,532           | 28,314     |
| Income tax provision                              | 4,665              | 4,860      | 8,377            | 10,267     |
| Net earnings                                      | \$ 8,301           | \$ 8,703   | \$ 15,155        | \$ 18,047  |
| Weighted average shares outstanding:              |                    |            |                  |            |
| Basic and diluted                                 | 6,905              | 6,889      | 6,904            | 6,886      |
| Net earnings per share:                           |                    |            |                  |            |
| Basic and diluted                                 | \$ 1.20            | \$ 1.26    | \$ 2.20          | \$ 2.62    |
| Comprehensive income:                             |                    |            |                  |            |
| Net earnings                                      | \$ 8,301           | \$ 8,703   | \$ 15,155        | \$ 18,047  |
| Other comprehensive loss, net of tax:             |                    |            |                  |            |
| Unrealized loss on available-for-sale securities  | 28                 | 18         | 20               | 14         |
| Comprehensive income                              | \$ 8,273           | \$ 8,685   | \$ 15,135        | \$ 18,033  |
| Cash dividends declared and paid per common share | \$ 0.00            | \$ 0.00    | \$ 0.00          | \$ 6.00    |

The accompanying notes are an integral part of the consolidated financial statements.

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Six Months Ended June 30, 2013 and July 1, 2012  
 (Unaudited)  
 (Dollars in thousands)

|   | 2013      | 2012      |
|---|-----------|-----------|
| Cash flows from operating activities:   |           |           |
| Net earnings  | \$ 15,155 | \$ 18,047 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |           |           |
| Provision for depreciation  | 4,181     | 4,988     |
| Intangibles amortization  | 333       |           |
| Provision for doubtful accounts   | 86        | 1,050     |
| Other   | 293       | 470       |
| Changes in:   |           |           |
| Accounts receivable   | 3,891     | 15,039    |
| Inventories   | (20,278)  | 7,058     |
| Other current assets  | (3,444)   | 151       |
| Accounts payable and accrued liabilities  | 2,476     | (8,170)   |
| Federal and state income taxes  | (1,580)   | (1,668)   |
| Net cash provided by operating activities   | 1,113     | 36,965    |
| Cash flows from investing activities:   |           |           |
| Marketable securities purchased   | (6,151)   | (14,988)  |
| Marketable securities - maturities and sales  | 16,650    | 10,255    |
| Acquisition of property, plant and equipment  | (13,425)  | (6,843)   |
| Notes issued  |           | (3,500)   |
| Acquisition of business   |           | (246)     |
| Sale of property, plant and equipment   | 8         |           |
| Net cash used in investing activities   | (2,918)   | (15,322)  |
| Cash flows from financing activities:   |           |           |
| Dividends paid  |           | (41,292)  |
| Other   |           | 357       |
| Net cash used in financing activities   |           | (40,935)  |
| Net decrease in cash and cash equivalents   | (1,805)   | (19,292)  |
| Cash and cash equivalents at beginning of period                                    | 37,437    | 73,995    |
| Cash and cash equivalents at end of period  | \$ 35,632 | \$ 54,703 |

The accompanying notes are an integral part of the consolidated financial statements.

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### NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### NOTE A BASIS OF PRESENTATION

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission ( SEC ). In the opinion of management of the Company, the consolidated interim financial statements reflect all the adjustments which were of a normal recurring nature necessary for a fair presentation of the results of the interim periods. The condensed consolidated balance sheet as of December 31, 2012 is summarized from consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2012 Annual Report on Form 10-K. Interim results for the period are not indicative of those for the year.

#### NOTE B RECLASSIFICATIONS

Certain reclassifications have been made to the prior periods financial statements to conform to the current period s financial statement presentation. These reclassifications did not affect net earnings or stockholders equity as previously reported.

#### NOTE C EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share also includes the dilutive effect of additional potential common shares issuable. Unvested stock awards, which contain non-forfeitable rights to dividends whether paid or unpaid ( participating securities ), are included in the number of shares outstanding for both basic and diluted earnings per share calculations.

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**NOTE D BUSINESS SEGMENTS**

In the following summary, operating profit represents earnings before other income, principally interest income and income taxes. The Company's segments operate discretely from each other with no shared manufacturing facilities. Costs associated with corporate activities (such as cash and marketable securities management) and the assets associated with such activities are included within the Housewares/Small Appliances segment for all periods presented.

|                                    | (in thousands)                      |                     |                       |            |
|------------------------------------|-------------------------------------|---------------------|-----------------------|------------|
|                                    | Housewares /<br>Small<br>Appliances | Defense<br>Products | Absorbent<br>Products | Total      |
| <b>Quarter ended June 30, 2013</b> |                                     |                     |                       |            |
| External net sales                 | \$ 24,489                           | \$ 58,516           | \$ 18,391             | \$ 101,396 |
| Gross profit                       | 4,574                               | 13,468              | 369                   | 18,411     |
| Operating profit                   | 1,812                               | 11,108              | (101)                 | 12,819     |
| Total assets                       | 176,646                             | 132,073             | 61,533                | 370,252    |
| Depreciation and amortization      | 275                                 | 540                 | 1,418                 | 2,233      |
| Capital expenditures               | 164                                 | 4,715               | 2,777                 | 7,656      |
| <b>Quarter ended July 1, 2012</b>  |                                     |                     |                       |            |
| External net sales                 | \$ 23,371                           | \$ 73,608           | \$ 20,135             | \$ 117,114 |
| Gross profit                       | 4,135                               | 15,851              | (392)                 | 19,594     |
| Operating profit                   | 1,579                               | 13,816              | (2,069)               | 13,326     |
| Total assets                       | 206,698                             | 105,526             | 67,139                | 379,363    |
| Depreciation                       | 258                                 | 796                 | 1,500                 | 2,554      |
| Capital expenditures               | 417                                 | 180                 | 1,753                 | 2,350      |



|                                       | (in thousands)                     |                     |                       |            |
|---------------------------------------|------------------------------------|---------------------|-----------------------|------------|
|                                       | Housewares/<br>Small<br>Appliances | Defense<br>Products | Absorbent<br>Products | Total      |
| <b>Six Months ended June 30, 2013</b> |                                    |                     |                       |            |
| External net sales                    | \$ 49,378                          | \$ 97,467           | \$ 37,741             | \$ 184,586 |
| Gross profit                          | 9,031                              | 23,534              | 2,055                 | 34,620     |
| Operating profit                      | 3,370                              | 18,773              | 1,034                 | 23,177     |
| Total assets                          | 176,646                            | 132,073             | 61,533                | 370,252    |
| Depreciation and amortization         | 557                                | 1,221               | 2,736                 | 4,514      |
| Capital expenditures                  | 278                                | 6,298               | 6,849                 | 13,425     |
| <b>Six Months ended July 1, 2012</b>  |                                    |                     |                       |            |
| External net sales                    | \$ 48,063                          | \$ 123,289          | \$ 42,535             | \$ 213,887 |
| Gross profit                          | 8,832                              | 29,724              | 1,390                 | 39,946     |
| Operating profit                      | 3,314                              | 25,506              | (1,004)               | 27,816     |
| Total assets                          | 206,698                            | 105,526             | 67,139                | 379,363    |
| Depreciation                          | 524                                | 1,597               | 2,867                 | 4,988      |
| Capital expenditures                  | 665                                | 201                 | 5,977                 | 6,843      |

**NOTE E - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company utilizes the methods of fair value as described in Financial Accounting Standard Board ( FASB ) Accounting Standard Codification ( ASC ) 820, *Fair Value Measurements and Disclosures*, to value its financial assets and liabilities. ASC 820 utilizes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying amount for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximates fair value due to the immediate or short-term maturity of these financial instruments.

**NOTE F - CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES**

The Company considers all highly liquid marketable securities with an original maturity of three months or less to be cash equivalents. Cash equivalents include money market funds. The Company deposits its cash in high quality financial institutions. The balances, at times, may exceed federally insured limits. Money market funds are reported at fair value determined using quoted prices in active markets for identical securities (Level 1, as defined by FASB ASC 820).

The Company has classified all marketable securities as available-for-sale which requires the securities to be reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Highly liquid, tax-exempt variable rate demand notes with put options exercisable in three months or less are classified as marketable securities.

At June 30, 2013 and December 31, 2012, cost for marketable securities was determined using the specific identification method. A summary of the amortized costs and fair values of the Company's marketable securities at the end of the periods presented is shown in the following table. All of the Company's marketable securities are classified as Level 2, as defined by FASB ASC 820, with fair values determined using significant other observable inputs, which include quoted prices in markets that are not active, quoted prices of similar securities, recently executed transactions, broker quotations, and other inputs that are observable. There were no transfers into or out of Level 2 during the three months ended June 30, 2013.

|                             | (In Thousands)        |            |                              |                               |
|-----------------------------|-----------------------|------------|------------------------------|-------------------------------|
|                             | MARKETABLE SECURITIES |            |                              |                               |
|                             | Amortized<br>Cost     | Fair Value | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |
| <b>June 30, 2013</b>        |                       |            |                              |                               |
| Tax-exempt Municipal Bonds  | \$ 24,277             | \$ 24,328  | \$ 57                        | \$ 6                          |
| Variable Rate Demand Notes  | 20,728                | 20,728     |                              |                               |
| Total Marketable Securities | \$ 45,005             | \$ 45,056  | \$ 57                        | \$ 6                          |
| <b>December 31, 2012</b>    |                       |            |                              |                               |
| Tax-exempt Municipal Bonds  | \$ 24,412             | \$ 24,494  | \$ 94                        | \$ 12                         |
| Variable Rate Demand Notes  | 31,092                | 31,092     |                              |                               |
| Total Marketable Securities | \$ 55,504             | \$ 55,586  | \$ 94                        | \$ 12                         |

Proceeds from maturities and sales of available-for-sale securities totaled \$14,386,000 and \$3,883,000 for the three month periods ended June 30, 2013 and July 1, 2012, and totaled \$16,650,000 and \$10,255,000 for the six month periods then ended, respectively. There were no gross gains or losses related to sales of marketable securities during the same periods. Net unrealized losses included in other comprehensive income, were \$43,000 and \$27,000 before taxes for the three month periods ended June 30, 2013 and July 1, 2012, and were \$31,000 and \$22,000 before taxes for the six month periods then ended, respectively. No unrealized gains or losses were reclassified out of accumulated other comprehensive income during the same periods.

The contractual maturities of the marketable securities held at June 30, 2013 are as follows: \$9,519,000 within one year; \$17,599,000 beyond one year to five years; \$5,263,000 beyond five years to ten years, and \$12,675,000 beyond ten years. All of the instruments in the beyond five year ranges are variable rate demand notes which can be tendered for cash at par plus interest within seven days. Despite the stated contractual maturity date, to the extent a tender is not honored, the notes become immediately due and payable.

#### NOTE G COMMITMENTS AND CONTINGENCIES

The Company is involved in largely routine litigation incidental to its business. Management believes the ultimate outcome of the litigation will not have a material effect on the Company's consolidated financial position, liquidity, or results of operations.

#### NOTE H SUBSEQUENT EVENT

On July 1, 2013, AMTEC Corporation, a wholly-owned subsidiary of the Company, entered into an agreement for the purchase of substantially all of the assets of DSE, Inc. ( DSE ). DSE is a defense contractor that manufactures and sells 40MM ammunitions to the U.S. Government. The closing of the agreement is conditioned upon the U.S. Government, DSE, and the Company agreeing to the novation of DSE's contract with the Government to the Company.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Form 10-Q, in the Company's 2012 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held May 21, 2013, and in the Company's press releases and oral statements made with the approval of an authorized executive officer are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed herein and in the notes to consolidated financial statements, among the other factors that could cause actual results to differ materially are the following: consumer spending and debt levels; interest rates; continuity of relationships with and purchases by major customers; product mix; the benefit and risk of business acquisitions; competitive pressure on sales and pricing; development and market acceptance of new products; increases in material, freight/shipping, or production cost which cannot be recouped in product pricing; delays or interruptions in shipping or production; shipment of defective product which could result in product liability claims or recalls; work or labor disruptions stemming from a unionized work force; changes in government requirements, military spending, and funding of government contracts, which could result, among other things, in the modification or termination of existing contracts; dependence on subcontractors or vendors to perform as required by contract; the efficient start-up and utilization of capital equipment investments; and political actions of federal and state governments which could have an impact on everything from the value of the U.S dollar vis-à-vis other currencies to the availability of affordable labor and energy. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings.

### Comparison of Second Quarter 2013 and 2012

Readers are directed to Note D to the Consolidated Financial Statements, Business Segments, for data on the financial results of the Company's three business segments for the quarters ended June 30, 2013 and July 1, 2012.

On a consolidated basis, sales decreased by \$15,718,000 (13%), gross profit decreased by \$1,183,000 (6%), selling and general expenses decreased by \$676,000 (11%), and other income decreased by \$90,000 (38%). Earnings before the provision for income taxes decreased by \$597,000 (4%), as did net earnings by \$402,000 (5%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by \$1,118,000 from \$23,371,000 to \$24,489,000, or 5%, primarily reflecting an increase in shipments. Defense net sales decreased by \$15,092,000 from \$73,608,000 to \$58,516,000, or 21%, primarily reflecting a decrease in unit shipments. Absorbent Products net sales decreased by \$1,744,000 from \$20,135,000 to \$18,391,000, or 9%, and was primarily attributable to a reduction of shipments to one of the segment's major customers, which is producing much of its own product, offset in part by an increase in shipments to other customers.

Housewares/Small Appliance gross profit increased \$439,000 from \$4,135,000 to \$4,574,000, or 11%, primarily reflecting the increase in sales mentioned above. Defense gross profit decreased \$2,383,000 from \$15,851,000 to \$13,468,000, or 15%, primarily attributable to the decrease in sales mentioned above, partially offset by a more favorable product mix. Absorbent Products gross profit increased \$761,000 from a loss of \$392,000 to a profit of \$369,000, primarily reflecting the absence of the prior year's deferral of revenue recognition on the sale of raw materials to an independent manufacturing facility. A description the Company's relationship with the facility can be found in Note Q to the Company's Consolidated Financial Statements for the year ended December 31, 2012 on form 10-K.

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Selling and general expenses for the Housewares/Small Appliance segment increased by \$206,000, primarily reflecting changes in various accrued reserve levels. Defense segment selling and general expenses increased by \$325,000, primarily reflecting increased legal fees stemming from the acquisition of DSE, Inc., which is described in Note H to the Company's Consolidated Financial Statements included in Part I of this Form 10-Q, and \$167,000 of amortization expense related to the intangible assets stemming from the acquisition of a less than lethal manufacturing facility. The acquisition is more fully described in the Company's 2012 annual report on Form 10-K. Absorbent Products selling and general expenses decreased by \$1,207,000, reflecting a decrease in the provision for bad debts, primarily pertaining to the independent manufacturing facility mentioned above, and a decrease in expenses classified as administrative that related to the royalty arrangement with the same facility.

The above items were responsible for the change in operating profit.

Earnings before provision for income taxes decreased \$597,000 from \$13,563,000 to \$12,966,000. The provision for income taxes decreased from \$4,860,000 to \$4,665,000, primarily reflecting a decrease in taxable earnings. Net earnings decreased \$402,000 from \$8,703,000 to \$8,301,000, or 5%.

### Comparison of First Six Months 2013 and 2012

Readers are directed to Note D to the Consolidated Financial Statements, Business Segments, for data on the financial results of the Company's three business segments for the first six months ended June 30, 2013 and July 1, 2012.

On a consolidated basis, sales decreased by \$29,301,000 (14%), gross profit decreased by \$5,326,000 (13%), selling and general expenses decreased by \$687,000 (6%), and other income decreased by \$143,000 (29%). Earnings before the provision for income taxes decreased by \$4,782,000 (17%), as did net earnings by \$2,892,000 (16%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by \$1,315,000 from \$48,063,000 to \$49,378,000, or 3%, primarily reflecting an increase in shipments. Defense net sales decreased by \$25,822,000 from \$123,289,000 to \$97,467,000, or 21%, primarily reflecting a decrease in unit shipments. Absorbent Products net sales decreased by \$4,794,000 from \$42,535,000 to \$37,741,000, or 11%, and was primarily attributable to a reduction of shipments to one of the segment's major customers, which is producing much of its own product, and the absence of last year's first half shipments of \$598,000 of raw materials to an independent manufacturing facility. A description of the Company's relationship with the facility can be found in Note Q to the Company's Consolidated Financial Statements for the year ended December 31, 2012 on Form 10-K. These decreases were offset in part by an increase in shipments to other customers.

Housewares/Small Appliance gross profit increased \$199,000 from \$8,832,000 to \$9,031,000, or 2%, reflecting the increase in sales mentioned above. Defense gross profit decreased \$6,190,000 from \$29,724,000 to \$23,534,000, or 21%, which was primarily attributable to the decrease in sales mentioned above. Absorbent Products gross profit increased \$665,000 from \$1,390,000 to \$2,055,000, or 48%, primarily reflecting the absence of the prior year's deferral of revenue recognition on the sale of raw materials to the independent manufacturing facility mentioned above. Also contributing to the increase were lower freight costs and an insurance settlement of \$553,000. These increases were partially offset by the decrease in sales mentioned above.

Selling and general expenses for the Housewares/Small Appliance segment increased by \$143,000, primarily reflecting changes in various accrued reserve levels. Defense segment selling and general expenses increased by \$543,000, primarily reflecting increased legal fees stemming from the acquisition of DSE, Inc., which is described in Note H to the Company's Consolidated Financial Statements included in Part I of this Form 10-Q, and \$333,000 of amortization expense related to the intangible assets stemming from the acquisition of a less than lethal manufacturing facility. The acquisition is more fully described in the Company's 2012 annual report on Form 10-K. Absorbent Products selling and general expenses decreased by \$1,373,000, reflecting a decrease in the provision for bad debts, primarily pertaining to the independent manufacturing facility mentioned above, and a decrease in expenses classified as administrative that related to the royalty arrangement with the same facility.

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The above items were responsible for the change in operating profit.

Earnings before provision for income taxes decreased \$4,782,000 from \$28,314,000 to \$23,532,000. The provision for income taxes decreased from \$10,267,000 to \$8,377,000, primarily reflecting a decrease in taxable earnings. Net earnings decreased \$2,892,000 from \$18,047,000 to \$15,155,000, or 16%.

### **Liquidity and Capital Resources**

Net cash provided by operating activities was \$1,113,000 and \$36,965,000 for the six months ended June 30, 2013 and July 1, 2012, respectively. The principal factors contributing to the decrease can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during the first six months of 2013 were net earnings of \$15,155,000; increases in inventory levels and deposits made with raw material suppliers included in other current assets, partially offset by a decrease in accounts receivable levels stemming from cash collections on customer sales, and a net decrease in payable and accrual levels. Of particular note during the first six months of 2012 were net earnings of \$18,047,000; a decrease in accounts receivable levels stemming from cash collections on customer sales; and a decrease in inventory levels, partially offset by decreases in payable and accrual levels.

Net cash used in investing activities was \$2,918,000 during the first six months of 2013 compared to \$15,322,000 used in investing activities during the first six months of 2012. The change in investing activity cash flow is primarily attributable to a net increase in proceeds from marketable securities activity, and to a lesser extent, a decrease in notes issued, partially offset by an increase in the acquisition of property, plant, and equipment.

Cash flows from financing activities for the first six months of 2013 and 2012 primarily differed as a result of an accelerated payment made in late December 2012 of the annual 2013 dividend. The acceleration was occasioned by the uncertainty over the federal income tax rates that would be in effect in 2013. In contrast, the annual 2012 dividend was made during the first quarter of 2012.

Working capital increased by \$6,548,000 during the first six months of 2013 to \$221,329,000 at June 30, 2013 for the reasons stated above. The Company's current ratio was 4.9 to 1.0 at June 30, 2013 and 4.8 to 1.0 at December 31, 2012.

The Company expects to continue to evaluate acquisition opportunities that align with its business segments and continue to make capital investments in these segments as well as further acquisitions if the appropriate return on investment is projected.

The Company has substantial liquidity in the form of cash and short-term maturity marketable securities to meet all of its anticipated capital requirements, to make dividend payments, and to fund growth through acquisitions and other means. The bulk of its marketable securities are invested in the tax exempt variable rate demand notes described above and in municipal bonds that are pre-refunded with escrowed U.S. Treasuries. The Company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings. Comparative yields during the first six months of 2013 were lower than those in the first six months of the preceding year, reflecting an increase in lower yielding instruments in the Company's investment holdings as higher yielding instruments have matured and been replaced. The lower yields served to decrease interest income. The interest rate environment is a function of national and international monetary policies as well as the growth and inflation rates of the U.S. and foreign economies and is not controllable by the Company.

### **Critical Accounting Policies**

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates. The Company reviewed the development and selection of the critical accounting policies and believes the following are the most critical accounting policies that could have an effect on the Company's reported results. These critical accounting policies and estimates have been reviewed with the Audit Committee of the Board of Directors.

#### Inventories

New Housewares/Small Appliance product introductions are an important part of the Company's sales to offset the morbidity rate of other Housewares/Small Appliance products and/or the effect of lowered acceptance of seasonal products due to weather conditions. New products entail unusual risks and have occasionally in the past resulted in losses related to obsolete or excess inventory as a result of low or diminishing demand for a product. There were no such obsolescence issues that had a material effect during the periods presented, and accordingly, the Company did not record a reserve for obsolete product. In the future should product demand issues arise, the Company may incur losses related to the obsolescence of the related inventory. Inventory risk for the Company's other segments is not deemed to be significant, as products are largely built pursuant to customers' specific orders.

#### Self-Insured Product Liability and Health Insurance

The Company is subject to product liability claims in the normal course of business and is self-insured for health care costs, although it does carry stop loss and other insurance to cover claims once they reach a specified threshold. The Company's insurance coverage varies from policy year to policy year, and there are typically limits on all types of insurance coverage, which also vary from policy year to policy year. Accordingly, the Company records an accrual for known claims and estimated incurred but not reported claims, including an estimate for related legal fees in the Company's consolidated financial statements. The Company utilizes historical trends and other analysis to assist in determining the appropriate accrual. There are no known claims that would have a material adverse impact on the Company beyond the reserve levels that have been accrued and recorded on the Company's books and records. An increase in the number or magnitude of claims could have a material impact on the Company's financial condition and results of operations.

#### Sales and Returns

Sales are recorded net of discounts and returns. The latter pertain primarily to warranty returns, returns of seasonal items, and returns of those newly introduced products sold with a return privilege. The calculation of warranty returns is based in large part on historical data, while seasonal and new product returns are primarily developed using customer provided information.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's interest income on cash equivalents and marketable securities is affected by changes in interest rates in the United States. Cash equivalents primarily consist of money market funds. Based on the accounting profession's 2005 interpretation of cash equivalents under FASB ASC Topic 230, the Company's seven-day variable rate demand notes are classified as marketable securities rather than as cash equivalents. The demand notes are highly liquid instruments with interest rates set every 7 days that can be tendered to the trustee or remarketer upon 7 days notice for payment of principal and accrued interest amounts. The 7-day tender feature of these variable rate demand notes is further supported by an irrevocable letter of credit from highly rated U.S. banks. To the extent a bond is not remarketed at par plus accrued interest, the difference is drawn from the bank's letter of credit. The Company has had no issues tendering these notes to the trustees or remarketers. Other than a failure of a major U.S. bank, there are no risks of which the Company is aware that relate to these notes in the current market. The balance of the Company's investments is held primarily in fixed and variable rate municipal bonds with a weighted average life of 1.4 years. Accordingly, the Company does not anticipate that future exposure to interest rate market risk will be material. The Company uses sensitivity analysis to determine its exposure to changes in interest rates.

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments. Most transactions with international customers are entered into in U.S. dollars, precluding the need for foreign currency cash flow hedges. As the majority of the Housewares/Small Appliance segment's suppliers are located in China, periodic changes in the U.S. dollar and Chinese Renminbi (RMB) exchange rates do have an impact on that segment's product costs. It is anticipated that any potential material impact from fluctuations in the exchange rate will be to the cost of products secured via purchase orders issued subsequent to the revaluation.

### ITEM 4. CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the "1934 Act") as of June 30, 2013. The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of that date.

There were no changes to internal controls over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note G to the Consolidated Financial Statements set forth under Part I - Item 1 above.

Item 6. Exhibits

- Exhibit 3(i) Restated Articles of Incorporation - incorporated by reference from Exhibit 3 (i) of the Company's annual report on Form 10-K for the year ended December 31, 2005
- Exhibit 3(ii) By-Laws - incorporated by reference from Exhibit 3 (ii) of the Company's current report on Form 8-K dated July 6, 2007
- Exhibit 9.1 Voting Trust Agreement - incorporated by reference from Exhibit 9 of the Company's quarterly report on Form 10-Q for the quarter ended July 6, 1997
- Exhibit 9.2 Voting Trust Agreement Amendment - incorporated by reference from Exhibit 9.2 of the Company's annual report on Form 10-K for the year ended December 31, 2008
- Exhibit 10.1 Incentive Compensation Plan - incorporated by reference from Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended July 4, 2010
- Exhibit 10.2 Form of Restricted Stock Award Agreement - incorporated by reference from Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended July 4, 2010
- Exhibit 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 101 The following financial information from National Presto Industries, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.\*

\*The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.



SIGNATURES

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

NATIONAL PRESTO INDUSTRIES, INC.

/s/ Maryjo Cohen  
Maryjo Cohen, Chair of the Board,  
President, Chief Executive Officer  
(Principal Executive Officer), Director

/s/ Randy F. Lieble  
Randy F. Lieble, Director, Vice President,  
Chief Financial Officer (Principal  
Financial Officer), Treasurer

Date: August 9, 2013

**National Presto Industries, Inc.**  
**Exhibit Index**

| Exhibit Number | Exhibit Description   |
|----------------|---|
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