

NATIONAL PRESTO INDUSTRIES INC
Form 10-Q
August 12, 2011

**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 July 3, 2011**
- 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)

**3925 NORTH HASTINGS WAY
EAU CLAIRE, WISCONSIN**
(Address of principal executive offices)

39-0494170
(I.R.S. Employer Identification No.)

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

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There were 6,872,028 shares of the Issuer's Common Stock outstanding as of August 1, 2011.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

July 3, 2011 and December 31, 2010

(Unaudited)

(Dollars in thousands)

| | 2011 | | 2010 | |
|---------------------------------|------|---------|--------|---------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ | 30,501 | \$ | 49,719 |
| Marketable securities | | 81,496 | | 101,005 |
| Accounts receivable, net | | 57,965 | | 91,115 |
| Inventories: | | | | |
| Finished goods | \$ | 43,033 | \$ | 37,144 |
| Work in process | | 32,208 | | 37,040 |
| Raw materials | | 12,688 | 87,929 | 8,948 |
| Deferred tax assets | | | 6,268 | 6,268 |
| Other current assets | | 24,279 | | 14,301 |
| Total current assets | | 288,438 | | 345,540 |
| PROPERTY, PLANT AND EQUIPMENT | | 116,149 | | 107,099 |
| Less allowance for depreciation | | 53,207 | 62,942 | 48,991 |
| GOODWILL | | | 11,485 | 11,485 |
| | \$ | 362,865 | \$ | 415,133 |

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

July 3, 2011 and December 31, 2010

(Unaudited)

(Dollars in thousands)

| | 2011 | 2010 |
|--|------------|------------|
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 32,555 | \$ 44,298 |
| Federal and state income taxes | | 5,859 |
| Accrued liabilities | 15,601 | 16,572 |
| Total current liabilities | 48,156 | 66,729 |
| DEFERRED INCOME TAXES | 4,467 | 4,467 |
| 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 | 3,315 | 2,738 |
| Retained earnings | 317,086 | 351,571 |
| Accumulated other comprehensive income | 128 | 129 |
| | 327,970 | 361,879 |
| Treasury stock, at cost | 17,728 | 17,942 |
| Total stockholders equity | 310,242 | 343,937 |
| | \$ 362,865 | \$ 415,133 |

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

Three Months and Six Months Ended July 3, 2011 and July 4, 2010

(Unaudited)

(In thousands except per share data)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | \$ 98,268 | \$ 117,075 | \$ 207,154 | \$ 223,475 |
| Cost of sales | 77,603 | 90,558 | 164,535 | 172,371 |
| Gross profit | 20,665 | 26,517 | 42,619 | 51,104 |
| Selling and general expenses | 4,294 | 3,311 | 9,109 | 7,833 |
| Operating profit | 16,371 | 23,206 | 33,510 | 43,271 |
| Other income | 485 | 636 | 1,025 | 1,389 |
| Earnings before provision for income taxes | 16,856 | 23,842 | 34,535 | 44,660 |
| Income tax provision | 6,039 | 8,867 | 12,355 | 16,486 |
| Net earnings | \$ 10,817 | \$ 14,975 | \$ 22,180 | \$ 28,174 |
| Weighted average shares outstanding: | | | | |
| Basic | 6,871 | 6,862 | 6,868 | 6,860 |
| Diluted | 6,874 | 6,863 | 6,871 | 6,861 |
| Net earnings per share: | | | | |
| Basic | \$ 1.57 | \$ 2.18 | \$ 3.23 | \$ 4.11 |
| Diluted | \$ 1.57 | \$ 2.18 | \$ 3.23 | \$ 4.11 |
| Cash dividends declared and paid per common share | \$ | \$ | \$ 8.25 | \$ 8.15 |

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

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

Six Months Ended July 3, 2011 and July 4, 2010

(Unaudited)

(Dollars in thousands)

| | 2011 | 2010 |
|--|-----------|-----------|
| Cash flows from operating activities: | | |
| Net earnings | \$ 22,180 | \$ 28,174 |
| Adjustments to reconcile net earnings to net | | |
| Cash provided by (used in) operating activities: | | |
| Provision for depreciation | 4,266 | 4,375 |
| Other | 272 | (574) |
| Changes in: | | |
| Accounts receivable | 33,150 | 37,711 |
| Inventories | (4,797) | (13,489) |
| Other current assets | (9,858) | (11,294) |
| Accounts payable and accrued liabilities | (12,689) | (3,460) |
| Federal and state income taxes | (5,805) | (5,825) |
| Net cash provided by operating activities | 26,719 | 35,618 |
| Cash flows from investing activities: | | |
| Marketable securities purchased | (25,838) | (37,122) |
| Marketable securities - maturities and sales | 45,347 | 44,284 |
| Acquisition of property, plant and equipment | (9,104) | (6,405) |
| Sale of property, plant and equipment | 4 | 1,362 |
| Other | (120) | (1,500) |
| Net cash provided by investing activities | 10,289 | 619 |
| Cash flows from financing activities: | | |
| Dividends paid | (56,665) | (55,889) |
| Other | 439 | 408 |
| Net cash used in financing activities | (56,226) | (55,481) |
| Net decrease in cash and cash equivalents | (19,218) | (19,244) |
| Cash and cash equivalents at beginning of period | 49,719 | 48,974 |
| Cash and cash equivalents at end of period | \$ 30,501 | \$ 29,730 |

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

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

NOTE A EARNINGS PER SHARE

The Company's basic net earnings per share amounts have been computed by dividing net earnings by the weighted average number of outstanding common shares. The Company's diluted net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares and common share equivalents, when dilutive.

NOTE B RECLASSIFICATIONS

Certain reclassifications have been made to the prior period's 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 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 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 |
| Quarter ended July 4, 2010 | | | | |
| External net sales | \$ 25,906 | \$ 72,102 | \$ 19,067 | \$ 117,075 |
| Gross profit | 5,726 | 19,113 | 1,678 | 26,517 |
| Operating profit | 3,187 | 17,459 | 2,560 | 23,206 |
| Total assets | 232,595 | 92,484 | 41,734 | 366,813 |
| Depreciation | 239 | 911 | 1,044 | 2,194 |
| Capital expenditures | 189 | 406 | 1,151 | 1,746 |

| | (in thousands) | | | |
|--------------------------------------|------------------------------------|---------------------|-----------------------|------------|
| | Housewares/ Small Appliances | Defense Products | Absorbent Products | Total |
| 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 |
| Six Months ended July 4, 2010 | | | | |
| External net sales | \$ 54,914 | \$ 128,910 | \$ 39,651 | 223,475 |
| Gross profit | 12,606 | 33,757 | 4,741 | 51,104 |
| Operating profit | 7,687 | 30,351 | 5,233 | 43,271 |
| Total assets | 232,595 | 92,484 | 41,734 | 366,813 |
| Depreciation | 462 | 1,826 | 2,087 | 4,375 |
| Capital expenditures | 670 | 1,157 | 4,578 | 6,405 |

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 and certificates of deposit. The Company deposits its cash in high quality financial institutions. The balances, at times, may exceed federally insured limits. Certificates of deposits are reported at par value, and 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. Also included are certificates of deposit.

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At July 3, 2011 and December 31, 2010, 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 3, 2011.

| | (In Thousands) | | MARKETABLE SECURITIES | | Gross |
|-----------------------------|----------------|------------|-----------------------|------------|------------|
| | Amortized | Fair Value | Gross | Unrealized | Unrealized |
| | Cost | Fair Value | Unrealized | Gains | Losses |
| July 3, 2011 | | | | | |
| Tax-exempt Municipal Bonds | \$ 46,888 | \$ 47,086 | \$ 270 | | \$ 72 |
| Variable Rate Demand Notes | 34,410 | 34,410 | 0 | | 0 |
| Total Marketable Securities | \$ 81,298 | \$ 81,496 | \$ 270 | | \$ 72 |
| December 31, 2010 | | | | | |
| Tax-exempt Municipal Bonds | \$ 62,339 | \$ 62,537 | \$ 354 | | \$ 156 |
| Variable Rate Demand Notes | 37,779 | 37,779 | 0 | | 0 |
| Certificates of Deposit | 689 | 689 | 0 | | 0 |
| Total Marketable Securities | \$ 100,807 | \$ 101,005 | \$ 354 | | \$ 156 |

Proceeds from sales of available-for-sale securities totaled \$9,462,000 and \$28,985,000 for the three month periods ended July 3, 2011 and July 4, 2010, and totaled \$45,347,000 and \$44,284,000 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 accumulated other comprehensive income were \$18,000 and \$35,000 before taxes for the three month periods ended July 3, 2011 and July 4, 2010, and were (\$1,000) and (\$283,000) before taxes for the six month periods then ended, respectively. No unrealized gains (losses) were reclassified out of accumulated other comprehensive income during the same periods.

The contractual maturities of the marketable securities held at July 3, 2011 are as follows: \$18,485,000 within one year; \$32,210,000 beyond one year to five years; \$15,068,000 beyond five years to ten years, and \$15,733,000 beyond ten years. All of the instruments in the beyond five year ranges, with the exception of \$3,907,000 of tax-exempt municipal bonds with maturities between five and six years, 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 ACCUMULATED OTHER COMPREHENSIVE INCOME

The \$128,000 of accumulated comprehensive income at July 3, 2011 reflects the unrealized gain, net of tax, of available-for-sale marketable security investments. Total comprehensive income net of tax effect was \$10,828,000 and \$14,998,000 for the three month periods ended July 3, 2011 and July 4, 2010, and \$22,179,000 and \$27,991,000 for the six month periods then ended, respectively.

NOTE H ADOPTION OF NEW ACCOUNTING STANDARDS

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*, to provide amendments to Subtopic 820-10 that require new disclosures about transfers into and out of Level 1 and Level 2 of the fair value hierarchy and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. Specifically, for assets and liabilities that are measured at fair value on a recurring basis in periods after initial recognition (e.g., trading securities), this ASU requires: separate disclosure of the amount of significant transfers between Levels 1 and 2 and a description of the reasons for the transfers; and separate information about purchases, sales, issuances, and settlements, on a gross basis, in the reconciliation of Level 3 fair value measurements valued using significant unobservable inputs. ASU 2010-06 clarifies existing disclosures as follows:

Level of disaggregation: An entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. An entity needs to use judgment in determining the appropriate classes of assets and liabilities.

Disclosures about inputs and valuations techniques: An entity should provide disclosures about the valuation techniques (i.e., the income, market, or cost approaches) and input used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

ASU 2010-06 also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20), which include a change in terminology from *major categories* of assets to *classes* of assets and a cross-reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. This ASU is effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures about purchases, sales, issuance and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, comparative disclosures are required for periods ending after initial adoption. Early adoption is permitted. Except for the separate disclosures about purchases, sales, issuance and settlements in the roll forward of activity in Level 3 fair value measurements, the Company adopted ASU 2010-06 during the first quarter of 2010, which did not have a material effect on the Company's consolidated financial statements. The Company adopted the separate disclosures about purchases, sales, issuance and settlements in the roll forward of activity in Level 3 fair value measurements during the first quarter of 2011, which did not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company will adopt the methodologies prescribed by ASU 2011-04 by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

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. The Company will adopt ASU 2011-5 retrospectively by the required date.

NOTE 1 PENSION PLAN

Prior to 2009, the Company contributed to a union-sponsored, multi-employer pension plan on behalf of union employees of the Amron division of its AMTEC subsidiary in accordance with the applicable union labor agreement. In December 2008, the union membership voted in favor of a withdrawal from the plan, and an amendment was made to the labor agreement authorizing the withdrawal. In December 2008, the Company permanently ceased to be obligated to contribute to the multi-employer pension plan, and instead agreed to contribute to a Company 401(k) Plan.

In a letter dated March 30, 2009, the pension plan provided Amron with documentation stating that the cost to withdraw from the plan was \$238,509. In April 2009, a payment representing the settlement of the withdrawal liability was made in the same amount. However, should all participants in the plan withdraw before the end of 2010, some portion of the plan liability could be reallocated to AMTEC. If that were to occur, AMTEC might be assessed retroactively for an additional withdrawal charge. No notice of such a withdrawal has been received. The amount of a potential additional withdrawal charge, if any, cannot be currently estimated. The Company charged the cost of the withdrawal to operations in 2008.

The foregoing information for the periods ended July 3, 2011, and July 4, 2010, is unaudited; however, in the opinion of management of the Registrant, it reflects all the adjustments, which were of a normal recurring nature, necessary for a fair statement of the results for the interim periods. The condensed consolidated balance sheet as of December 31, 2010 is summarized from consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2010 annual report on Form 10-K. Interim results for the period are not indicative of those for the year.

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 2010 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held May 17, 2011, 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 2011 and 2010

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 3, 2011 and July 4, 2010.

On a consolidated basis, sales decreased by \$18,807,000 (16%), gross profit decreased by \$5,852,000 (22%), selling and general expenses increased by \$983,000 (30%), and other income decreased by \$151,000 (24%). Earnings before the provision for income taxes decreased by \$6,986,000 (29%), as did net earnings by \$4,158,000 (28%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by \$6,223,000 from \$25,906,000 to \$19,683,000, or 24%, primarily as a result of a decrease in unit shipments. Defense net sales decreased by \$18,303,000 from \$72,102,000 to \$53,799,000, or 25%, primarily reflecting a decrease in unit shipments. Absorbent Products net sales increased by \$5,719,000 from \$19,067,000 to \$24,786,000, or 30%, reflecting an increase in shipments, 71% of which related to the adult incontinence line of products, with the balance related to the sale of raw materials to an independent manufacturing facility.

Housewares/Small Appliance gross profits decreased \$2,480,000 from \$5,726,000 to \$3,246,000, or 43%, approximately one-half of which related to the decrease in sales mentioned above, with the balance reflecting increased commodity and freight costs. Defense gross profits decreased \$2,454,000 from \$19,113,000 from the prior year's quarter to \$16,659,000, or 13%, due to the sales decrease mentioned above, as well as increases in material and freight costs. The margin decline was offset in part by efficiencies and a more favorable product mix realized during the quarter. Absorbent Products gross profits decreased \$918,000 from \$1,678,000 to \$760,000, or 55%, reflecting increased commodity and freight costs and lower efficiencies incident to the installation of new capital equipment, offset in part by the sales increase mentioned above.

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Selling and general expenses for the Housewares/Small Appliance segment decreased \$292,000, primarily reflecting changes in self-insured product liability accruals. Defense segment selling and general expenses were flat. Absorbent Products selling and general expenses increased \$1,342,000, primarily reflecting the absence of the prior year's gains on the sale of obsolete equipment.

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

Other income decreased \$151,000 due primarily to lower interest income resulting from decreased yields.

Earnings before provision for income taxes decreased \$6,986,000 from \$23,842,000 to \$16,856,000. The provision for income taxes decreased from \$8,867,000 to \$6,039,000, primarily reflecting a decrease in earnings. Net earnings decreased \$4,158,000 from \$14,975,000 to \$10,817,000, or 28%.

Comparison of First Six Months 2011 and 2010

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 3, 2011 and July 4, 2010.

On a consolidated basis, sales decreased by \$16,321,000 (7%), gross profit decreased by \$8,485,000 (17%), selling and general expenses increased by \$1,276,000 (16%), and other income decreased by \$364,000 (26%). Earnings before the provision for income taxes decreased by \$10,125,000 (23%), as did net earnings by \$5,994,000 (21%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by \$8,143,000 from \$54,914,000 to \$46,771,000, or 15%, primarily as a result of a decrease in unit shipments. Defense net sales decreased by \$15,627,000 from \$128,910,000 to \$113,283,000, or 12%, primarily reflecting a decrease in unit shipments. Absorbent Products net sales increased by \$7,449,000 from \$39,651,000 to \$47,100,000, or 19%, reflecting an increase in shipments, 67% of which related to the adult incontinence line of products, with the balance related to the sale of raw materials to an independent manufacturing facility.

Housewares/Small Appliance gross profits decreased \$3,926,000 from \$12,606,000 to \$8,680,000, or 31%, approximately one-half of which related to the decrease in sales mentioned above, with the balance reflecting increased commodity and freight costs. Defense gross profits decreased \$1,735,000 from \$33,757,000 from the prior year's quarter to \$32,022,000, or 5%, reflecting the decrease in sales mentioned above, offset in part by efficiencies and a more favorable product mix realized during the half. Absorbent Products gross profits decreased \$2,824,000 from \$4,741,000 to \$1,917,000, reflecting increased commodity and freight costs and lower efficiencies, offset in part by the sales increase mentioned above.

Selling and general expenses for the Housewares/Small Appliance segment decreased \$141,000, primarily reflecting changes in self-insured product liability accruals of \$293,000, offset by an increase in employee benefit cost accruals. Defense segment selling and general expenses were flat. Absorbent Products selling and general expenses increased \$1,472,000, primarily reflecting the absence of the prior year's gains (\$1,351,000) on the sale of obsolete equipment.

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

Other income decreased \$364,000, due primarily to lower interest income resulting from decreased yields.

Earnings before provision for income taxes decreased \$10,125,000 from \$44,660,000 to \$34,535,000. The provision for income taxes decreased from \$16,486,000 to \$12,355,000, primarily reflecting a decrease in earnings. Net earnings decreased \$5,994,000 from \$28,174,000 to \$22,180,000, or 21%.

Liquidity and Capital Resources

Net cash provided by operating activities was \$26,719,000 and \$35,618,000 for the six months ended July 3, 2011 and July 4, 2010, respectively. The principal factors contributing to the decrease can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during the first six months of 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. Of particular note during the first six months of 2010 were net earnings of \$28,174,000; a decrease in accounts receivable levels stemming from cash collections on customer sales, partially offset by an increase in inventory levels and deposits with suppliers included in other current assets; and decreases in payable and accrual levels.

Net cash provided by investing activities during the first six months of 2011 was \$10,289,000, as compared to \$619,000 during the first six months of 2010. The change in investing activity cash flow is attributable to an increase in net maturities/sales of marketable securities, partially offset by an increase in the acquisition of property, plant and equipment.

Cash flows from financing activities for the first six months of 2011 and 2010 primarily differed as a result of the \$0.10 per share increase in the extra dividend paid during those periods.

Working capital decreased by \$38,529,000 to \$240,282,000 at July 3, 2011 for the reasons stated above. The Company's current ratio was 6.0 to 1.0 at July 3, 2011 and 5.2 to 1.0 at December 31, 2010.

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 2011 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 year 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 H 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 2.0 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.

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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 2010 and through the end of the second quarter of 2011. 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 3, 2011. 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 in internal controls over financial reporting during the quarter ended July 3, 2011 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 11 | Statement regarding computation of per share earnings |
| 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, 2011, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Earnings, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements (tagged as blocks of text).* |

*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 12, 2011

/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

| | |
|------|---|
| 11 | Computation of Earnings per Share |
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