

NATIONAL PRESTO INDUSTRIES INC
Form 10-Q
May 15, 2009

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, 2009

☐ 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 6,854,663 shares of the Issuer's Common Stock outstanding as of May 3, 2009.

PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

April 5, 2009 and December 31, 2008

(Unaudited)

(Dollars in thousands)

| | 2009 | | 2008 | |
|--------------------------------------|-------------|---------|-------------|---------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ | 19,347 | \$ | 24,692 |
| Marketable securities | | 129,507 | | 121,217 |
| Accounts receivable, net | | 50,921 | | 75,594 |
| Inventories: | | | | |
| Finished goods | \$ | 26,944 | \$ | 30,222 |
| Work in process | | 38,458 | | 33,976 |
| Raw materials | | 7,428 | 72,830 | 7,522 |
| Deferred tax assets | | | 4,442 | 4,539 |
| Other current assets | | | 1,433 | 1,754 |
| Total current assets | | 278,480 | | 299,516 |
| PROPERTY, PLANT AND EQUIPMENT | | | | |
| | | 94,723 | | 93,998 |
| Less allowance for depreciation | | 41,435 | 53,288 | 39,266 |
| | | | | 54,732 |

| | | |
|--------------|------------|------------|
| GOODWILL | 11,485 | 11,485 |
| OTHER ASSETS | | 150 |
| | \$ 343,253 | \$ 365,883 |

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

April 5, 2009 and December 31, 2008

(Unaudited)

(Dollars in thousands)

| | 2009 | | 2008 |
|--|-----------|--|-----------|
| LIABILITIES | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 37,159 | | \$ 32,325 |
| Federal and state income taxes | 4,148 | | 4,217 |
| Accrued liabilities | 14,588 | | 15,347 |
| Total current liabilities | 55,895 | | 51,889 |
| DEFERRED INCOME TAXES | 3,389 | | 3,389 |
| 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 | 1,872 | | 1,735 |
| Retained earnings | 292,208 | | 319,362 |
| Accumulated other comprehensive income | 717 | | 536 |

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| | | | | |
|----------------------------|---------|------------|--|------------|
| | 302,238 | 329,074 | | |
| Treasury stock, at cost | 18,269 | 18,469 | | |
| Total stockholders' equity | | 283,969 | | 310,605 |
| | | \$ 343,253 | | \$ 365,883 |

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

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
Three Months Ended April 5, 2009 and March 30, 2008
(Unaudited)
(In thousands except per share data)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | 2009 | 2008 |
| Net sales | \$ 107,926 | \$ 77,145 |
| Cost of sales | 88,268 | 64,207 |
| Gross profit | 19,658 | 12,938 |
| Selling and general expenses | 4,081 | 4,178 |
| Operating profit | 15,577 | 8,760 |
| Other income | 1,109 | 1,370 |
| Earnings before provision for income taxes | 16,686 | 10,130 |
| Income tax provision | 5,832 | 3,880 |
| Net earnings | \$ 10,854 | \$ 6,250 |
| Weighted average shares outstanding: | | |
| Basic | 6,849 | 6,840 |
| Diluted | 6,849 | 6,840 |
| Net earnings per share: | | |
| Basic | \$ 1.58 | \$ 0.91 |
| Diluted | \$ 1.58 | \$ 0.91 |
| Cash dividends declared and paid per common share | \$ 5.55 | \$ 4.25 |

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended April 5, 2009 and March 30, 2008

(Unaudited)

(Dollars in thousands)

| | 2009 | | 2008 |
|---|-----------|----|-----------|
| Cash flows from operating activities: | | | |
| Net earnings | \$ 10,854 | \$ | 6,250 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | | |
| Provision for depreciation | 2,170 | | 2,163 |
| Other | 21 | | 600 |
| Changes in: | | | |
| Accounts receivable | 24,673 | | 38,619 |
| Inventories | (1,110) | | (10,845) |
| Other current assets | 321 | | 288 |
| Accounts payable and accrued liabilities | 4,075 | | (20,915) |
| Federal and state income taxes | (69) | | (3,220) |
| Net cash provided by operating activities | 40,935 | | 12,940 |
| Cash flows from investing activities: | | | |
| Marketable securities purchased | (30,189) | | (45,754) |
| Marketable securities - maturities and sales | 22,400 | | 44,227 |
| Acquisition of property, plant and equipment | (726) | | (1,069) |
| Net cash used in investing activities | (8,515) | | (2,596) |
| Cash flows from financing activities: | | | |
| Dividends paid | (38,008) | | (29,067) |
| Other | 243 | | 190 |
| Net cash used in financing activities | (37,765) | | (28,877) |
| Net decrease in cash and cash equivalents | (5,345) | | (18,533) |
| Cash and cash equivalents at beginning of period | 24,692 | | 26,715 |
| Cash and cash equivalents at end of period | \$ 19,347 | \$ | 8,182 |

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 relating to stock options, 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 (loss) represents earnings (loss) 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, 2009 | | | | |
| External net sales | \$ 24,120 | \$ 65,171 | \$ 18,635 | \$ 107,926 |
| Gross profit (loss) | 3,870 | 15,047 | 741 | 19,658 |
| Operating profit (loss) | 1,829 | 13,269 | 479 | 15,577 |
| Total assets | 199,282 | 106,864 | 37,107 | 343,253 |
| Depreciation | 213 | 870 | 1,087 | 2,170 |
| Capital expenditures | 249 | 359 | 118 | 726 |
| Quarter ended March 30, 2008 | | | | |
| External net sales | \$ 19,373 | \$ 42,894 | \$ 14,878 | \$ 77,145 |
| Gross profit (loss) | 3,854 | 8,935 | 149 | 12,938 |
| Operating profit (loss) | 1,744 | 7,151 | (135) | 8,760 |
| Total assets | 183,747 | 99,609 | 45,384 | 328,740 |

| | | | | |
|----------------------|-----|-----|-------|-------|
| Depreciation | 196 | 757 | 1,210 | 2,163 |
| Capital expenditures | 111 | 945 | 13 | 1,069 |

NOTE D - 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 Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*).

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, 2009 and December 31, 2008, 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 table below. Fair values are determined using significant other observable inputs (Level 2, as defined by Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*), which include quoted prices in markets that are not active, quoted prices of similar securities, or other inputs that are observable.

| (In Thousands) | | | | |
|-----------------------------------|---------------------------|-------------------|---------------------------------------|--|
| MARKETABLE SECURITIES | | | | |
| | Amortized Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
| April 5, 2009 | | | | |
| Tax-exempt Government Bonds | \$ 128,404 | \$129,507 | \$1,121 | \$18 |
| December 31, 2008 | | | | |
| Tax-exempt Government Bonds | \$ 120,392 | \$121,217 | \$ 833 | \$ 8 |

Proceeds from sales of marketable securities totaled \$22,400,000 for the quarter ended April 5, 2009. There were no gross gains or losses related to sales of marketable securities during the same period. Net unrealized gains are reported as a separate component of accumulated other comprehensive income and were gains of \$278,000 before taxes for the quarter ended April 5, 2009. No unrealized gains were reclassified out of accumulated other comprehensive income during the same period.

The contractual maturities of the marketable securities held at April 5, 2009 are as follows: \$39,372,000 within one year; \$48,350,000 beyond one year to five years; \$14,433,000 beyond five years to ten years, and \$27,352,000 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 E COMMITMENTS AND CONTINGENCIES

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

NOTE F ACCUMULATED OTHER COMPREHENSIVE INCOME

The \$717,000 of accumulated comprehensive income at April 5, 2009 reflects the unrealized gain, net of tax, of available-for-sale marketable security investments. Total comprehensive income net of tax effect was \$11,035,000 and \$6,476,000 for the three-month periods ended April 5, 2009 and March 30, 2008, respectively.

NOTE G ADOPTION OF NEW ACCOUNTING STANDARDS

FASB 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157") which defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS 157 requires companies to provide additional disclosures based on that hierarchy. SFAS 157 was to be effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In

February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, which delayed for one year the applicability of SFAS 157's fair-value measurements to certain nonfinancial assets and liabilities. The Company adopted SFAS 157 as of January 1, 2008, except as it applies to those nonfinancial assets and liabilities affected by the one-year delay. The Company adopted SFAS 157 for certain nonfinancial assets and liabilities as of January 1, 2009. The financial assets of the Company are primarily comprised of cash equivalents, whose fair value was measured using Level 1 observable inputs, and marketable securities, whose fair value was measured using Level 2 observable inputs. The adoption of SFAS 157 did not have a material impact on the Company's consolidated financial position or results of operations.

FSP 157-3

In October 2008, the FASB issued FASB Staff Position 157-3 *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a significant impact on the Company's consolidated financial statements.

FASB 141(R)

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (revised 2007) *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. SFAS 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) to have a material impact on its current consolidated financial position and results of operations. However, depending upon the size, nature and complexity of future acquisition transactions, the adoption of SFAS 141(R) could materially impact the Company's consolidated financial statements.

FASB 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* ("FAS 160"), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008. The Company does not have any noncontrolling interests and, accordingly, the adoption of SFAS No. 160 did not have a material impact on the Company's consolidated financial position or results of operations.

FASB 161

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* – an amendment of SFAS No. 133 – to enhance disclosures about an entity’s derivative and hedging activities and improve the transparency of financial reporting. Entities will be required to provide enhanced disclosures about (a) how and why derivatives instruments are used, (b) how derivative instruments are accounted for, and (c) how derivative instruments affect the entity’s financial position, financial performance and cash flows. These disclosures better convey the purpose of derivative use in

terms of the risks that the entity is intending to manage by requiring fair value disclosures in a tabular format, providing more information about an entity's liquidity and requiring cross-referencing within the footnotes. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company does not hold the applicable derivative instruments and therefore the adoption of SFAS 161 did not have a material impact on the Company's consolidated financial position or results of operations.

FASB 162

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States of America (the GAAP hierarchy). This Statement became effective November 15, 2008. The adoption of SFAS 162 did not have a material effect on the Company's consolidated financial statements or related disclosures.

NOTE H PENSION PLAN

Prior to the end of 2008, 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. It is possible in the future under the amendment to the labor agreement, if certain conditions are met, that contributions may be made once again to a pension plan rather than to the 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. The Company has accrued for this liability, which is included in Accrued Liabilities on the Company's consolidated balance sheet. 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 within the next two years, 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.

The foregoing information for the periods ended April 5, 2009, and March 30, 2008, 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, 2008 is summarized from consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2008 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 2008 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held May 19, 2009, 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; increases in material, freight/shipping, or production cost which cannot be recouped in product pricing; delays or interruptions in shipping or production from machine issues; work or labor disruptions stemming from a unionized work force; changes in government requirements and funding of government contracts, failure of subcontractors or vendors to perform as required by contract; and the efficient start-up and utilization of capital equipment investments. 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 First Quarter 2009 and 2008

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 April 5, 2009 and March 30, 2008.

On a consolidated basis, sales increased by \$30,781,000 (40%), gross margins increased by \$6,720,000 (52%), selling and general expense decreased by \$97,000 (2%), and other income decreased by \$261,000 (19%). Earnings before the provision for income taxes increased by \$6,556,000 (65%), as did net earnings by \$4,604,000 (74%). Details concerning these changes can be found in the comments by segment below.

Housewares/small appliance net sales increased by \$4,747,000 from \$19,373,000 to \$24,120,000, or 25%, 59% of which was attributable to an increase in units shipped, with the remaining increase attributable to price increases. Defense net sales increased by \$22,277,000 from \$42,894,000 to \$65,171,000, or 52%, stemming primarily from an increase in sales related to the US Department of the Army 40mm Systems program. Absorbent products net sales increased by \$3,757,000 from \$14,878,000 to \$18,635,000, or 25%, stemming from an increase in unit shipments, 14% of which was offset by price decreases.

Housewares/small appliance gross profits were essentially flat, increasing by \$16,000 from \$3,854,000 (20%) in the prior quarter to \$3,870,000 (16%) in the current quarter. The decrease in gross profit percentage primarily reflected increased product costs. Defense gross profits increased \$6,112,000 from \$8,935,000 (21%) from the prior year's quarter to \$15,047,000 (23%). The dollar increase reflected the sales increase noted above, while the percent increase related to a more favorable product mix. Absorbent products gross profits were \$741,000 in the current quarter versus \$149,000 in the prior period, a favorable change of \$592,000, primarily reflecting decreased commodity costs, augmented by higher production levels/improved efficiency.

Selling and general expenses for all three business segments were essentially unchanged.

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

Other income decreased \$261,000, due primarily to lower interest income resulting from decreased yields on a decreased level of investments, reflecting the use of more funds to support operations.

Earnings before provision for income taxes increased \$6,556,000 from \$10,130,000 to \$16,686,000. The provision for income taxes increased from \$3,880,000 to \$5,832,000, which resulted in an effective income tax rate decrease from 38% to 35%, reflecting the increase in the FIN 48 tax reserve made in the prior period that was not repeated in the current period, which was only partially offset by an increase in earnings subject to income tax. Net earnings increased \$4,604,000 from \$6,250,000 to \$10,854,000, or 74%.

Liquidity and Capital Resources

Net cash provided by operating activities was \$40,935,000 and \$12,940,000 for the three months ended April 5, 2009 and March 30, 2008, 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 current quarter were: net earnings of \$10,854,000 and lower accounts receivable levels stemming from cash collections on customer sales. Of particular note during the prior quarter were: net earnings of \$6,250,000, lower accounts receivable levels stemming from cash collections on customer sales, higher inventory levels in the Defense segment related to the inability to bill several lots of ammunition that were produced to specifications and accepted, but subsequently placed on hold, and lower payable levels in the Defense segment.

Net cash used by investing activities during the first three months of 2009 was \$8,515,000, as compared to \$2,596,000 used during the first three months of 2008. The change in investing activity cash flow is attributable to the increased net purchases of marketable securities stemming from increased cash provided by operating activities.

Cash flows from financing activities for the first three months of 2009 and 2008 primarily differed as a result of the \$1.30 per share increase in the extra dividend paid during those periods.

Working capital decreased by \$25,042,000 to \$222,585,000 at April 5, 2009, for the reasons stated above. The Company's current ratio was 5.0 to 1.0 at April 5, 2009, as compared to 5.8 to 1.0 at December 31, 2008.

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 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 quarter of 2009 were lower than those in the first quarter of the preceding year, reflecting the seven federal funds rate reductions made during 2008. The lower yields, combined with the reduction in the Company's investment holdings, served to decrease interest income. There can be no assurance that interest rates will not continue to decline. 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.

Product Liability

The Company is subject to product liability claims in the normal course of business. The Company does carry insurance to limit its product liability claims in excess of a self-insured retention. The self-insured retention and excess coverage vary from policy year to policy year. Moreover, there is typically a limit on all types of insurance coverage. The limits also vary from policy year to policy year. The Company records an accrual for known claims, including an estimate for related legal fees in the Company's consolidated financial statements. It utilizes historical trends and other analysis to assist in determining the appropriate accrual. Currently, 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. 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 on a guaranteed basis. 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 include money market funds. Based on the accounting profession's 2005 interpretation of cash equivalents under FASB Statement No. 95, 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 1.2 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, i.e., instruments whose value changes in response to changes in underlying variables. 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 2009 and 2008. There is no similar provision applicable to the Chinese Renminbi (RMB), which until 2005 had been tied to the U.S. Dollar, and has since appreciated dramatically. Further appreciation of the RMB vis-à-vis the U.S. Dollar is not expected to have any material impact on existing orders.

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, 2009. 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 April 5, 2009 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 E in the Notes to Consolidated Financial Statements set forth under Part I - Item 1 above.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no purchases or sales of securities during the quarter ended April 5, 2009.

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 | 1988 Stock Option Plan - incorporated by reference from Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended July 6, 1997 |
| Exhibit 10.2 | Form of Incentive Stock Option Agreement under the 1988 Stock Option Plan - incorporated by reference from Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended July 6, 1997 |
| Exhibit 10.3 | Form of Material Contract for Retired Executive Officer - incorporated by reference from Exhibit 10.3 of the Company's annual report on Form 10-K for the year ended December 31, 2006 |
| <u>Exhibit 11</u> | Statement regarding computation of per share earnings |
| <u>Exhibit 31.1</u> | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>Exhibit 31.2</u> | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>Exhibit 32.1</u> | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| <u>Exhibit 32.2</u> | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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: May 15, 2009

/S/ M. J. COHEN
M. J. Cohen, Chair of the Board, Chief
Executive Officer, President
(Principal executive officer)

National Presto Industries, Inc.

Exhibit Index

| Exhibit Number | Exhibit Description |
|-----------------------|---|
| <u>11</u> | Computation of Earnings per Share |
| <u>31.1</u> | Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>31.2</u> | Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
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