NATIONAL PRESTO INDUSTRIES INC
Form 10-Q
May 08, 2008

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 September 30, 2007

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 (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 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 6,844,916 shares of the Issuer s Common Stock outstanding as of April 27, 2008.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2007 and December 31, 2006

(Unaudited)

(Dollars in thousands)

	2007		2006	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents		$12,682		$46,696
Marketable securities		106,435		96,920
Accounts receivable, net		59,810		65,571
Inventories:				
Finished goods	$52,407		$24,276	
Work in process	25,879		22,198	
Raw materials	6,353	84,639	9,018	55,492
Deferred tax assets		7,424		7,466
Other current assets		628		1,037
Total current assets		271,618		273,182
PROPERTY, PLANT AND EQUIPMENT	90,385		86,975	
Less allowance for depreciation	30,530	59,855	24,416	62,559
GOODWILL		11,485		9,085
OTHER ASSETS		150		150
		$343,108		$344,976

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2007 and December 31, 2006

(Unaudited)

(Dollars in thousands)

	2007		**2006**	
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable		$36,795		$35,424
Federal and state income taxes		2,612		7,029
Accrued liabilities		25,621		20,575
Total current liabilities		65,028		63,028
DEFERRED INCOME TAXES		1,606		1,606
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	1,465		1,277	
Retained earnings	286,303		290,519	
Accumulated other comprehensive income (loss)	58		(22)	
	295,267		299,215	
Treasury stock, at cost	18,793		18,873	
Total stockholders equity		276,474		280,342
		$343,108		$344,976

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

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NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

Three Months and Nine Months Ended September 30, 2007 and October 1, 2006

(Unaudited)

(In thousands except per share data)

	Three Months Ended		Nine Months Ended	
	2007	**2006**	**2007**	**2006**
Net sales	$99,492	$81,531	$276,748	$184,598
Cost of sales	81,063	65,706	230,536	154,578
Gross profit	18,429	15,825	46,212	30,020
Selling and general expenses	6,573	5,918	19,647	15,999
Operating profit	11,856	9,907	26,565	14,021
Other income	1,219	1,085	4,057	4,470
Earnings before provision for income taxes	13,075	10,992	30,622	18,491
Income tax provision	4,363	3,812	9,940	5,779
Net earnings	$8,712	$7,180	$20,682	$12,712
Weighted average shares outstanding:				
Basic	6,837	6,832	6,835	6,831
Diluted	6,837	6,833	6,835	6,832
Net earnings per share:				
Basic	$1.27	$1.05	$3.03	$1.86
Diluted	$1.27	$1.05	$3.03	$1.86
Cash dividends declared and paid per common share	$	$	$3.80	$2.12

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2007 and October 1, 2006

(Unaudited)

(Dollars in thousands)

	2007		2006	
Cash flows from operating activities:				
Net earnings	$20,682		$12,712	
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Provision for depreciation	6,301		5,700	
Other	166		269	
Changes in:				
Accounts receivable	5,482		(24,926	)
Inventories	(29,147	)	(32,537	)
Other current assets	408		1,066	
Accounts payable and accrued liabilities	11,083		23,016	
Federal and state income taxes	(3,356	)	(3,141	)
Net cash provided by (used in) operating activities	11,619		(17,841	)
Cash flows from investing activities:				
Marketable securities purchased	(56,168	)	(15,509	)
Marketable securities - maturities and sales	46,775		46,645	
Acquisition of property, plant and equipment	(3,775	)	(5,462	)
Acquisition of businesses	(6,748	)	(13,834	)
Sale of property, plant and equipment	200		6	
Net cash provided by (used in) investing activities	(19,716	)	11,846	
Cash flows from financing activities:				
Dividends paid	(25,958	)	(14,476	)
Other	41		(24	)
Net cash used in financing activities	(25,917	)	(14,500	)
Net decrease in cash and cash equivalents	(34,014	)	(20,495	)
Cash and cash equivalents at beginning of period	46,696		62,023	
Cash and cash equivalents at end of period	$12,682		$41,528	

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

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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 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 September 30, 2007					
External net sales	$29,735	$53,961	$15,796		$99,492
Gross profit (loss)	6,896	11,834	(301	)	18,429
Operating profit (loss)	3,276	9,104	(524	)	11,856
Total assets	211,473	89,223	42,412		343,108
Depreciation	190	698	1,236		2,124
Capital expenditures	227	1,389	(263	)	1,353
Quarter ended October 1, 2006					
External net sales	$29,264	$38,392	$13,875		$81,531
Gross profit (loss)	7,765	9,028	(968	)	15,825
Operating profit (loss)	4,444	6,635	(1,172	)	9,907
Total assets	204,403	74,037	48,523		326,963
Depreciation	201	398	1,269		1,868
Capital expenditures	461	1,341	289		2,091

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	(in thousands)				
	Housewares/ Small Appliances	**Defense Products**	**Absorbent Products**		**Total**
Nine Months ended September 30, 2007					
External net sales	$66,895	$162,119	$47,734		$276,748
Gross profit (loss)	14,579	32,853	(1,220	)	46,212
Operating profit (loss)	3,640	24,898	(1,973	)	26,565
Total assets	211,473	89,223	42,412		343,108

Depreciation	575	2,002	3,724	6,301
Capital expenditures	762	2,922	91	3,775
Nine Months ended October 1, 2006				
External net sales	$65,020	$82,154	$37,424	$184,598
Gross profit (loss)	15,270	18,656	(3,906)	30,020
Operating profit (loss)	5,316	13,269	(4,564)	14,021
Total assets	204,403	74,037	48,523	326,963
Depreciation	604	1,294	3,802	5,700
Capital expenditures	1,085	3,735	642	5,462

NOTE C PRODUCT WARRANTY

The Company s Housewares/Small Appliance Segment s products are generally warranted to the original owner to be free from defects in material and workmanship for a period of 1 to 12 years from date of purchase. The Company allows a 60-day over-the-counter initial return privilege through cooperating dealers. The Company services its products through a corporate service repair operation. The Company s service and warranty programs are competitive with those offered by other manufacturers in the industry. The Company determines its product warranty liability based on historical percentages which have remained relatively consistent over the years.

The product warranty liability is included in accounts payable on the balance sheet. During the current year, certain warranty claims were reclassified and accounted for as sales returns and allowances. The following table shows the changes in product warranty liability for the period:

	(in thousands)	
	2007	**2006**
Beginning balance January 1	$2,692	$2,033
Reclassification of certain warranty claims as sales returns and allowances	(2,597)	0
Accruals during the period	340	1,867
Charges / payments made under the warranties	(314)	(1,665)
Balance end of period	$121	$2,235

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NOTE D DISPOSAL ACTIVITIES

On October 9, 2006, the Company decided to consolidate its adult incontinence production capabilities in its Absorbent Products segment and, as a result, began the process of relocating its adult incontinence manufacturing equipment from its Marietta, Georgia facility to its Eau Claire, Wisconsin facility. This consolidation, which began during the 4th quarter of 2006, was completed during the 1st quarter of 2007 and served to improve the segment s long-term manufacturing efficiencies. As a result of the consolidation, the Georgia facility has been closed. The Company issued a W.A.R.N. (Worker Adjustment and Retraining Notification) notice on October 9, 2006. The total cost of the relocation activities was $950,000, including $760,000 for the disassembly, transportation, installation of machinery and equipment and other related costs and $190,000 for one-time termination benefits to affected employees. During the first three quarters of 2007, $310,000 was incurred for the disassembly, transportation, installation of machinery and equipment and other related costs, and $180,000 was incurred for one-time termination benefits to affected employees. Expenses related to the above disposal activities are included in Cost of Sales. With the exception of one time termination benefits and capital expenditures related to the shut-down of the Georgia facility, costs will be expensed as incurred, consistent with the requirements of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, as employee services are performed and other associated costs are incurred.

NOTE E COMMITMENTS AND CONTINGENCIES

On July 16, 2002, the Securities and Exchange Commission (SEC) filed a lawsuit in the federal district court in Chicago, Illinois, against National Presto Industries, Inc. alleging the Company operated as an unregistered investment company from 1992 through 2002. The case did not involve fraud, deceptive practices, or questionable accounting methods. The federal district judge granted the SEC s motion for summary judgment on October 31, 2005. On December 23, 2005, the judge ordered the Company to register under the Investment Company Act. As he barred the Company from operating in interstate commerce until the filing was completed, the Company immediately filed the requisite application, albeit under protest, indicating that it did not meet the filing criteria. The Company filed a notice of appeal from the decision to the Federal Circuit Court of Appeals in the 7th Circuit. On May 15, 2007, the appellate court reversed the lower court, ruling that the Company is not and has never been an investment company and that the Company was free to drop its registration under the Investment Company Act and operate under the Securities Exchange Act of 1934 whether or not the SEC gave its formal approval to that step. The decision is final as the time to request a rehearing en banc before the full panel of judges of the 7th Circuit and to petition the Supreme Court for a writ of mandamus has expired.

Prior to the appellate court s decision, there was considerable discussion between the Company s outside counsel and the SEC staff on the manner in which financial information was to be presented during the period in which the appeal was pending. As a result of the controversy surrounding the SEC s staff s ultimate mandate that an investment company footnote be inserted into the Company s financial statements for the year ended December 31, 2005, the Company s predecessor independent registered public accountant, Grant Thornton LLP, withdrew its opinion for the years ending December 31, 2005, 2004, and 2003. Subsequently, the firm withdrew from the audit engagement as well. Despite the 7th Circuit Court of Appeals decision, Grant Thornton LLP would not reinstate its opinions, necessitating the reaudit of all three years which in turn delayed the re-filing of the Form 10-K/A for 2005, the filing of the Form 10-K for 2006, and the Form 10-Q s for 2006 and 2007.

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 $58,000 of accumulated comprehensive income at September 30, 2007 reflects the unrealized gain, net of tax, of available-for-sale marketable security investments. Total comprehensive income net of tax effect was $8,804,000 and $7,257,000 for the three-month periods ended September 30, 2007 and October 1, 2006, respectively, and $20,762,000 and $12,825,000 for the nine-month periods ended September

30, 2007 and October 1, 2006.

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NOTE G ADOPTION OF NEW ACCOUNTING STANDARDS

FASB 157

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 157 (SFAS No. 157), *Fair Value Measurements,* to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. Moreover, the SFAS states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. Consequently, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price).

SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes 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). Finally, SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Entities are encouraged to combine the fair value information disclosed under SFAS No. 157 with the fair value information disclosed under other accounting pronouncements, including SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* where practicable. The guidance in this Statement applies for derivatives and other financial instruments measured at fair value under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* at initial recognition and in all subsequent periods.

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although earlier application is encouraged. Additionally, prospective application of the provisions of SFAS No. 157 is required as of the beginning of the fiscal year in which it is initially applied, except when certain circumstances require retrospective application. The Company does not expect the adoption of SFAS No. 157 to have a material effect on its consolidated financial statements.

FASB 159

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option may only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No.159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material effect on its respective financial position and results of operations.

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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, does not expect the adoption of SFAS No. 160 to have a material impact on the Company s consolidated financial position or results of operations.

NOTE H BUSINESS ACQUISITION

On January 30, 2006, the Company purchased certain assets of Amron, LLC, an Antigo, Wisconsin defense manufacturer of cartridge cases used in medium caliber (20-40mm) ammunition. The acquisition enhanced the Company s position as a viable competitive force in medium caliber ammunition programs of the U.S. Department of Army. The original purchase price was $24,000,000, consisting of a $16,000,000 payment at closing and an $8,000,000 earn-out amount, which was to be paid based upon certain earnings targets through December 31, 2010. Based on 2006 earnings, a $4,000,000 earn-out was accrued at December 31, 2006 and paid during the 1st quarter of 2007. On April 13, 2007, the Company reached an agreement with the seller, whereby the remaining $4,000,000 earnout obligation was settled by a payment of $2,400,000. Accordingly, the adjusted purchase price is $22,400,000. The accrued earn-out at December 31, 2006 was added to goodwill. Likewise, the earn-out settlement payment made during the second quarter of 2007 was also added to goodwill.

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The acquisition was accounted for as a purchase with all assets recorded at fair market value. The excess of the purchase price over the net tangible assets has been recorded as goodwill and is included as part of the Company s defense products segment. The amounts allocated to goodwill are deductible for income tax purposes. Based upon the purchase price and fair value of the assets acquired, the following represents the allocation of the aggregate purchase price to the acquired net assets of Amron, LLC. This allocation differs from what was previously reported primarily because of appraisals of property plant and equipment that were finalized during the 4th quarter of 2006 and adjustments to the purchase price.

	(in 000 s)
Receivables	$ 224
Inventory	1,909
Prepaids	68
Fixed Assets	13,748
Goodwill	1,529
Total Assets Acquired	$ 17,478
Less: Current Liabilities Assumed	(1,478)
Net Assets Acquired	$ 16,000

The results of operations for the Company include those of Amron, LLC as of the date of closing. The following pro forma condensed consolidated results of operations have been prepared as if the acquisition of Amron had occurred as of January 1, 2005.

	(unaudited)	
	(in thousands, except per share data)	
	Quarter Ending October 1, 2006	**Quarter Ending October 2, 2005**
Net Sales	$ 81,531	$ 45,616
Net Earnings	7,180	2,739
Net Earnings per Share:		
Basic	$ 1.05	$ 0.40
Diluted	1.05	0.40
Weighted Average Shares Outstanding:		
Basic	6,832	6,826
Diluted	6,833	6,828

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	(unaudited) (in thousands, except per share data)	
	Nine Months Ending October 1, 2006	Nine Months Ending October 2, 2005
Net Sales	$ 187,369	$ 129,147
Net Earnings	12,776	5,890
Net Earnings per Share:		
Basic	$ 1.87	$ 0.86
Diluted	1.87	0.86
Weighted Average Shares Outstanding:		
Basic	6,831	6,825
Diluted	6,832	6,827

The unaudited pro forma condensed consolidated results of operations are not necessarily indicative of results that would have occurred had the acquisition occurred as of January 1, 2005, nor are they necessarily indicative of the results that may occur in the future.

NOTE I PENSION PLAN

The Company contributes to a union-sponsored, multi-employer pension plan on behalf of union employees of the Amron division of its AMTEC subsidiary. Contributions are made in accordance with the then current labor agreement with the union. The Company may receive claims for sums in excess of contributions required under the labor agreement for various reasons including legal changes, pension plan assumption changes and the failure or withdrawal of a plan member. Generally, such claims would not be made unless and until the plan were terminated or Amron withdrew from the plan. Such a withdrawal would require both union membership approval and an amendment to the labor agreement with the union.

During 2007, the plan provided Amron with documentation stating that the approximate cost to withdraw during 2007 was $1,900,000. The actual cost to withdraw is not known.

NOTE J INCOME TAXES

The Company establishes tax reserves in accordance with FASB Interpretation No. 48 - *Accounting for Uncertainty in Income Taxes* (FIN No. 48), which was adopted at the beginning of 2007. The initial application of FIN No. 48 resulted in a net decrease to the Company s consolidated accrued income tax reserve of $1,062,000, with an offsetting increase to retained earnings.

Upon adoption of FIN No. 48, the Company had $538,000 in gross unrecognized tax benefits which, if recognized, would affect the Company s effective income tax rate. As of September 30, 2007, the Company had $547,000 in gross unrecognized tax benefits which, if recognized, would affect the Company s effective income tax rate.

The following is a reconciliation of the Company s unrecognized tax benefits for the quarter ended September 30, 2007:

Balance upon adoption of FIN 48	$538,000
Additions for tax positions taken related to prior years	9,000
Balance at September 30, 2007	$547,000

It is the Company s practice to include interest and penalties in tax expense. The Company accrued interest in the amount of $14,000 as of September 30, 2007.

The Company is subject to U.S. federal income tax as well as state income taxes in the locations in which it does business. The Company is currently under audit by the Internal Revenue Service and the Department of Revenue for the tax years 2002 through 2005.

The foregoing information for the periods ended September 30, 2007, and October 1, 2006, 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, 2006, is summarized from consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2006 annual report on Form 10-K. Interim results for the period are not indicative of those for the year.

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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-K, in the Company s 2007 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held May 20, 2008, 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 Third Quarter 2007 and 2006

Readers are directed to Note B, Business Segments for data on the financial results of the Company s three business segments for the Quarters ended September 30, 2007 and October 1, 2006.

On a consolidated basis, sales increased by $17,961,000 (22%), gross margins increased by $2,604,000 (17%), selling and general expense increased by $655,000 (11%), and other income increased by $134,000 (12%). Earnings before the provision for income taxes increased by $2,083,000 (19%), as did net earnings by $1,532,000 (21%). Details concerning these changes can be found in the comments by segment below.

Housewares/small appliance net sales were essentially flat, increasing nominally ($471,000) from $29,264,000 to $29,735,000. Defense net sales increased by $15,569,000 from $38,392,000 to $53,961,000, or 41%, with approximately 60% of the increase attributable to sales related to the US Department of the Army 40mm Systems program and the remaining increase stemming from an increase in other units shipped. Absorbent products net sales increased by $1,921,000 from $13,875,000 to $15,796,000, or 14%, primarily reflecting increased sales from the adult incontinence line of products.

Housewares/small appliance gross profits decreased by $869,000 to $6,896,000 (23% of sales) in the current quarter from $7,765,000 (27% of sales) in the prior quarter. The decrease primarily reflected increased product costs. Defense gross profits increased $2,806,000 from $9,028,000 (24% of sales) from the prior year s quarter to $11,834,000 (22% of sales). The dollar increase was primarily attributable to the increased sales referenced above, while the percentage decrease was due to a less favorable product mix, reflecting the increase in revenues related to the 40mm system program which carry a lower margin. Absorbent products gross profits were a negative $301,000 in the current quarter versus a negative $968,000 in the prior quarter, an improvement of $667,000, reflecting higher production levels and better efficiencies, although not to the targeted level required to fully absorb depreciation expense.

Selling and general expense for the housewares/small appliance segment increased $299,000. The Company accrues for unexpended selling and advertising costs, primarily for housewares/small appliances, budgeted for the year against each quarter s sales. Selling and advertising charges included in selling expense in each quarter represent that percentage of the annual sales and advertising budget associated with that quarter s shipments. Revisions to this budget result in periodic changes to the accrued liability for committed selling and advertising expenditures and were the primary cause of the increase in housewares selling and general expense, which was partially offset by a decrease in legal fees stemming from the absence in the current quarter of legal fees incurred during the prior quarter related to the SEC lawsuit (Note E). Defense segment selling and general expenses increased by $337,000, reflecting increased compensation and staffing commensurate with the segment s increased sales and earnings levels and an incentive to key executives to promote rapid growth of the business. Absorbent segment selling and general expenses were flat.

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

Other income increased $134,000, due primarily to higher interest income resulting from increased yields on reduced dollars invested (due to the use of funds for expansion of the defense and absorbent products segments).

Earnings before provision for income taxes increased $2,083,000 from $10,992,000 to $13,075,000. The provision for income taxes increased from $3,812,000 to $4,363,000, which resulted in an effective income tax rate decrease from 35% to 33% primarily as a result of a lower expected effective income tax rate for the current year. Net earnings increased $1,532,000 from $7,180,000 to $8,712,000, or 21%.

Comparison of First Nine Months 2007 and 2006

Readers are directed to Note B, Business Segments for data on the financial results of the Company s three business segments for the Nine Months ended September 30, 2007 and October 1, 2006.

On a consolidated basis, sales increased by $92,150,000 (50%), gross margins increased by $16,192,000 (54%), selling and general expense increased by $3,648,000 (23%), and other income decreased by $413,000 (9%). Earnings before the provision for income taxes increased by $12,131,000 (66%), as did net earnings by $7,970,000 (63%). Details concerning these changes can be found in the comments by segment below.

Housewares/small appliance net sales increased $1,875,000 from $65,020,000 to $66,895,000, or 3%, primarily the result of an increase in units shipped. Defense net sales increased by $79,965,000 from $82,154,000 to $162,119,000, or 97%, with approximately 70% of the increase attributable to sales related to the US Department of the Army 40mm Systems program and the remaining increase primarily stemming from an increase in other units shipped. Absorbent products net sales increased by $10,310,000 from $37,424,000 to $47,734,000, or 28%, primarily reflecting increased sales from the adult incontinence line of products.

Housewares/small appliance gross profits decreased $691,000 from $15,270,000 (24% of sales) from the prior year s period to $14,579,000 (22% of sales). The decrease reflected increased product costs. Defense gross profits increased $14,197,000 from $18,656,000 (23% of sales) from the prior year s period to $32,853,000 (20% of sales). The dollar increase was primarily attributable to the increased sales referenced above, while the percentage decrease was due to a less favorable product mix, reflecting the increase in revenues related to the 40mm system program which carry a lower margin. Absorbent products gross profits were a negative $1,220,000 in the current period versus a negative $3,906,000 in the prior period, an improvement of $2,686,000, reflecting higher production levels and better efficiencies, although not to the targeted level required to fully absorb depreciation expense.

Selling and general expense for the housewares/small appliance segment increased $985,000. The Company accrues for unexpended selling and advertising costs, primarily for housewares/small appliances, budgeted for the year against each quarter s sales. Selling and advertising charges included in selling expense in each quarter represent that percentage of the annual sales and advertising budget associated with that quarter s shipments. Revisions to this budget result in periodic changes to the accrued liability for committed selling and advertising expenditures and were the primary cause of the increase in housewares selling and general expense, which was partially offset by a decrease in legal fees stemming from the absence in the current quarter of legal fees incurred during the prior quarter related to the SEC lawsuit (Note E). Defense segment selling and general expenses increased by $2,568,000, reflecting increased compensation and staffing commensurate with the segment s increased sales and earnings levels and an incentive to key executives to promote rapid growth of the business. Absorbent segment selling and general expenses were relatively flat.

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

Other income decreased $413,000 or 9% due primarily to the absence in the current quarter of the prior period s receipt and recognition of approximately $500,000 of insurance proceeds related to a 2004 loss of manufacturing equipment, partially offset by higher interest income of $320,000, resulting from increased yields on reduced dollars invested (due to the use of funds for expansion of the defense and absorbent products segments).

Earnings before provision for income taxes increased $12,131,000 from $18,491,000 to $30,622,000. The provision for income taxes increased from $5,779,000 to $9,940,000, which resulted in an effective income tax rate increase from 31% to 32% primarily as a result of increased earnings subject to income tax. Net earnings increased $7,970,000 from $12,712,000 to $20,682,000, or 63%.

Liquidity and Capital Resources

Net cash provided by operating activities was $11,619,000 during the first nine months of 2007, as compared to $17,841,000 used during the first nine months of 2006. The principal factors behind the increase in cash provided can be found in the changes in the components of working capital within the Consolidated Statement of Cash Flows.

Net cash used in investing activities during the first nine months of 2007 was $19,716,000, as compared to $11,846,000 provided during the first nine months of 2006. The change is attributable to two factors, one of which served to partially offset the other. First, more cash was used to purchase instruments classified as marketable securities in the current period than in the prior period. The second and partially offsetting factor was that, although cash was used in both periods in connection with the purchase of certain assets of Amron, LLC, smaller payments were made in the current period than in the prior period. (See Note H).

Based on the accounting profession s 2005 interpretation of cash equivalents under FASB Statement No. 95, the company s variable rate demand notes have been classified as marketable securities. This interpretation, which is contrary to the interpretation that the Company s representative received directly from the FASB (which indicated it would not object to the Company s classification of variable rate demand notes as cash equivalents), and subsequent reclassification has resulted in a presentation of the Company s consolidated balance sheet that the Company believes understates the true liquidity of the Company s income portfolio. As of September 30, 2007 and December 31, 2006, $66,232,000 and $70,778,000 of variable rate demand notes are classified as marketable securities. These notes have structural features that allow the Company to tender them at par plus interest within any 7 day period for cash to the notes trustees or remarketers, and thus provide the liquidity of cash equivalents. Part of the change reflected in investing activities is simply the timing of the tendering of these notes.

Cash flows from financing activities for the first nine months of 2007 and 2006 primarily differed as a result of the $.03 and $1.65 per share increases in the regular and extra dividends paid during those periods, respectively.

Working capital decreased by $3,564,000 to $206,590,000 at September 30, 2007. The Company s current ratio was 4.2 to 1.0 at September 30, 2007 as compared to 4.3 to 1.0 at December 31, 2006.

As of September 30, 2007, there were approximately $2,980,000 and $1,420,000 of open equipment/facilities purchase commitments to expand the product lines in the defense and absorbent products segments, respectively. 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 company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings. 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 & 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 insurance to cover claims once they reach a specified threshold. The Company is partly insured for product liability and health care claims, and therefore 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. 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 for information related to the effect of adopting new accounting pronouncements on the Company s consolidated financial statements.

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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 balance of the Company s investments is held primarily in fixed and variable rate municipal bonds with an average life of less than one year. Accordingly, changes in interest rates have not had a material effect on the Company, and the Company does not anticipate that future exposure to interest rate market risk will be material. The Company uses sensitivity analysis to determine its exposure to changes in interest rates.

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments. Most transactions with international customers are entered into in U.S. dollars, precluding the need for foreign currency cash flow hedges. 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 2007, 2006 and 2005. 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

Reference is made to Item 9A of Form 10-K for the year ended December 31, 2007 filed on March 17, 2008.

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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 September 30, 2007.

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 quarterly report on Form 10-Q for the quarter ended October 3, 1999
Exhibit 9	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 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
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

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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 8, 2008

/s/ M. J. Cohen
M. J. Cohen, Chair of the Board, Chief
Executive Officer, President
(Principal Executive Officer)

/s/ M. J. Cohen
Interim Chief Financial Officer (Principal
Accounting Officer)

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National Presto Industries, Inc.

Exhibit Index

Exhibit Number	Exhibit Description
11	Computation of Earnings per Share
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002