NATIONAL PRESTO INDUSTRIES INC
Form 10-Q
August 10, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED July 1, 2012

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 x No o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

There were 6,884,038 shares of the Issuer s Common Stock outstanding as of August 1, 2012.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
July 1, 2012 and December 31, 2011
(Unaudited)
(Dollars in thousands)

	2012		2011	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents		$ 54,703		$ 73,995
Marketable securities		64,071		59,360
Accounts receivable, net		57,840		73,634
Inventories:				
Finished goods	$ 32,051		$ 32,759	
Work in process	45,017		50,462	
Raw materials	10,328	87,396	11,285	94,506
Deferred tax assets		6,140		6,140
Other current assets		24,319		21,270
Total current assets		294,469		328,905
PROPERTY, PLANT AND EQUIPMENT	128,445		121,608	
Less allowance for depreciation	62,322	66,123	57,340	64,268
GOODWILL		18,771		18,468
		$ 379,363		$ 411,641

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
July 1, 2012 and December 31, 2011
(Unaudited)
(Dollars in thousands)

	2012		2011	
LIABILITIES AND STOCKHOLDERS EQUITY				
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable		$ 39,860		$ 48,344
Federal and state income taxes				1,567
Accrued liabilities		16,324		16,035
Total current liabilities		56,184		65,946
DEFERRED INCOME TAXES		9,398		9,405
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	4,008		3,539	
Retained earnings	319,627		342,873	
Accumulated other comprehensive income	58		72	
	331,134		353,925	
Treasury stock, at cost	17,353		17,635	
Total stockholders equity		313,781		336,290
		$ 379,363		$ 411,641

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three Months and Six Months Ended July 1, 2012 and July 3, 2011
(Unaudited)
(In thousands except per share data)

	Three Months Ended		Six Months Ended	
	2012	**2011**	**2012**	**2011**
Net sales	$ 117,114	$ 98,268	$ 213,887	$ 207,154
Cost of sales	97,520	77,603	173,941	164,535
Gross profit	19,594	20,665	39,946	42,619
Selling and general expenses	6,039	4,294	11,753	9,109
Operating profit	13,555	16,371	28,193	33,510
Other income	8	485	121	1,025
Earnings before provision for income taxes	13,563	16,856	28,314	34,535
Income tax provision	4,860	6,039	10,267	12,355
Net earnings	$ 8,703	$ 10,817	$ 18,047	$ 22,180
Weighted average shares outstanding:				
Basic	6,882	6,871	6,879	6,868
Diluted	6,884	6,872	6,881	6,869
Net earnings per share:				
Basic	$ 1.26	$ 1.57	$ 2.62	$ 3.23
Diluted	$ 1.26	$ 1.57	$ 2.62	$ 3.23
Comprehensive income:				
Net earnings	$ 8,703	$ 10,817	$ 18,047	$ 22,180
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	(18)	11	(14)	(1)
Comprehensive income	$ 8,685	$ 10,828	$ 18,033	$ 22,179
Cash dividends declared and paid per common share	$ 0.00	$ 0.00	$ 6.00	$ 8.25

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended July 1, 2012 and July 3, 2011
(Unaudited)
(Dollars in thousands)

	2012	2011
Cash flows from operating activities:		
Net earnings	$ 18,047	$ 22,180
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for depreciation	4,988	4,266
Other	470	272
Changes in:		
Accounts receivable	16,089	33,150
Inventories	7,058	(4,797)
Other current assets	151	(9,858)
Accounts payable and accrued liabilities	(8,170)	(12,689)
Federal and state income taxes	(1,668)	(5,805)
Net cash provided by operating activities	36,965	26,719
Cash flows from investing activities:		
Marketable securities purchased	(14,988)	(25,838)
Marketable securities - maturities and sales	10,255	45,347
Acquisition of property, plant and equipment	(6,843)	(9,104)
Notes issued	(3,500)	(120)
Acquisition of business	(246)	0
Sale of property, plant and equipment	0	4
Net cash provided by (used in) investing activities	(15,322)	10,289
Cash flows from financing activities:		
Dividends paid	(41,292)	(56,665)
Other	357	439
Net cash used in financing activities	(40,935)	(56,226)
Net decrease in cash and cash equivalents	(19,292)	(19,218)
Cash and cash equivalents at beginning of period	73,995	49,719
Cash and cash equivalents at end of period	$ 54,703	$ 30,501

The accompanying notes are an integral part of the 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, 2011 is summarized from consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2011 Annual Report on Form 10-K. Interim results for the period are not indicative of those for the year.

NOTE B EARNINGS PER SHARE

Earnings per share was calculated using the two-class method, which is an earnings allocation formula that determines earnings per share for common shareholders and each participating security according to dividends declared and participation rights in undistributed earnings. Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share also includes the dilutive effect of additional potential common shares issuable under the Company s stock-based Incentive Compensation Plan, which are determined using the treasury stock method.

NOTE C 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 July 1, 2012				
External net sales	$ 23,371	$ 73,608	$ 20,135	$ 117,114
Gross profit	4,135	15,851	(392)	19,594
Operating profit	1,579	13,816	(1,840)	13,555
Total assets	206,698	105,526	67,139	379,363
Depreciation	258	796	1,500	2,554
Capital expenditures	417	180	1,753	2,350
Quarter ended July 3, 2011				
External net sales	$ 19,683	$ 53,799	$ 24,786	$ 98,268
Gross profit	3,246	16,659	760	20,665
Operating profit	999	15,072	300	16,371
Total assets	209,956	92,336	60,573	362,865
Depreciation	238	891	1,074	2,203
Capital expenditures	1,635	447	3,952	6,034

	(in thousands)			
	Housewares/ Small Appliances	Defense Products	Absorbent Products	Total
Six Months ended July 1, 2012				
External net sales	$ 48,063	$ 123,289	$ 42,535	$ 213,887
Gross profit	8,832	29,724	1,390	39,946
Operating profit	3,314	25,506	(627)	28,193
Total assets	206,698	105,526	67,139	379,363
Depreciation	524	1,597	2,867	4,988
Capital expenditures	665	201	5,977	6,843
Six Months ended July 3, 2011				
External net sales	$ 46,771	$ 113,283	$ 47,100	$ 207,154
Gross profit	8,680	32,022	1,917	42,619
Operating profit	3,902	28,671	937	33,510
Total assets	209,956	92,336	60,573	362,865
Depreciation	460	1,798	2,008	4,266
Capital expenditures	2,578	855	5,671	9,104

NOTE D - 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 E - 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 July 1, 2012 and December 31, 2011, 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 July 1, 2012.

(In Thousands)

	MARKETABLE SECURITIES			
	Amortized Cost	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**
July 1, 2012				
Tax-exempt Municipal Bonds	$ 28,047	$ 28,137	$ 96	$ 6
Variable Rate Demand Notes	35,934	35,934	0	0
Total Marketable Securities	$ 63,981	$ 64,071	$ 96	$ 6
December 31, 2011				
Tax-exempt Municipal Bonds	$ 26,214	$ 26,326	$ 128	$ 16
Variable Rate Demand Notes	33,034	33,034	0	0
Total Marketable Securities	$ 59,248	$ 59,360	$ 128	$ 16

Proceeds from maturities and sales of available-for-sale securities totaled $3,883,000 and $9,462,000 for the three month periods ended July 1, 2012 and July 3, 2011, and totaled $10,255,000 and $45,347,000 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 ($27,000) and $18,000 before taxes for the three month periods ended July 1, 2012 and July 3, 2011, and were ($22,000) and ($1,000) 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 1, 2012 are as follows: $6,803,000 within one year; $27,289,000 beyond one year to five years; $9,141,000 beyond five years to ten years, and $20,838,000 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 F   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 G ADOPTION OF NEW ACCOUNTING STANDARDS

In June 2011, the FASB issued ASU No. 2011-05, *Amendments to Topic 220, Comprehensive Income*. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. In December 2011, the FASB deferred the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income with the issuance of ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. Companies are required to either present amounts reclassified out of other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. The effective date of the deferral is consistent with the effective date of the ASU No. 2011-05. Except for the deferral of the presentation of reclassifications of items out of accumulated other comprehensive income, the Company adopted ASU 2011-5 retrospectively in the first quarter of 2012. The Company does not expect the adoption of the remaining deferred provisions of ASU 2011-05 to have a material impact on its consolidated financial statements.

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 2011 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held May 15, 2012, and in the Company s press releases and oral statements made with the approval of an authorized executive officer are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed herein and in the notes to consolidated financial statements, among the other factors that could cause actual results to differ materially are the following: consumer spending and debt levels; interest rates; continuity of relationships with and purchases by major customers; product mix; the benefit and risk of business acquisitions; competitive pressure on sales and pricing; development and market acceptance of new products; increases in material, freight/shipping, or production cost which cannot be recouped in product pricing; delays or interruptions in shipping or production; shipment of defective product which could result in product liability claims or recalls; work or labor disruptions stemming from a unionized work force; changes in government requirements, military spending, and funding of government contracts, which could result, among other things, in the modification or termination of existing contracts; dependence on subcontractors or vendors to perform as required by contract; the efficient start-up and utilization of capital equipment investments; and political actions of federal and state governments which could have an impact on everything from the value of the U.S dollar vis-à-vis other currencies to the availability of affordable labor and energy. Additional information concerning these and other factors is contained in the Company s Securities and Exchange Commission filings, copies of which are available from the Company without charge.

Comparison of Second Quarter 2012 and 2011

Readers are directed to Note C 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 1, 2012 and July 3, 2011.

On a consolidated basis, sales increased by $18,846,000 (19%), gross profit decreased by $1,071,000 (5%), selling and general expenses increased by $1,745,000 (41%), and other income decreased by $477,000 (98%). Earnings before the provision for income taxes decreased by $3,293,000 (20%), as did net earnings by $2,114,000 (20%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by $3,688,000 from $19,683,000 to $23,371,000, or 19%, 80% of which was attributable to an increase in unit shipments, with the balance stemming from an increase in prices. Defense net sales increased by $19,809,000 from $53,799,000 to $73,608,000, or 37%, primarily reflecting an increase in unit shipments. Absorbent Products net sales decreased by $4,651,000 from $24,786,000 to $20,135,000, reflecting a decrease in unit shipments, 65% of which related to the adult incontinence line of products. The balance of the decrease is attributable to a reduction of shipments and the deferral of revenue recognition on the sale of raw materials to an independent manufacturing facility due to ongoing financial issues at the facility.

Housewares/Small Appliance gross profits increased $889,000 from $3,246,000 to $4,135,000, or 27%, primarily due to the increase in sales mentioned above. Defense gross profits decreased $808,000 from $16,659,000 to $15,851,000, or 5%, largely reflecting a less favorable product mix and reduced margins related to the new five year 40mm contract, which were offset in significant part (88%) by the sales increase mentioned above. Absorbent Products gross profits decreased $1,152,000 from $760,000 to a loss of $392,000, reflecting lower production efficiencies incident to the installation of new equipment, cost increases on certain key commodities, and the decrease in sales mentioned above.

Selling and general expenses for the Housewares/Small Appliance segment increased by $309,000, primarily reflecting increases in self-insured product liability and employee benefit cost accruals. Defense segment selling and general expenses increased by $448,000, primarily reflecting on-going operational costs associated with the acquisition of a less than lethal manufacturing facility during the fourth quarter of 2011. The acquisition is more fully described in the Company s 2011 annual report on Form 10-K. Absorbent Products selling and general expenses increased by $988,000, primarily reflecting an increase in the segment s reserve for doubtful accounts.

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

Other income decreased $477,000, approximately half of which was due to lower interest income resulting from decreased yields on marketable securities, with the remainder primarily attributable to decreased net royalty income.

Earnings before provision for income taxes decreased $3,293,000 from $16,856,000 to $13,563,000. The provision for income taxes decreased from $6,039,000 to $4,860,000, primarily reflecting a decrease in taxable earnings. Net earnings decreased $2,114,000 from $10,817,000 to $8,703,000, or 20%.

Comparison of First Six Months 2012 and 2011

Readers are directed to Note C 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 1, 2012 and July 3, 2011.

On a consolidated basis, sales increased by $6,733,000 (3%), gross profit decreased by $2,673,000 (6%), selling and general expenses increased by $2,644,000 (29%), and other income decreased by $904,000 (88%). Earnings before the provision for income taxes decreased by $6,221,000 (18%), as did net earnings by $4,133,000 (19%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by $1,292,000 from $46,771,000 to $48,063,000, or 3%, primarily reflecting an increase in prices. Defense net sales increased by $10,006,000 from $113,283,000 to $123,289,000, or 9%, primarily reflecting an increase in unit shipments. Absorbent Products net sales decreased by $4,565,000 from $47,100,000 to $42,535,000, reflecting a decrease in unit shipments, 51% of which related to the adult incontinence line of products, with the balance attributable to a reduction of shipments and the deferral of revenue recognition on the sale of raw materials to an independent manufacturing facility due to ongoing financial issues at the facility.

Housewares/Small Appliance gross profits were essentially flat. Defense gross profits decreased $2,298,000 from $32,022,000 to $29,724,000, or 7%, largely reflecting a less favorable product mix and reduced margins related to the new five year 40mm contract, approximately 55% of which was offset by the sales increase mentioned above. Absorbent Products gross profits decreased $527,000 from $1,917,000 to $1,390,000, reflecting lower production efficiencies incident to the installation of new equipment and the decrease in sales mentioned above.

Selling and general expenses for the Housewares/Small Appliance segment increased by $740,000, primarily reflecting increases in self-insured product liability and employee benefit cost accruals. Defense segment selling and general expenses increased by $867,000, primarily reflecting on-going operational costs associated with the acquisition of a less than lethal manufacturing facility during the fourth quarter of 2011. The acquisition is more fully described in the Company s 2011 annual report on Form 10-K. Absorbent Products selling and general expenses increased by $1,037,000, primarily reflecting an increase in the segment s reserve for doubtful accounts.

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

Other income decreased $904,000, approximately half of which was due to lower interest income resulting from decreased yields on lower dollars of marketable securities invested, with the remainder largely attributable to decreased net royalty income.

Earnings before provision for income taxes decreased $6,221,000 from $34,535,000 to $28,314,000. The provision for income taxes decreased from $12,355,000 to $10,267,000, primarily reflecting a decrease in taxable earnings. Net earnings decreased $4,133,000 from $22,180,000 to $18,047,000, or 19%.

Liquidity and Capital Resources

Net cash provided by operating activities was $36,965,000 and $26,719,000 for the six months ended July 1, 2012 and July 3, 2011, 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 2012 were net earnings of $18,047,000; a decrease in accounts receivable levels stemming from cash collections on customer sales; and a decrease in inventory levels, partially offset by decreases in payable and accrual levels. Of particular note during the first six months of 2011 were net earnings of $22,180,000; a decrease in accounts receivable levels stemming from cash collections on customer sales, partially offset by an increase in inventory levels and deposits made with raw material suppliers included in other current assets; and decreases in payable and accrual levels.

Net cash used in investing activities was $15,322,000 during the first six months of 2012 compared to $10,289,000 provided by investing activities during the first six months of 2011. The change in investing activity cash flow is primarily attributable to an increase in net purchases of marketable securities and to a lesser extent an increase in notes issued, partially offset by a decrease in net acquisition of property, plant, and equipment.

Cash flows from financing activities for the first six months of 2012 and 2011 primarily differed as a result of the $2.25 per share decrease in the extra dividend paid during those periods.

Working capital decreased by $24,674,000 to $238,285,000 at July 1, 2012 for the reasons stated above. The Company s current ratio was 5.3 to 1.0 at July 1, 2012 and 5.0 to 1.0 at December 31, 2011.

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

The Company has substantial liquidity in the form of cash and short-term maturity marketable securities to meet all of its anticipated capital requirements, to make dividend payments, and to fund growth through acquisitions and other means. The bulk of its marketable securities are invested in the tax exempt variable rate demand notes described above and in municipal bonds that are pre-refunded with escrowed U.S. Treasuries. The Company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings. Comparative yields during the first six months of 2012 were lower than those in the first six months of the preceding year, reflecting an increase in lower yielding instruments in the Company s investment holdings as higher yielding instruments have matured and been replaced. The lower yields served to decrease interest income. The interest rate environment is a function of national and international monetary policies as well as the growth and inflation rates of the U.S. and foreign economies and is not controllable by the Company.

Critical Accounting Policies

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

Inventories
New Housewares/Small Appliance product introductions are an important part of the Company s sales to offset the morbidity rate of other Housewares/Small Appliance products and/or the effect of lowered acceptance of seasonal products due to weather conditions. New products entail unusual risks and have occasionally in the past resulted in losses related to obsolete or excess inventory as a result of low or diminishing demand for a product. There were no such obsolescence issues that had a material effect during the 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 they reach a specified threshold. The Company s insurance coverage varies from policy year to policy year, and there are typically limits on all types of insurance coverage, which also vary from policy year to policy year. Accordingly, the Company records an accrual for known claims and 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.

New Accounting Pronouncements

Please refer to Note G in the Notes to the Consolidated Financial Statements for information related to the effect of adopting new accounting pronouncements on the Company s consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s interest income on cash equivalents and marketable securities is affected by changes in interest rates in the United States. Cash equivalents primarily consist of money market funds. Based on the accounting profession s 2005 interpretation of cash equivalents under FASB ASC Topic 230, the Company s seven-day variable rate demand notes are classified as marketable securities rather than as cash equivalents. The demand notes are highly liquid instruments with interest rates set every 7 days that can be tendered to the trustee or remarketer upon 7 days notice for payment of principal and accrued interest amounts. The 7-day tender feature of these variable rate demand notes is further supported by an irrevocable letter of credit from highly rated U.S. banks. To the extent a bond is not remarketed at par plus accrued interest, the difference is drawn from the bank s letter of credit. The Company has had no issues tendering these notes to the trustees or remarketers. Other than a failure of a major U.S. bank, there are no risks of which the Company is aware that relate to these notes in the current market. The balance of the Company s investments is held primarily in fixed and variable rate municipal bonds with a weighted average life of 1.8 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. The Company s manufacturing contracts with its foreign suppliers contain provisions to share the impact of fluctuations in the exchange rate between the U.S. dollar and the Hong Kong dollar above and below a fixed range contained in the contracts. All transactions with the foreign suppliers were within the exchange rate range specified in the contracts during 2011 and through the end of the second quarter of 2012. There is no similar provision applicable to the Chinese Renminbi (RMB), which until 2005 had been tied to the U.S. Dollar. To the extent there are further revaluations of the RMB vis-à-vis the U.S. dollar, it is anticipated that any potential material impact from such revaluations will be to the cost of products secured via purchase orders issued subsequent to the revaluation.

ITEM 4. CONTROLS AND PROCEDURES

The Company s management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the 1934 Act) as of July 1, 2012. The Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of that date.

There were no changes to internal controls over financial reporting during the quarter ended July 1, 2012 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 F 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 1, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.*

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

SIGNATURES

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

NATIONAL PRESTO INDUSTRIES, INC.

Date: August 10, 2012

/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

National Presto Industries, Inc.
Exhibit Index

Exhibit Number	Exhibit Description
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