

NATIONAL PRESTO INDUSTRIES INC  
Form 10-Q  
August 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934 FOR THE QUARTERLY PERIOD ENDED July 3, 2016

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

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NATIONAL PRESTO INDUSTRIES, INC.

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(Exact name of registrant as specified in its charter)

WISCONSIN 39-0494170  
(State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)

or organization)

3925 NORTH HASTINGS WAY  
EAU CLAIRE, WISCONSIN 54703-3703  
(Address of principal executive offices) (Zip Code)

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

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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).  
Yes No

There were 6,946,318 shares of the Issuer's Common Stock outstanding as of August 1, 2016.



## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

July 3, 2016 and December 31, 2015

(Dollars in thousands)

|                                      | July 3, 2016<br>(Unaudited) | December 31, 2015 |            |
|--------------------------------------|-----------------------------|-------------------|------------|
| <b>ASSETS</b>                        |                             |                   |            |
| <b>CURRENT ASSETS:</b>               |                             |                   |            |
| Cash and cash equivalents            | \$ 19,017                   | \$ 56,222         |            |
| Marketable securities                | 56,282                      | 32,259            |            |
| Accounts receivable, net             | 53,426                      | 67,528            |            |
| Inventories:                         |                             |                   |            |
| Finished goods                       | \$ 37,240                   | \$ 32,585         |            |
| Work in process                      | 69,277                      | 57,484            |            |
| Raw materials and supplies           | 9,927                       | 116,444           | 8,553      |
| Income tax receivable                |                             | 4,332             | -          |
| Other current assets                 |                             | 7,553             | 6,961      |
| Total current assets                 |                             | 257,054           | 261,592    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b> | 179,643                     | 177,628           |            |
| Less allowance for depreciation      | 92,088                      | 87,555            | 86,322     |
| <b>GOODWILL</b>                      |                             | 11,485            | 11,485     |
| <b>INTANGIBLE ASSETS, net</b>        |                             | 4,903             | 5,471      |
| <b>NOTES RECEIVABLE</b>              |                             | 6,427             | 3,940      |
| <b>DEFERRED INCOME TAXES</b>         |                             | -                 | 3,336      |
| <b>OTHER ASSETS</b>                  |                             | 9,063             | 10,254     |
|                                      |                             | \$ 376,487        | \$ 387,384 |

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

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

July 3, 2016 and December 31, 2015

(Dollars in thousands)

|                                               | July 3, 2016<br>(Unaudited) | December 31, 2015 |
|-----------------------------------------------|-----------------------------|-------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                             |                   |
| <b>LIABILITIES</b>                            |                             |                   |
| <b>CURRENT LIABILITIES:</b>                   |                             |                   |
| Accounts payable                              | \$ 40,692                   | \$ 32,536         |
| Federal and state income taxes                | -                           | 2,196             |
| Accrued liabilities                           | 13,462                      | 13,398            |
| Total current liabilities                     | 54,154                      | 48,130            |
| DEFERRED INCOME TAXES                         | 1,723                       | -                 |
| <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                               | 7,450                       | 6,775             |
| Retained earnings                             | 321,123                     | 340,799           |
| Accumulated other comprehensive income (loss) | 9                           | (9)               |
|                                               | 336,023                     | 355,006           |
| Treasury stock, at cost                       | 15,413                      | 15,752            |
| Total stockholders' equity                    | 320,610                     | 339,254           |
|                                               | \$ 376,487                  | \$ 387,384        |

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE  
INCOME

Three and Six Months Ended July 3, 2016 and July 5, 2015

(Unaudited)

(In thousands except per share data)

|                                                         | Three Months Ended |            | Six Months Ended |            |
|---------------------------------------------------------|--------------------|------------|------------------|------------|
|                                                         | 2016               | 2015       | 2016             | 2015       |
| Net sales                                               | \$ 87,985          | \$ 102,371 | \$ 174,482       | \$ 203,370 |
| Cost of sales                                           | 69,569             | 81,938     | 138,285          | 162,058    |
| Gross profit                                            | 18,416             | 20,433     | 36,197           | 41,312     |
| Selling and general expenses                            | 6,352              | 5,782      | 12,855           | 11,943     |
| Intangibles amortization                                | -                  | 888        | 568              | 3,282      |
| Operating profit                                        | 12,064             | 13,763     | 22,774           | 26,087     |
| Other income                                            | 185                | 101        | 368              | 176        |
| Earnings before provision for income taxes              | 12,249             | 13,864     | 23,142           | 26,263     |
| Provision for income taxes                              | 3,975              | 4,744      | 7,657            | 9,034      |
| Net earnings                                            | \$ 8,274           | \$ 9,120   | \$ 15,485        | \$ 17,229  |
| Weighted average shares outstanding:                    |                    |            |                  |            |
| Basic and diluted                                       | 6,970              | 6,951      | 6,967            | 6,947      |
| Net earnings per share:                                 |                    |            |                  |            |
| Basic and diluted                                       | \$ 1.19            | \$ 1.31    | \$ 2.22          | \$ 2.48    |
| Comprehensive income:                                   |                    |            |                  |            |
| Net earnings                                            | \$ 8,274           | \$ 9,120   | \$ 15,485        | \$ 17,229  |
| Other comprehensive income (loss), net of tax:          |                    |            |                  |            |
| Unrealized gain (loss) on available-for-sale securities | 13                 | (1)        | 18               | 6          |
| Comprehensive income                                    | \$ 8,287           | \$ 9,119   | \$ 15,503        | \$ 17,235  |
| Cash dividends declared and paid per common share       | \$ 0.00            | \$ 0.00    | \$ 5.05          | \$ 4.05    |

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended July 3, 2016 and July 5, 2015

(Unaudited)

(Dollars in thousands)

|                                                                                     | 2016      | 2015      |
|-------------------------------------------------------------------------------------|-----------|-----------|
| Cash flows from operating activities:                                               |           |           |
| Net earnings                                                                        | \$ 15,485 | \$ 17,229 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |           |           |
| Provision for depreciation                                                          | 5,897     | 5,029     |
| Intangibles amortization                                                            | 568       | 3,282     |
| Provision for doubtful accounts                                                     | 8         | 77        |
| Noncash retirement plan expense                                                     | 374       | 399       |
| Other                                                                               | 497       | 91        |
| Changes in:                                                                         |           |           |
| Accounts receivable                                                                 | 14,094    | 18,401    |
| Inventories                                                                         | (17,822)  | (8,030)   |
| Other assets and current assets                                                     | 599       | (7,337)   |
| Accounts payable and accrued liabilities                                            | 8,220     | (5,250)   |
| Federal and state income taxes                                                      | (1,416)   | 1,791     |
| Net cash provided by operating activities                                           | 26,504    | 25,682    |
| Cash flows from investing activities:                                               |           |           |
| Marketable securities purchased                                                     | (27,386)  | (3,640)   |
| Marketable securities - maturities and sales                                        | 3,391     | 4,349     |
| Notes issued                                                                        | (2,419)   | -         |
| Purchase of property, plant and equipment                                           | (2,579)   | (2,855)   |
| Sale of property, plant and equipment                                               | 2         | 22        |
| Net cash used in investing activities                                               | (28,991)  | (2,124)   |
| Cash flows from financing activities:                                               |           |           |
| Dividends paid                                                                      | (35,161)  | (28,114)  |
| Proceeds from sale of treasury stock                                                | 443       | 323       |
| Other                                                                               | -         | (5)       |
| Net cash used in financing activities                                               | (34,718)  | (27,796)  |
| Net decrease in cash and cash equivalents                                           | (37,205)  | (4,238)   |
| Cash and cash equivalents at beginning of period                                    | 56,222    | 54,043    |
| Cash and cash equivalents at end of period                                          | \$ 19,017 | \$ 49,805 |

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





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, 2015 is summarized from audited consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2015 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.

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     |           |           |            |
|                               | / Small        | Defense   | Absorbent |            |
|                               | Appliances     | Products  | Products  | Total      |
| Quarter ended July 3, 2016    |                |           |           |            |
| External net sales            | \$ 19,280      | \$ 50,236 | \$ 18,469 | \$ 87,985  |
| Gross profit                  | 3,588          | 13,898    | 930       | 18,416     |
| Operating profit              | 1,183          | 10,854    | 27        | 12,064     |
| Total assets                  | 161,310        | 155,032   | 60,145    | 376,487    |
| Depreciation and amortization | 257            | 1,776     | 1,453     | 3,486      |
| Capital expenditures          | 453            | 1,090     | 407       | 1,950      |
| Quarter ended July 5, 2015    |                |           |           |            |
| External net sales            | \$ 21,963      | \$ 62,646 | \$ 17,762 | \$ 102,371 |
| Gross profit (loss)           | 4,413          | 16,465    | (445)     | 20,433     |
| Operating profit (loss)       | 1,932          | 13,102    | (1,271)   | 13,763     |
| Total assets                  | 152,300        | 142,780   | 63,876    | 358,956    |
| Depreciation and amortization | 234            | 1,582     | 1,616     | 3,432      |
| Capital expenditures          | 847            | 90        | 365       | 1,302      |

|                               | (in thousands)     |                  |                    |            |
|-------------------------------|--------------------|------------------|--------------------|------------|
|                               | Housewares         |                  |                    |            |
|                               | / Small Appliances | Defense Products | Absorbent Products | Total      |
| Six Months ended July 3, 2016 |                    |                  |                    |            |
| External net sales            | \$ 40,676          | \$ 94,782        | \$ 39,024          | \$ 174,482 |
| Gross profit                  | 8,194              | 25,659           | 2,344              | 36,197     |
| Operating profit              | 2,881              | 19,293           | 600                | 22,774     |
| Total assets                  | 161,310            | 155,032          | 60,145             | 376,487    |
| Depreciation and amortization | 498                | 3,066            | 2,901              | 6,465      |
| Capital expenditures          | 892                | 1,123            | 564                | 2,579      |
| Six Months ended July 5, 2015 |                    |                  |                    |            |
| External net sales            | \$ 45,256          | \$ 122,324       | \$ 35,790          | \$ 203,370 |
| Gross profit (loss)           | 9,253              | 32,553           | (494)              | 41,312     |
| Operating profit (loss)       | 3,958              | 24,176           | (2,047)            | 26,087     |
| Total assets                  | 152,300            | 142,780          | 63,876             | 358,956    |
| Depreciation and amortization | 469                | 4,617            | 3,225              | 8,311      |
| Capital expenditures          | 979                | 124              | 1,752              | 2,855      |

## 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, note 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 estimated 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 July 3, 2016 and December 31, 2015, 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 six months ended July 3, 2016.

|                             | (In Thousands)        |               |                              |                               |
|-----------------------------|-----------------------|---------------|------------------------------|-------------------------------|
|                             | MARKETABLE SECURITIES |               |                              |                               |
|                             | Amortized<br>Cost     | Fair<br>Value | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |
| July 3, 2016                |                       |               |                              |                               |
| Tax-exempt Municipal Bonds  | \$ 31,177             | \$ 31,190     | \$ 19                        | \$ 6                          |
| Variable Rate Demand Notes  | 25,092                | 25,092        | -                            | -                             |
| Total Marketable Securities | \$ 56,269             | \$ 56,282     | \$ 19                        | \$ 6                          |
| December 31, 2015           |                       |               |                              |                               |
| Tax-exempt Municipal Bonds  | \$ 20,129             | \$ 20,115     | \$ 4                         | \$ 18                         |
| Variable Rate Demand Notes  | 12,144                | 12,144        | -                            | -                             |
| Total Marketable Securities | \$ 32,273             | \$ 32,259     | \$ 4                         | \$ 18                         |

Proceeds from maturities and sales of available-for-sale securities totaled \$2,128,000 and \$511,000 for the three month periods ended July 3, 2016 and July 5, 2015, respectively, and totaled \$3,391,000 and \$4,349,000 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 gains (losses) included in other comprehensive income were \$19,000 and \$(2,000) before taxes for the three month periods ended July 3, 2016 and July 5, 2015, respectively, and were \$28,000 and \$10,000 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 July 3, 2016 are as follows: \$21,346,000 within one year; \$15,556,000 beyond one year to five years; \$5,672,000 beyond five years to ten years, and \$13,708,000 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 – OTHER ASSETS

Other Assets includes prepayments that are made from time to time by the Company for certain materials used in the manufacturing process in the Housewares/Small Appliances segment. The Company expects to utilize the prepayments and related materials over an estimated period of up to three years. As of July 3, 2016 and December 31, 2015, \$15,063,000 and \$16,254,000 of such prepayments, respectively, remained unused and outstanding. At July 3, 2016 and December 31, 2015, \$6,000,000 of these amounts are included in Other Current Assets, representing the Company's best estimate of the expected utilization of the prepayments and related materials during the twelve-month periods following those dates.

#### NOTE H – 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 I – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 provides guidance for estimating credit losses on certain types of financial

instruments, including trade receivables, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. ASU 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance requires a modified retrospective transition method and early adoption is permitted. The Company does not expect the adoption of ASU 2016-13 to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 provides guidance that simplifies some provisions in stock compensation accounting for tax consequences related to stock payments and amends how excess tax benefits and payments to cover the tax liabilities of award recipients should be classified. ASU 2016-09 also allows an entity to elect an accounting policy for forfeitures and revises the withholding requirements for classifying stock awards as equity. The guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2017. The Company does not expect the adoption of ASU 2016-01 to have a material effect on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 requires the acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU 2015-16 to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method, but applies to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2015-11 to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. It is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. The amendment may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, but does not expect the impact to be material.



## 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 2015 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held May 17, 2016, 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; reliance on third-party suppliers in Asia; 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 in, among other things, 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; 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; and information technology system failures or security breaches. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings.

### Comparison of Second Quarter 2016 and 2015

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 July 3, 2016 and July 5, 2015.

On a consolidated basis, sales decreased by \$14,386,000 (14%), gross profit decreased by \$2,017,000 (10%), selling and general expenses increased by \$570,000 (10%), and intangibles amortization decreased by \$888,000 (100%). Earnings before the provision for income taxes decreased by \$1,615,000 (12%), as did net earnings by \$846,000 (9%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by \$2,683,000 from \$21,963,000 to \$19,280,000, or 12%, primarily due to a decrease in shipments. Defense net sales decreased by \$12,410,000 from \$62,646,000 to \$50,236,000, or 20%, also primarily reflecting a decrease in units shipped. Absorbent Products net sales increased by \$707,000 from

\$17,762,000 to \$18,469,000, or 4%, which was primarily attributable to an increase in shipments.

Housewares/Small Appliance gross profit decreased \$825,000 from \$4,413,000 to \$3,588,000, primarily reflecting the decrease in sales mentioned above. Defense gross profit decreased \$2,567,000 from \$16,465,000 to \$13,898,000, reflecting the decrease in sales mentioned above, offset by an improved product mix. Absorbent Products gross profit improved by \$1,375,000, from a loss of \$445,000 to a profit of \$930,000, primarily reflecting the sales increase mentioned above, as well as improved operating costs incident to the higher sales.

Selling and general expenses for the Housewares/Small Appliance segment were essentially comparable to last year's. Selling and general expenses for the Defense segment increased \$569,000, primarily reflecting a non-cash write down of the book value of equipment and increased compensation costs. The \$77,000 increase in selling and general expenses for the Absorbent Products segment was largely due to the non-cash write down of the book value of equipment.

Intangibles amortization decreased by \$888,000. The decrease primarily reflects amortization of the customer contract intangible asset corresponding to the quarter's comparatively lower shipments of a portion of the backlog acquired in late 2013 from DSE, Inc., one of the Company's former competitors in the Defense segment. The DSE asset acquisition is described in Note Q to the Company's 2015 Consolidated Financial Statements on Form 10-K. For the quarters ended July 3, 2016 and July 5, 2015, the Company recorded amortization expense of \$0 and \$854,000, respectively, associated with the customer contract intangible asset.

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

Earnings before provision for income taxes decreased \$1,615,000 from \$13,864,000 to \$12,249,000. The provision for income taxes decreased from \$4,744,000 to \$3,975,000, primarily reflecting a decrease in taxable earnings. Net earnings decreased \$846,000 from \$9,120,000 to \$8,274,000, or 9%.

#### Comparison of First Six Months 2016 and 2015

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 July 3, 2016 and July 5, 2015.

On a consolidated basis, sales decreased by \$28,888,000 (14%), gross profit decreased by \$5,115,000 (12%), selling and general expenses increased by \$912,000 (8%), and intangibles amortization decreased by \$2,714,000 (83%). Earnings before the provision for income taxes decreased by \$3,121,000 (12%), as did net earnings by \$1,744,000 (10%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by \$4,580,000 from \$45,256,000 to \$40,676,000, or 10%, primarily attributable to a decrease in shipments. Defense net sales decreased by \$27,542,000 from \$122,324,000 to \$94,782,000, or 23%, primarily reflecting a decrease in units shipped. Absorbent Products net sales increased by \$3,234,000 from \$35,790,000 to \$39,024,000, or 9%, which was primarily attributable to an increase in shipments.

Housewares/Small Appliance gross profit decreased \$1,059,000 from \$9,253,000 to \$8,194,000, primarily reflecting the decrease in sales mentioned above. Defense gross profit decreased \$6,894,000 from \$32,553,000 to \$25,659,000, reflecting the decrease in sales mentioned above, offset by an improved product mix. Absorbent Products gross profit improved by \$2,838,000, from a loss of \$494,000 to a profit of \$2,344,000, primarily reflecting the sales increase mentioned above, as well as improved operating costs incident to the higher sales.

Selling and general expenses for the Housewares/Small Appliance segment were essentially comparable to last year's. Selling and general expenses for the Defense segment increased \$703,000, primarily reflecting a non-cash write down of the book value of equipment and increased compensation costs. Selling and general expenses for the Absorbent Products segment increased \$191,000, primarily reflecting increased costs related to the increase in sales

and the non-cash write down of the book value of equipment mentioned above.

Intangibles amortization decreased by \$2,714,000. The decrease primarily reflects amortization of the customer contract intangible asset corresponding to the period's comparatively lower shipments of a portion of the backlog acquired in late 2013 from DSE, Inc., one of the Company's former competitors in the Defense segment. The DSE asset acquisition is described in Note Q to the Company's 2015 Consolidated Financial Statements on Form 10-K. For the six months ended July 3, 2016 and July 5, 2015, the Company recorded amortization expense of \$568,000 and \$3,213,000, respectively, associated with the customer contract intangible asset.

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

Earnings before provision for income taxes decreased \$3,121,000 from \$26,263,000 to \$23,142,000. The provision for income taxes decreased from \$9,034,000 to \$7,657,000, primarily reflecting a decrease in taxable earnings. Net earnings decreased \$1,744,000 from \$17,229,000 to \$15,485,000, or 10%.

#### Liquidity and Capital Resources

Net cash provided by operating activities was \$26,504,000 and \$25,682,000 for the six months ended July 3, 2016 and July 5, 2015, respectively. The principal factors contributing to the increase 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 2016 were net earnings of \$15,485,000, which included total non-cash depreciation and amortization expenses of \$6,465,000, a decrease in accounts receivable levels stemming from cash collections on customer sales, a net increase in payable and accrual levels, and a decrease in deposits made with raw material suppliers included in other assets and current assets. These were partially

offset by an increase in inventory levels. Of particular note during the first six months of 2015 were net earnings of \$17,229,000, which included total non-cash depreciation and amortization expenses of \$8,311,000, and a decrease in accounts receivable levels stemming from cash collections on customer sales. These were partially offset by increases in inventory levels and deposits made with raw material suppliers included in other assets and current assets; and a net decrease in payable and accrual levels.

Net cash used in investing activities was \$28,991,000 during the first six months of 2016 as compared to \$2,124,000 during the first six months of 2015. Of significance were an increase in purchases of marketable securities and the issuance of a note receivable during 2016, partially offset by a decrease in the acquisition of property, plant, and equipment.

Cash flows from financing activities for the first six months of 2016 and 2015 primarily differed as a result of the \$1.00 per share increase in the extra dividend paid during those periods. Cash flows for both six-month periods also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

Working capital decreased by \$10,562,000 during the first six months of 2016 to \$202,900,000 at July 3, 2016 for the reasons stated above. The Company's current ratio was 4.7 to 1.0 at July 3, 2016 and 5.4 to 1.0 at December 31, 2015.

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

The Company has substantial liquidity in the form of cash and cash equivalents and marketable securities to meet all of its anticipated capital requirements, to make dividend payments, and to fund future 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 fixed rate municipal notes and bonds. The Company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings.

#### Critical Accounting Policies

The preparation of the Company's 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 current period, 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 a health care claim reaches 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 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.

#### Impairment and Valuation of Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Long-lived assets consist of property, plant and equipment and intangible assets, including the value of a government sales contract. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, the amounts of the cash flows and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. The Company uses internal discounted cash flows estimates, quoted market prices when available and independent appraisals, as appropriate, to determine fair value. The Company derives the required cash flow estimates from its historical experience and its internal business plans.

### 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 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 seven days that can be tendered to the trustee or remarketer upon seven days notice for payment of principal and accrued interest amounts. The seven-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 1.0 year.

Accordingly, changes in interest rates have not had a material effect on the Company, and 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 under the Securities Exchange Act of 1934 (the "1934 Act") as of July 3, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer 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 July 3, 2016 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 H 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 July 3, 2016, 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.

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 12, 2016

National Presto Industries, Inc.

Exhibit Index

| Exhibit Number | Exhibit Description                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1           | Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                             |
| 31.2           | Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                             |
| 32.1           | Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                             |
| 32.2           | Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                             |
| 101            | The following financial information from National Presto Industries, Inc.'s Quarterly Report on Form 10-Q for the period ended July 3, 2016, 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. |