

NATIONAL PRESTO INDUSTRIES INC
Form 10-Q
May 15, 2015

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 April 5, 2015

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).
Yes No

There were 6,928,871 shares of the Issuer's Common Stock outstanding as of May 1, 2015.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

April 5, 2015 and December 31, 2014

(Unaudited)

(Dollars in thousands)

| | 2015 | | 2014 | |
|--------------------------------------|----------|------------------|----------|------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | | \$49,356 | | \$54,043 |
| Marketable securities | | 20,593 | | 22,404 |
| Accounts receivable, net | | 51,346 | | 68,752 |
| Inventories: | | | | |
| Finished goods | \$30,686 | | \$30,308 | |
| Work in process | 54,055 | | 50,569 | |
| Raw materials and supplies | 8,488 | 93,229 | 8,181 | 89,058 |
| Deferred tax assets | | 6,623 | | 6,623 |
| Income tax receivable | | — | | 1,668 |
| Other current assets | | 23,058 | | 14,321 |
| Total current assets | | 244,205 | | 256,869 |
| PROPERTY, PLANT AND EQUIPMENT | 172,735 | | 171,264 | |
| Less allowance for depreciation | 78,124 | 94,611 | 75,721 | 95,543 |
| GOODWILL | | 11,485 | | 11,485 |
| INTANGIBLE ASSETS, net | | 8,250 | | 10,644 |
| NOTE RECEIVABLE | | 3,850 | | 3,818 |
| | | \$362,401 | | \$378,359 |

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

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

April 5, 2015 and December 31, 2014

(Unaudited)

(Dollars in thousands)

| | 2015 | 2014 |
|---|------------------|------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$33,426 | \$32,948 |
| Federal and state income taxes | 4,590 | — |
| Accrued liabilities | 13,998 | 15,680 |
| Total current liabilities | 52,014 | 48,628 |
| DEFERRED INCOME TAXES | 4,292 | 4,288 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, \$1 par value: | | |
| Authorized: 12,000,000 shares | | |
| Issued: 7,440,518 shares | \$7,441 | \$7,441 |
| Paid-in capital | 6,195 | 5,906 |
| Retained earnings | 308,412 | 328,417 |
| Accumulated other comprehensive income (loss) | 4 | (3) |
| | 322,052 | 341,761 |
| Treasury stock, at cost | 15,957 | 16,318 |
| Total stockholders' equity | 306,095 | 325,443 |
| | \$362,401 | \$378,359 |

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 Months Ended April 5, 2015 and March 30, 2014
(Unaudited)
(In thousands except per share data)

| | Three Months Ended | |
|---|--------------------|-----------|
| | 2015 | 2014 |
| Net sales | \$ 100,999 | \$ 86,554 |
| Cost of sales | 80,120 | 70,834 |
| Gross profit | 20,879 | 15,720 |
| Selling and general expenses | 6,161 | 6,295 |
| Intangibles amortization | 2,394 | 2,443 |
| Operating profit | 12,324 | 6,982 |
| Other income | 75 | 164 |
| Earnings before provision for income taxes | 12,399 | 7,146 |
| Provision for income taxes | 4,290 | 2,456 |
| Net earnings | \$ 8,109 | \$ 4,690 |
| Weighted average shares outstanding: | | |
| Basic and diluted | 6,943 | 6,921 |
| Net earnings per share: | | |
| Basic and diluted | \$ 1.17 | \$ 0.68 |
| Comprehensive income: | | |
| Net earnings | \$ 8,109 | \$ 4,690 |
| Other comprehensive income, net of tax: | | |
| Unrealized gain on available-for-sale securities | 7 | 4 |
| Comprehensive income | \$ 8,116 | \$ 4,694 |
| Cash dividends declared and paid per common share | \$ 4.05 | \$ 5.05 |

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended April 5, 2015 and March 30, 2014
(Unaudited)
(Dollars in thousands)

| | 2015 | 2014 |
|--|-----------|-----------|
| Cash flows from operating activities: | | |
| Net earnings | \$8,109 | \$4,690 |
| Adjustments to reconcile net earnings to net cash provided by operating activities, net of acquisition related assets: | | |
| Provision for depreciation | 2,485 | 2,337 |
| Intangibles amortization | 2,394 | 2,443 |
| Provision for doubtful accounts | 6 | 180 |
| Noncash retirement plan expense | 231 | — |
| Other | 38 | 32 |
| Changes in: | | |
| Accounts receivable | 17,400 | 22,886 |
| Inventories | (4,171) | 1,597 |
| Other current assets | (8,737) | 3 |
| Accounts payable and accrued liabilities | (1,194) | (8,402) |
| Federal and state income taxes | 6,256 | (1,293) |
| Net cash provided by operating activities | 22,817 | 24,473 |
| Cash flows from investing activities: | | |
| Marketable securities purchased | (2,015) | (1,208) |
| Marketable securities - maturities and sales | 3,838 | 9,912 |
| Purchase of property, plant and equipment | (1,553) | (3,868) |
| Acquisition of businesses, net of cash acquired | — | (10,000) |
| Sale of property, plant and equipment | 22 | 300 |
| Net cash provided by (used in) investing activities | 292 | (4,864) |
| Cash flows from financing activities: | | |
| Dividends paid | (28,114) | (34,954) |
| Proceeds from sale of treasury stock | 323 | 362 |
| Other | (5) | — |
| Net cash used in financing activities | (27,796) | (34,592) |
| Net decrease in cash and cash equivalents | (4,687) | (14,983) |
| Cash and cash equivalents at beginning of period | 54,043 | 22,953 |
| Cash and cash equivalents at end of period | \$49,356 | \$7,970 |

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, 2014 is summarized from consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2014 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 Appliances | Defense Products | Absorbent Products | Total |
| Quarter ended April 5, 2015 | | | | |
| External net sales | \$23,293 | \$59,678 | \$18,028 | \$100,999 |
| Gross profit | 4,840 | 16,088 | (49) | 20,879 |
| Operating profit | 2,026 | 11,074 | (776) | 12,324 |
| Total assets | 152,892 | 144,208 | 65,301 | 362,401 |
| Depreciation and amortization | 235 | 3,035 | 1,609 | 4,879 |
| Capital expenditures | 132 | 34 | 1,387 | 1,553 |
| Quarter ended March 30, 2014 | | | | |
| External net sales | \$19,363 | \$48,289 | \$18,902 | \$86,554 |
| Gross profit | 3,789 | 11,305 | 626 | 15,720 |

Edgar Filing: NATIONAL PRESTO INDUSTRIES INC - Form 10-Q

| | | | | |
|-------------------------------|---------|---------|--------|---------|
| Operating profit | 944 | 6,027 | 11 | 6,982 |
| Total assets | 125,828 | 164,334 | 66,162 | 356,324 |
| Depreciation and amortization | 242 | 3,108 | 1,431 | 4,781 |
| Capital expenditures | 164 | 602 | 3,102 | 3,868 |

6

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 April 5, 2015 and December 31, 2014, 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 April 5, 2015.

| | (In Thousands) | | | |
|-----------------------------|-----------------------|------------|------------|------------|
| | MARKETABLE SECURITIES | | | |
| | Amortized | | Gross | Gross |
| | Cost | Fair Value | Unrealized | Unrealized |
| | | | Gains | Losses |
| April 5, 2015 | | | | |
| Tax-exempt Municipal Bonds | \$9,126 | \$9,132 | \$8 | \$2 |
| Variable Rate Demand Notes | 11,461 | 11,461 | — | — |
| Total Marketable Securities | \$20,587 | \$20,593 | \$8 | \$2 |
| December 31, 2014 | | | | |
| Tax-exempt Municipal Bonds | \$8,809 | \$8,804 | \$5 | \$10 |
| Variable Rate Demand Notes | 13,600 | 13,600 | — | — |
| Total Marketable Securities | \$22,409 | \$22,404 | \$5 | \$10 |

Proceeds from maturities and sales of available-for-sale securities totaled \$3,838,000 and \$9,912,000 for the three month periods ended April 5, 2015 and March 30, 2014, respectively. There were no gross gains or losses related to sales of marketable securities during the same periods. Net unrealized gains included in other comprehensive income were \$12,000 and \$7,000 before taxes for the three month periods ended April 5, 2015 and March 30, 2014, 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 April 5, 2015 are as follows: \$5,037,000 within one year; \$4,490,000 beyond one year to five years; \$6,481,000 beyond five years to ten years, and \$4,585,000 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 – BUSINESS ACQUISITION

On January 24, 2014, AMTEC Corporation, a wholly-owned subsidiary of the Company, purchased substantially all of the assets of Chemring Energetic Devices, Inc.'s business located in Clear Lake, South Dakota, and all of the real property owned by Technical Ordnance Realty, LLC. The Clear Lake facility is a manufacturer of detonators, booster pellets, release cartridges, lead azide, and other military energetic devices and materials. Its major customers include U.S. and foreign government agencies, AMTEC Corporation, and other defense contractors. The acquisition of the Clear Lake facility complements the Defense segment's existing line of products. The total consideration transferred was \$10,534,000, consisting of \$10,000,000 of cash paid at closing, and an additional cash payment of \$534,000, which was made during the second quarter of 2014.

The acquisition was accounted for under the acquisition method of accounting with the Company treated as the acquiring entity. Accordingly, the consideration paid by the Company to complete the acquisition has been recorded to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. The carrying values for current assets and liabilities were deemed to approximate their fair values due to the short-term nature of these assets and liabilities. The following table shows the amounts recorded as of the acquisition date.

| | (in thousands) |
|-----------------------------------|----------------|
| Receivables | \$ 1,498 |
| Inventory | 4,688 |
| Other current assets | 28 |
| Property, plant and equipment | 4,800 |
| Total assets acquired | 11,014 |
| Less: Current liabilities assumed | 480 |
| Net assets acquired | \$ 10,534 |

The amount shown above for receivables represents the gross accounts receivable from the sales of goods, net of an allowance for doubtful accounts of \$20,000.

The Company's statement of comprehensive income for the first quarter of 2014 includes revenue of \$2,015,000 and earnings of \$155,000 from the acquired facility from the date of acquisition. The following unaudited pro forma condensed consolidated results of operations has been prepared as if the acquisition had occurred as of the first day of the fiscal year prior to the fiscal year in which the acquisition was completed.

(unaudited)

(in thousands, except per share data)

| | Quarter Ended March 30, 2014 |
|---|---------------------------------|
| Net sales | \$ 87,189 |
| Net earnings | 4,410 |
| Net earnings per share (basic and diluted) | \$ 0.64 |
| Weighted average shares outstanding (basic and diluted) | 6,921 |

The unaudited pro forma financial information presented above is not intended to represent or be indicative of what would have occurred if the transactions had taken place on the dates presented and is not indicative of what the Company's actual results of operations would have been had the acquisitions been completed at the beginning of the periods indicated above. Further, the pro forma combined results reflect one-time costs to fully merge and operate the combined organization more efficiently, but do not reflect anticipated synergies expected to result from the combination and should not be relied upon as being indicative of the future results that the Company will experience.

NOTE I – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In May 2014, the FASB issued Accounting Standards Update ("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, 2016, if not deferred as discussed below. Early adoption is not permitted. 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. In April 2015, the FASB proposed a one-year deferral of the effective date of ASU 2014-09. If approved, the new standard will be effective for annual reporting periods beginning after December 15, 2017. 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 2014 Annual Report to Shareholders, in the Proxy Statement for the annual meeting to be held May 19, 2015, 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 First Quarter 2015 and 2014

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 April 5, 2015 and March 30, 2014.

The Company reports its operations on a fiscal quarter basis in which each quarter contains approximately thirteen weeks and ends on a Sunday, with the exception of the fourth quarter, which ends on December 31. Occasionally, the end dates of the fiscal quarters are adjusted to account for differences that accumulate between the end of the fiscal year and the end of the subsequent first quarter. One such adjustment occurred during the quarter ended April 5, 2015. As compared to the prior year's first quarter, the current quarter includes six additional days.

On a consolidated basis, sales increased by \$14,445,000 (17%), gross profit increased by \$5,159,000 (33%), selling and general expenses decreased by \$134,000 (2%), intangibles amortization decreased by \$49,000 (2%) and other income decreased by \$89,000 (54%). Earnings before the provision for income taxes increased by \$5,253,000 (74%), as did net earnings by \$3,419,000 (73%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by \$3,930,000 from \$19,363,000 to \$23,293,000, or 20%, chiefly attributable to an increase in shipments. Defense net sales increased by \$11,389,000 from \$48,289,000 to \$59,678,000, primarily reflecting an increase in units shipped. Absorbent Products net sales decreased by \$874,000 from \$18,902,000 to \$18,028,000, or 5%, which was primarily attributable to a reduction in shipments.

Edgar Filing: NATIONAL PRESTO INDUSTRIES INC - Form 10-Q

Housewares/Small Appliance gross profit increased \$1,051,000 from \$3,789,000 to \$4,840,000, primarily reflecting the increase in sales mentioned above. Defense gross profit increased \$4,783,000 from \$11,305,000 to \$16,088,000, primarily reflecting the increase in sales mentioned above, augmented by an improved product mix. Absorbent Products gross profit dropped from \$626,000 to a loss of \$49,000, primarily reflecting the decrease in sales mentioned above and costs associated with the installation and startup of new capital equipment.

Selling and general expenses for the Housewares/Small Appliance segment were essentially flat, decreasing \$31,000. Defense segment selling and general expenses decreased by \$215,000, primarily reflecting the absence of last year's increase in the provision for bad debts. Absorbent Products segment selling and general expenses increased \$112,000, which was primarily attributable to an increase in sales related costs reflecting the ongoing shift in the segment's customer base.

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

Earnings before provision for income taxes increased \$5,253,000 from \$7,146,000 to \$12,399,000. The provision for income taxes increased from \$2,456,000 to \$4,290,000, primarily reflecting an increase in taxable earnings. Net earnings increased \$3,419,000 from \$4,690,000 to \$8,109,000, or 73%.

Liquidity and Capital Resources

Net cash provided by operating activities was \$22,817,000 and \$24,473,000 for the three months ended April 5, 2015 and March 30, 2014, 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 three months of 2015 were net earnings of \$8,109,000, which included total non-cash depreciation and amortization expenses of \$4,879,000, a decrease in accounts receivable levels stemming from cash collections on customer sales, and a net increase in payable and accrual levels. These were partially offset by increases in inventory levels and deposits made with raw material suppliers included in other current assets. Of particular note during the first three months of 2014 were net earnings of \$4,690,000, which included total non-cash depreciation and amortization expenses of \$4,780,000, a decrease in accounts receivable levels stemming from cash collections on customer sales, and a decrease in inventory levels. These were partially offset by a decrease in payable and accrual levels.

Net cash provided by investing activities was \$292,000 during the first three months of 2015 as compared to \$4,864,000 used in investing activities during the first three months of 2014. The change in investing activity cash flow is primarily attributable to the acquisition of substantially all of the assets from Chemring Energetic Devices, Inc.'s business located in Clear Lake, South Dakota and the real property owned by Technical Ordnance Realty, LLC during the first quarter of 2014 mentioned above; a decrease in the acquisition of property, plant, and equipment; and a decrease in net proceeds from marketable securities activity.

Cash flows from financing activities for the first three months of 2015 and 2014 primarily differed as a result of the \$1.00 per share decrease in the extra dividend paid during those periods..

Working capital decreased by \$16,050,000 during the first three months of 2015 to \$192,191,000 at April 5, 2015 for the reasons stated above. The Company's current ratio was 4.7 to 1.0 at April 5, 2015 and 5.3 to 1.0 at December 31, 2014.

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 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.

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, customer relationships, trademarks, product backlogs, and consulting and non-compete agreements. 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.

12

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 1.2 years. 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 April 5, 2015. 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 April 5, 2015 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 April 5, 2015, 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: May 15, 2015

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 April 5, 2015, 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. |