

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 2, 2023

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**

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, \$1 par value</b>	<b>NPK</b>	<b>NYSE</b>

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 7,076,727 shares of the Issuer's Common Stock outstanding as of May 12, 2023.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

April 2, 2023 and December 31, 2022

(Dollars in thousands)

	April 2, 2023 (Unaudited)	December 31, 2022
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 75,625	\$ 70,711
Marketable securities	29,013	24,863
Accounts receivable, net	42,179	71,024
Inventories:		
Finished goods	\$ 34,754	\$ 36,249
Work in process	107,957	105,564
Raw materials	12,280	10,324
Notes receivable, current	2,251	2,226
Other current assets	7,987	5,671
Total current assets	312,046	326,632
PROPERTY, PLANT AND EQUIPMENT	\$ 105,802	\$ 105,425
Less allowance for depreciation	64,842	40,960
GOODWILL	19,433	63,634
INTANGIBLE ASSETS, net	6,548	18,573
RIGHT-OF-USE LEASE ASSETS	10,562	6,926
DEFERRED INCOME TAXES	4,642	10,731
OTHER ASSETS	1,688	5,506
	<u>\$ 395,879</u>	<u>\$ 411,847</u>

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

April 2, 2023 and December 31, 2022

(Dollars in thousands)

	<u>April 2, 2023 (Unaudited)</u>	<u>December 31, 2022</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 35,882	\$ 34,604
Federal and state income taxes	4,946	2,552
Lease liabilities	540	577
Accrued liabilities	15,008	15,908
Total current liabilities	56,376	53,641
LEASE LIABILITIES - NON-CURRENT	10,021	10,154
Total liabilities	66,397	63,795
COMMITMENTS AND CONTINGENCIES		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value:		
Authorized: 12,000,000 shares		
Issued: 7,440,518 shares	\$ 7,441	\$ 7,441
Paid-in capital	15,308	14,799
Retained earnings	318,564	338,071
Accumulated other comprehensive loss	(88)	(103)
	341,225	360,208
Treasury stock, at cost	11,743	12,156
Total stockholders' equity	329,482	348,052
	<u>\$ 395,879</u>	<u>\$ 411,847</u>

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Three Months Ended April 2, 2023 and April 3, 2022  
(Unaudited)  
(In thousands except per share data)

	Three Months Ended	
	2023	2022
Net sales	\$ 80,409	\$ 60,754
Cost of sales	62,389	51,043
Gross profit	18,020	9,711
Selling and general expenses	8,221	6,570
Intangibles amortization	379	54
Operating profit	9,420	3,087
Other income	1,853	669
Earnings before provision for income taxes	11,273	3,756
Provision for income taxes	2,395	841
Net earnings	\$ 8,878	\$ 2,915
Weighted average shares outstanding:		
Basic and diluted	7,097	7,073
Net Earnings per share:		
Basic and diluted	\$ 1.25	\$ 0.41
Comprehensive income:		
Net earnings	\$ 8,878	\$ 2,915
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on available-for-sale securities	15	(62)
Comprehensive income	\$ 8,893	\$ 2,853
Cash dividends declared and paid per common share	\$ 4.00	\$ 4.50

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Three Months Ended April 2, 2023 and April 3, 2022  
(Unaudited)  
(Dollars in thousands)

	2023	2022
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 8,878	\$ 2,915
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>		
Provision for depreciation	1,328	658
Intangibles amortization	379	54
Non-cash retirement plan expense	259	212
Proceeds from insurance claim	-	90
Other	246	128
<b>Changes in operating accounts:</b>		
Accounts receivable, net	29,050	17,606
Inventories	(3,081)	(7,689)
Other assets and current assets	(2,317)	(5,019)
Accounts payable and accrued liabilities	378	(4,358)
Federal and state income taxes	2,351	841
Net cash provided by operating activities	<u>37,471</u>	<u>5,438</u>
<b>Cash flows from investing activities:</b>		
Marketable securities purchased	(5,385)	(3,640)
Marketable securities - maturities and sales	1,253	2,454
Proceeds from note receivable	6	78
Purchase of property, plant and equipment	(498)	(172)
Proceeds from insurance claim	23	-
Net used in investing activities	<u>(4,601)</u>	<u>(1,280)</u>
<b>Cash flows from financing activities:</b>		
Dividends paid	(28,385)	(31,827)
Proceeds from sale of treasury stock	429	436
Other	-	(41)
Net cash used in financing activities	<u>(27,956)</u>	<u>(31,432)</u>
Net decrease in cash and cash equivalents	4,914	(27,274)
Cash and cash equivalents at beginning of period	70,711	109,805
Cash and cash equivalents at end of period	<u>\$ 75,625</u>	<u>\$ 82,531</u>

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Three Months Ended April 2, 2023 and April 3, 2022  
(Unaudited)  
(In thousands except per share data)

	Shares of Common Stock Outstanding Net of Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2021	7,042	\$ 7,441	13,743	\$ 349,198	\$ 20	\$ (12,779)	\$ 357,623
Net earnings				2,915			2,915
Unrealized loss on available-for-sale securities, net of tax					(62)		(62)
Dividends paid March 15, \$1.00 per share regular, \$3.50 per share extra				(31,827)			(31,827)
Other	12		413	-	-	329	742
Balance April 3, 2022	<u>7,054</u>	<u>\$ 7,441</u>	<u>\$ 14,156</u>	<u>\$ 320,286</u>	<u>\$ (42)</u>	<u>\$ (12,450)</u>	<u>\$ 329,391</u>
Balance December 31, 2022	7,063	\$ 7,441	\$ 14,799	\$ 338,071	\$ (103)	\$ (12,156)	\$ 348,052
Net earnings				8,878			8,878
Unrealized gain on available-for-sale securities, net of tax					15		15
Dividends paid March 15, \$1.00 per share regular, \$3.00 per share extra				(28,385)			(28,385)
Other	13		509	-		413	922
Balance April 2, 2023	<u>7,076</u>	<u>\$ 7,441</u>	<u>\$ 15,308</u>	<u>\$ 318,564</u>	<u>\$ (88)</u>	<u>\$ (11,743)</u>	<u>\$ 329,482</u>

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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

NOTE A – BASIS OF PRESENTATION

The condensed consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). In the opinion of management of the Company, the consolidated interim financial statements reflect all of the adjustments which were of a normal recurring nature necessary for a fair presentation of the results of the interim periods. The condensed consolidated balance sheet as of December 31, 2022 is summarized from audited consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2022 Annual Report on Form 10-K. Interim results for the period are not indicative of those for the year.

NOTE B – GENERAL

The after-effects of the government responses to the COVID-19 virus have impacted worldwide economic activity. The Company continues to monitor the impact on all aspects of its business, including effects on employees, customers, suppliers, and the global economy and will adjust procedures accordingly. The after-effects of the COVID-19 related edicts and guidelines although improving, also continue to affect each segment in a variety of fashions, which include labor and material shortages, contributing to increased labor and material costs as well as difficulty in securing needed products and components and personnel; increased absenteeism; some limitation in opportunities to meet with customers/suppliers; as well as inefficiencies inherent when dealing with suppliers and customers that continue to work from home. The extent to which these after-effects from the various responses to the COVID-19 pandemic impact the Company’s business for the remainder of 2023 and beyond will depend on future developments that are highly uncertain and cannot be predicted.

NOTE C – REVENUES

The Company’s revenues are derived from short-term contracts and programs that are typically completed within 3 to 36 months and are recognized in accordance with Financial Accounting Standard Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*. The Company’s contracts generally contain one or more performance obligations: the physical delivery of distinct ordered product or products. The Company provides an assurance type product warranty on its products to the original owner. In addition, for the Housewares/Small Appliances segment, the Company estimates returns of seasonal products and returns of newly introduced products sold with a return privilege. Stand-alone selling prices are set forth in each contract and are used to allocate revenue to the corresponding performance obligations. For the Housewares/Small Appliances segment, contracts include variable consideration, as the prices are subject to customer allowances, which principally consist of allowances for cooperative advertising, defective product, and trade discounts. Customer allowances are generally allocated to the performance obligations based on budgeted rates agreed upon with customers, as well as historical experience, and yield the Company’s best estimate of the expected value for the variable consideration.

The Company’s contracts in the Defense segment are primarily with the U.S. Department of Defense (DOD) and DOD prime contractors. As a consequence, this segment’s business essentially depends on the product needs and governmental funding of the DOD. Substantially all of the work performed by the Defense segment directly or indirectly for the DOD is performed on a fixed-price basis. Under fixed-price contracts, the price paid to the contractor is usually awarded based on competition at the outset of the contract and therefore, with the exception of limited escalation provisions on specific materials, is generally not subject to any adjustments reflecting the actual costs incurred by the contractor.

For the Housewares/Small Appliance segment, revenue is generally recognized as the completed, ordered product is shipped to the customer from the Company’s warehouses. For the relatively few situations in which revenue should be recognized when product is received by the customer, the Company adjusts revenue accordingly. For the Defense segment, revenue is primarily recognized when the customer has legal title and formally documents that it has accepted the products. There are also certain termination clauses in Defense segment contracts that may give rise to an over-time pattern of recognition of revenue in the absence of alternative use of the product. In some situations, the customer may obtain legal title and accept the products at the Company’s facilities, arranging for transportation at a later date, typically in one to four weeks. The Company does not consider the short-term storage of the customer owned products to be a material performance obligation, and no part of the transaction price is allocated to it.

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable, and customer advances and deposits (contract liabilities) on the Company’s Condensed Consolidated Balance Sheets. For the Defense segment, the Company occasionally receives advances or deposits from certain customers before revenue is recognized, resulting in contract liabilities. These advances or deposits do not represent a significant financing component. As of April 2, 2023 and December 31, 2022, \$1,460,000 and \$4,434,000, respectively, of contract liabilities were included in Accounts Payable on the Company’s Condensed Consolidated Balance Sheets. The Company did not recognize any revenue during the three-month period ended April 2, 2023 that was included in the Defense segment contract liability at the beginning of that period. The Company monitors its estimates of variable consideration, which includes customer allowances for cooperative advertising, defective product, trade discounts, and returns of seasonal and newly introduced product, all of which pertain to the Housewares/Small Appliances segment, and periodically makes cumulative adjustments to the carrying amounts of these contract liabilities as appropriate. During the three month periods ended April 2, 2023 and April 3, 2022, there were no material adjustments to the aforementioned estimates. There were no amounts of revenue recognized during the same periods related to performance obligations satisfied in a previous period. The portion of contract transaction prices allocated to unsatisfied performance obligations, also known as the contract backlog, in the Company’s Defense segment were \$544,448,000 and \$505,069,000 as of April 2, 2023 and December 31, 2022, respectively. The Company anticipates that the unsatisfied performance obligations (contract backlog) will be fulfilled in an 18 to 36-month period. The performance obligations in the Housewares/Small Appliances segment have original expected durations of less than one year.

The Company’s principal sources of revenue are derived from three segments: Housewares/Small Appliance, Defense, and Safety, as shown in Note E. Management utilizes the performance measures by segment to evaluate the financial performance of and make operating decisions for the Company.



[Table of Contents](#)**NOTE D – EARNINGS PER SHARE**

Basic earnings per share is based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share also includes the dilutive effect of additional potential common shares issuable. Unvested stock awards, which contain non-forfeitable rights to dividends whether paid or unpaid (“participating securities”), are included in the number of shares outstanding for both basic and diluted earnings per share calculations.

**NOTE E – BUSINESS SEGMENTS**

In the following summary, operating profit represents earnings before other income and income taxes. The Company's segments operate discretely from each other with no shared owned or leased 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	Safety	Total
<b>Quarter ended April 2, 2023</b>				
External net sales	\$ 21,052	\$ 58,858	\$ 499	\$ 80,409
Gross profit (loss)	4,706	14,059	(745)	18,020
Operating profit (loss)	1,345	10,519	(2,444)	9,420
Total assets	182,139	207,151	6,589	395,879
Depreciation and amortization	252	1,342	113	1,707
Capital expenditures	66	166	266	498
<b>Quarter ended April 3, 2022</b>				
External net sales	\$ 20,306	\$ 40,355	\$ 93	\$ 60,754
Gross profit (loss)	1,195	8,867	(351)	9,711
Operating profit (loss)	(1,539)	6,038	(1,412)	3,087
Total assets	208,455	170,154	9,905	388,514
Depreciation and amortization	262	389	61	712
Capital expenditures	77	92	3	172

**NOTE F - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company utilizes the methods of fair value as described in FASB 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 amounts for cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued liabilities approximate fair value due to the immediate or short-term maturity of these financial instruments. See Note G for fair value information on marketable securities.

**NOTE G - CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES**

The Company considers all highly liquid marketable securities with an original maturity of three months or less to be cash equivalents. Cash equivalents include money market funds. The Company deposits its cash in high quality financial institutions. The balances, at times, may exceed federally insured limits. Money market funds are reported at fair value determined using quoted prices in active markets for identical securities (Level 1, as defined by FASB ASC 820).

The Company has classified all marketable securities as available-for-sale which requires the securities to be reported at estimated 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 2, 2023 and December 31, 2022, 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.

	(In Thousands)			
	MARKETABLE SECURITIES			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
<b>April 2, 2023</b>				
Fixed Rate Municipal Bonds	\$ 10,471	\$ 10,453	\$ -	\$ 18
Certificates of Deposit	14,250	14,156	8	101
Variable Rate Demand Notes	4,404	4,404	-	-
Total Marketable Securities	\$ 29,125	\$ 29,013	\$ 8	\$ 119
<b>December 31, 2022</b>				
Fixed Rate Municipal Bonds	\$ 11,460	\$ 11,405	\$ -	\$ 58
Certificates of Deposit	9,895	9,820	22	94
Variable Rate Demand Notes	3,638	3,638	-	-
Total Marketable Securities	\$ 24,993	\$ 24,863	\$ 22	\$ 152

Proceeds from maturities and sales of available-for-sale securities totaled \$1,253,000 and \$2,454,000 for the three month periods ended April 2, 2023 and April 3, 2022, respectively. There were no gross gains or losses related to sales of marketable securities during the same periods. Net unrealized losses included in other comprehensive income were \$88,000 and \$78,000 before taxes for the three month periods ended April 2, 2023 and April 3, 2022, respectively. No unrealized gains or losses were reclassified out of accumulated other comprehensive income during the same periods.

The contractual maturities of the marketable securities held at April 2, 2023 are as follows: \$19,269,000 within one year; \$6,959,000 beyond one year to five years; and \$2,897,000 beyond five years to 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 H - OTHER ASSETS**

Other Assets includes prepayments that are made from time to time by the Company for certain materials used in the manufacturing process in the Housewares/Small Appliances segment. The Company expects to utilize the prepayments and related materials over an estimated period of two years. As of April 2, 2023 and December 31, 2022, \$6,331,000 and \$7,065,000 of such prepayments, respectively, remained unused and outstanding. At April 2, 2023 and December 31, 2022, \$4,643,000 and \$5,377,000 of those payments, respectively were included in Other Current Assets, representing the Company's best estimate of the expected utilization of the prepayments and related materials during the twelve-month periods following those dates.

[Table of Contents](#)**NOTE I – LEASES**

The Company accounts for leases under ASC *Topic 842, Leases*. The Company's leasing activities include roles as both lessee and lessor. As lessee, the Company's primary leasing activities include buildings and structures to support its manufacturing operations at one location in its Defense segment, buildings and structures to support its Safety segment, and warehouse space and equipment to support its distribution center operations in its Housewares/Small Appliances segment. As lessor, the Company's primary leasing activity is comprised of manufacturing and office space located adjacent to its corporate offices. All of the Company's leases are classified as operating leases.

The Company's leases as lessee in its Defense segment provide for variable lease payments that are based on changes in the Consumer Price Index. As lessor, the Company's primary lease also provides for variable lease payments that are based on changes in the Consumer Price Index, as well as on increases in costs of insurance, real estate taxes, and utilities related to the leased space. Generally, all of the Company's lease contracts include options for extensions and early terminations. The majority of lease terms of the Company's lease contracts recognized on the balance sheet reflect extension options, while none reflect early termination options.

The Company has determined that the rates implicit in its leases are not readily determinable and therefore, estimates its incremental borrowing rates utilizing quotes from financial institutions for real estate and equipment, as applicable, over periods of time similar to the terms of its leases. The Company has entered into various short-term (12 months or less) leases as lessee and has elected a non-recognition accounting policy, as permitted by ASC *Topic 842*.

<b>Summary of Lease Cost (in thousands)</b>	<b>3 Months Ending April 2, 2023</b>	<b>3 Months Ending April 3, 2022</b>
Operating lease cost	\$ 295	\$ 250
Short-term and variable lease cost	55	35
Total lease cost	<u>\$ 350</u>	<u>\$ 285</u>

Operating cash used for operating leases was \$349,000 and \$285,000 for the three months ended April 2, 2023, respectively. The weighted-average remaining lease term was 20.5 years, and the weighted-average discount rate was 4.6% as of April 2, 2023.

Maturities of operating lease liabilities are as follows:

<b>Years ending December 31:</b>	<b>(In thousands)</b>
2023 (remaining nine months)	\$ 629
2024	808
2025	796
2026	782
2027	782
Thereafter	13,576
Total lease payments	<u>\$ 17,373</u>
Less: future interest expense	6,812
Lease liabilities	<u>\$ 10,561</u>

Lease income from operating lease payments was \$551,000 and \$519,000 for the quarters ended April 2, 2023 and April 3, 2022, respectively. Undiscounted cash flows provided by lease payments are expected as follows:

<b>Years ending December 31:</b>	<b>(In thousands)</b>
2023 (remaining nine months)	\$ 1,654
2024	2,186
2025	2,186
2026	2,186
2027	2,186
Thereafter	15,302
Total lease payments	<u>\$ 25,700</u>

The Company considers risk associated with the residual value of its leased real property to be low, given the nature of the long-term lease agreement, the Company's ability to control the maintenance of the property, and the creditworthiness of the lessee. The residual value risk is further mitigated by the long-lived nature of the property, and the propensity of such assets to hold their value or, in some cases, appreciate in value.

**NOTE J – 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.

In the state of Mississippi, inventory that is shipped out of state that is held in a licensed Free Port Warehouse is exempt from personal property taxes. One of the Company's subsidiaries operates in Hinds County, Mississippi. That subsidiary has submitted its Hinds County Free Port Warehouse tax filing for approximately 40 years. Each year, the county then assessed the subsidiary in accordance with the Company's filing. However, in June 2020, the Hinds County tax assessor notified the Company that the county had no record of a Free Port Warehouse License and issued an assessment totaling \$2,506,000, reflecting personal property tax going back seven years. The Company is vigorously fighting the assessment, and does not consider the ultimate payment of the taxes to be probable. Accordingly, as prescribed by ASC 450 - *Contingencies*, no accrual has been recorded on the Company's consolidated financial statements as of April 2, 2023.

**NOTE K – RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS**

The Company assesses the impacts of adopting recently issued accounting standards by the Financial Accounting Standards Board on the Company's financial statements, and updates previous assessments, as necessary, from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022. There were no new accounting standards issued or adopted in the quarter ended April 2, 2023 that would have a material impact on the Company's consolidated financial statements.

**NOTE L – BUSINESS ACQUISITIONS**

On July 29, 2022, the Company's wholly owned subsidiary, UESCO, Inc., purchased with cash on hand of \$3,125,000 certain assets and assumed certain liabilities of Knox Safety, Inc., a company formed in 2019 with operations in Illinois and North Carolina. In addition, upon closing the Company paid a deposit of \$500,000 and, subsequently in the first fiscal quarter of 2023, an additional deposit of \$1,000,000 to a vendor that had previously been a supplier of Knox Safety. Knox Safety is a startup company that designs and sells carbon monoxide detectors for residential use, the acquisition of which should complement the product lines currently offered by the Company's Safety segment. Subsequent to the acquisition of Knox Safety, UESCO legally adopted the corporate name Rely Innovations, Inc.

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

	(in thousands)
Accounts receivable	1,832
Inventories	1,274
Other current assets	7
Property, plant and equipment	868
Intangible assets	290
Right-of-Use Lease Assets	1,126
Total assets acquired	5,397
Less: Current liabilities assumed	(776)
Less: Lease Liability - Noncurrent	(1,004)
Net assets acquired	\$ 3,617

The acquired intangibles primarily included trademarks and safety certifications that will be amortized over a period of two years. Due to its startup nature and history of operating losses, the acquisition of Knox Safety resulted in a bargain purchase gain of \$492,000, which was included with Selling and general expenses in the Consolidated Statements of Comprehensive Income for the quarter ended October 2, 2022. There was no material tax impact from the acquisition on the Company's Consolidated Financial Statements.

On October 26, 2022, the Company's wholly owned subsidiary, National Defense Corporation, and newly formed subsidiary Woodlawn Manufacturing, LLC, acquired with cash on hand of \$21,558,000 the equity interests of Woodlawn Manufacturing, Ltd. Woodlawn Manufacturing, Ltd, is a high volume manufacturer of precision metal parts and assemblies primarily for the defense and aerospace industry.

The acquisition was accounted for under the acquisition method of accounting with the Company treated as the acquiring entity. Accordingly, the consideration paid by the Company to complete the acquisition has been recorded to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. The carrying values for current assets and liabilities were deemed to approximate their fair values due to the short-term nature of these assets and liabilities. The following table shows the amounts recorded as of their acquisition date. The fair value estimates are pending completion of several elements, including the final review by the Company. Accordingly, until the fair values are final, there could be material adjustments to the Company's consolidated financial statements, including changes to depreciation and amortization expense related to the valuation of property and equipment and intangible assets acquired and their respective useful lives, among other adjustments. During the quarter ended April 2, 2023, \$860,000 of additional deferred tax liabilities were identified that would have existed as of the date of acquisition. Accordingly, both Goodwill and Deferred tax liability balances were increased during the quarter. The table below reflects those adjustments.

	(in thousands)
Accounts receivable	2,136
Inventories	2,309
Other current assets	130
Property, plant and equipment	6,400
Intangible assets	6,058
Goodwill	7,948
Total assets acquired	24,981
Less: Current liabilities assumed	(1,084)
Less: Deferred tax liability	(2,339)
Net assets acquired	\$ 21,558

The acquired intangible assets primarily include customer contracts and will be amortized over a period of four years. The amount of goodwill recorded reflects expected earning potential and synergies with other operations in the Defense segment. The recorded goodwill is not deductible for income tax purposes.

The following pro forma condensed consolidated results of operations has been prepared as if the acquisitions had occurred as of January 1, 2022.

(unaudited)  
(in thousands, except  
per share data)  
Quarter Ended  
4/3/2022

Net sales	\$	65,069
Net earnings		2,113
Net earnings per share (basic and diluted)	\$	0.41
Weighted average shares outstanding (basic and diluted)		7,073

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

NOTE M - SUBSEQUENT EVENT

The Company has evaluated subsequent events through the filing of this Form 10-Q, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Form 10-Q, in the Company's 2022 Annual Report to Stockholders, in the Proxy Statement for the annual meeting to be held May 16, 2023, 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, tariffs, 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 in, among other things, the modification or termination of existing contracts; dependence on subcontractors or vendors to perform as required by contract; the ability of startup businesses to ultimately have the potential to be successful; the efficient start-up and utilization of capital equipment investments; political actions of federal and state governments which could have an impact on everything from the value of the U.S dollar vis-à-vis other currencies to the availability of affordable labor and energy; and security breaches and disruptions to the Company's information technology systems. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings.

### COVID-19 Disclosure

All of the Company's businesses were deemed essential and as a result, all operated during the COVID-19 shutdowns. Distribution systems of customers that survived the shutdowns are largely intact as most key retail customers' outlets have been open since third quarter 2020. Most customer offices are now open, and trade shows, albeit with reduced attendance, have resumed. As a result of government COVID-19 policies, labor and material costs have materially increased. Although the situation has improved, labor shortages continue and in turn material shortages. Due to the Company's historical conservative practices, it has no debt and has adequate balances to fund its operations.

For historical information about the impact of the government responses to COVID-19, please see "Item 1A. Risk Factors" titled "The COVID-19 or Other Pandemics, Epidemics or Similar Public Health Crises Risks" included in the Company's Annual Report on Form 10-K for year ended December 31, 2022.

### Comparison of First Quarter 2023 and 2022

Readers are directed to Note E 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 2, 2023 and April 3, 2022.

On a consolidated basis, net sales increased by \$19,655,000 (32%), gross profit increased by \$8,309,000 (86%), selling and general expenses increased by \$1,651,000 (25%), and amortization increased 325,000 (602%). Other income increased by \$1,184,000 (177%), earnings before provision for income taxes increased by \$7,517,000 (200%), and net earnings increased by \$5,963,000 (205%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by \$746,000 from \$20,306,000 to \$21,052,000, or 4%, primarily attributable to an increase in unit prices, approximately 20% of which was offset by a decrease in unit shipments and changes in mix. Defense net sales increased by \$18,503,000 from \$40,355,000 to \$58,858,000, or 46%, primarily reflecting an increase in shipments from the segment's backlog.

Housewares/Small Appliance gross profit increased \$3,511,000 from \$1,195,000 to \$4,706,000, primarily reflecting the changes in pricing and mix mentioned above, augmented by decreased ocean cargo and inland freight costs, partially offset by the decrease in unit shipments. Defense gross profit increased \$5,192,000 from \$8,867,000 to \$14,059,000, primarily reflecting the increase in sales mentioned above, and a more favorable mix of products. Due to the startup nature of the businesses in the Safety segment and the resulting limited revenues, gross margins were negative in both years.

Selling and general expenses for the Housewares/Small Appliance segment increased \$627,000, reflecting higher accruals for self insurance of \$405,000, increased salaries and compensation of \$150,000, increased travel costs of \$50,000, and increased legal and professional costs of \$31,000. Selling and general expenses for the Defense segment increased \$405,000, comprised primarily of increased salaries and compensation costs of \$181,000 and one-time insurance related costs of \$250,000. Selling and general expenses for the Safety segment increased \$619,000, comprised primarily of increased salaries and compensation costs of \$359,000, increased health care costs of \$79,000, increased legal and professional fees of \$68,000, and higher rent expense of \$27,000.

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

Earnings before provision for income taxes increased \$7,517,000 from \$3,756,000 to \$11,273,000. The provision for income taxes increased from \$841,000 to \$2,395,000, which resulted in an effective income tax rate of 21% and 22%, for the quarters ended April 2, 2023 and April 3, 2022, respectively. Net earnings increased \$5,963,000 from \$2,915,000 to \$8,878,000, or 205%.

### Liquidity and Capital Resources

Net cash provided by operating activities was \$37,471,000 and \$5,438,000, for the first three months of 2023 and 2022, respectively. The principal factors contributing to the change can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during the first three months of 2023 were net earnings of \$8,878,000, which included non-cash depreciation and amortization expenses of \$1,707,000. Contributing to the cash provided were a large decrease in accounts receivable levels stemming from cash collections on customer sales and increases in payable and accrual levels, partially offset by increases in inventory levels and increases in deposits made to vendors included in other assets and current assets. Of particular note during the first three months of 2022 were net earnings of \$2,915,000, which included non-cash depreciation and amortization expenses of \$712,000. Also contributing to the cash provided was a decrease in accounts receivable levels stemming from cash collections on customer sales, partially offset by increased inventory levels, a net increase in payable and accrual levels and a net increase in deposits made to vendors included in other assets and current assets.

Net cash used in investing activities was \$4,601,000 and \$1,280,000, for the first three months of 2023 and 2022, respectively. Significant factors contributing to the change were net purchases of marketable securities in 2023 of \$4,132,000, in contrast with net marketable securities purchased in 2022 of \$1,186,000.

Net cash used in financing activities was \$27,956,000 and \$31,432,000, for the first three months of 2023 and 2022, respectively, and primarily relates to the annual dividend payments. The extra dividend decreased from \$3.50 per share in 2022 to \$3.00 per share in 2023. Cash flows for both three-month periods also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

Working capital decreased by \$17,321,000 during the first three months of 2023 to \$255,670,000 at April 2, 2023 for the reasons stated above. The Company's current ratio was 5.5 to 1.0 and 6.1 to 1.0 at April 2, 2023 and December 31, 2022, 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 its business segments per existing authorized projects and for additional projects, if the appropriate return on investment is projected.

The Company has substantial liquidity in the form of cash and cash equivalents and marketable securities to meet all of its anticipated capital requirements, to make dividend payments, and to fund future growth through acquisitions and other means. The bulk of its marketable securities are invested in the variable rate demand notes described in Item 3 of Part I of this quarterly report on Form 10-Q and in fixed rate municipal notes and bonds. The Company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings.

## Critical Accounting Estimates

The Company's discussion and analysis of financial condition and results of operations are based upon its Consolidated Financial Statements. The preparation of the Company's Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and revenues and expenses during the periods reported. The estimates are based on experience and other assumptions that the Company believes are reasonable under the circumstances, and these estimates are evaluated on an ongoing basis. Actual results may differ from those estimates.

The Company's critical accounting policies are those that materially affect its Consolidated Financial Statements and involve difficult, subjective, or complex judgments by management. 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 as they involve the use of significant estimates and assumptions as described above. These critical accounting policies and estimates have been reviewed with the Audit Committee of the Board of Directors. See Note A - Summary of Significant Accounting Policies to the Consolidated Financial Statements included in Part II, Item 8 of the Annual Report on Form 10-K for the year-ended December 31, 2022 filed on March 13, 2023 for more detailed information regarding the Company's critical accounting policies.

### Inventories

New Housewares/Small Appliance and safety product introductions are an important part of the Company's sales. In the case of the Housewares/Small Appliance segment, the introductions are important to offset the morbidity rate of other 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. During 2022, the Housewares/Small Appliance segment recorded an impairment related to such losses of \$3,613,000. In addition, due to fire safety regulations, commercial extinguishers have a limited shelf life, which is based on the date of production. The Safety segment recorded impairments of \$1,807,000 and \$3,090,000 in 2022 and 2021, respectively, in recognition of that fact. There were no other obsolescence issues that had a material effect during the three months ended April 2, 2023. 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 Defense segment is not deemed to be significant, as products are largely built pursuant to customers' specific orders.

### Self-Insured Product Liability and Health Insurance

The Company is subject to product liability claims in the normal course of business and is self-insured for health care costs, although it does carry stop loss and other insurance to cover claims once a health care claim reaches a specified threshold. The Company's insurance coverage varies from policy year to policy year, and there are typically limits on all types of insurance coverage, which also vary from policy year to policy year. Accordingly, the Company records an accrual for known claims and incurred but not reported claims, including an estimate for related legal fees in the Company's Consolidated Financial Statements. The Company utilizes historical trends and other analysis to assist in determining the appropriate accrual. There are no known claims that would have a material adverse impact on the Company beyond the reserve levels that have been accrued and recorded on the Company's books and records. An increase in the number or magnitude of claims could have a material impact on the Company's financial condition and results of operations.

### Revenues

Sales are recorded net of discounts and returns for the Housewares/Small Appliance segment. Sales discounts and returns are key aspects of variable consideration, which is a significant estimate utilized in revenue recognition. Sales returns pertain primarily to warranty returns, returns of seasonal items, and returns of those newly introduced products sold with a return privilege. The calculation of warranty returns is based in large part on historical data, while seasonal and new product returns are primarily developed using customer provided information.

### Impairment and Valuation of Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Long-lived assets consist of property, plant and equipment and intangible assets, including the value of contracts/customer relationships, trademarks and safety certifications, trade secrets, and technology software. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, the amounts of the cash flows and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. The Company uses internal discounted cash flows estimates, quoted market prices when available, and independent appraisals, as appropriate, to determine fair value. The Company derives the required cash flow estimates from its historical experience and its internal business plans.

The Company recognizes the excess cost of acquired entities over the net amount assigned to the fair value of assets acquired and liabilities assumed as goodwill. Goodwill is tested for impairment on an annual basis at the start of the fourth quarter and between annual tests whenever an impairment is indicated. The impairment test for goodwill requires the determination of fair value of the reporting unit. The Company uses multiples of earnings before interest, taxes, depreciation, and amortization ("EBITDA"), sales, and discounted cash flow models, which are described above, to determine the reporting unit's fair value, as appropriate.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's interest income on cash equivalents and marketable securities is affected by changes in interest rates in the United States. Cash equivalents primarily consist of money market funds. Based on the accounting profession's interpretation of cash equivalents under FASB ASC Topic 230, the Company's seven-day variable rate demand notes are classified as marketable securities rather than as cash equivalents. The demand notes are highly liquid instruments with interest rates set every seven days that can be tendered to the trustee or remarketer upon seven days notice for payment of principal and accrued interest amounts. The seven-day tender feature of these variable rate demand notes is further supported by an irrevocable letter of credit from highly rated U.S. banks. To the extent a bond is not remarketed at par plus accrued interest, the difference is drawn from the bank's letter of credit. The Company has had no issues tendering these notes to the trustees or remarketers. Other than a failure of a major U.S. bank, there are no risks of which the Company is aware that relate to these notes in the current market. The balance of the Company's investments is held primarily in fixed and variable rate municipal bonds and certificates of deposits with a weighted average life of 0.7 years. Accordingly, changes in interest rates have not had a material effect on the Company, and the Company does not anticipate that future exposure to interest rate market risk will be material. The Company uses sensitivity analysis to determine its exposure to changes in interest rates.

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments. Most transactions with international customers are entered into in U.S. dollars, precluding the need for foreign currency cash flow hedges. As the majority of the Housewares/Small Appliance segment's suppliers are located in China, periodic changes in the U.S. dollar and Chinese Renminbi (RMB) exchange rates do have an impact on that segment's product costs. It is anticipated that any potential material impact from fluctuations in the exchange rate will be to the cost of products secured via purchase orders issued subsequent to the revaluation.



ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Treasurer (principal financial officer), 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 2, 2023. Based on that evaluation, the Company's Chief Executive Officer and Treasurer (principal financial officer) concluded that the Company's disclosure controls and procedures were effective as of that date.

There were no changes to internal controls over financial reporting during the quarter ended April 2, 2023 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 J 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 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 Treasurer 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 Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- Exhibit 101.INS eXtensible Business Reporting Language (XBRL) Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- Exhibit 101.SCH Inline XBRL Taxonomy Extension Schema Document
- Exhibit 101.CAL Inline XBRL Taxonomy Calculation Linkbase Document
- Exhibit 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- Exhibit 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- Exhibit 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- Exhibit 104 The cover page from this Quarterly Report on Form 10-Q for the quarter ended April 2, 2023, formatted in Inline XBRL and contained in Exhibit 101.INS

SIGNATURES

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

NATIONAL PRESTO INDUSTRIES, INC.

/s/ Maryjo Cohen

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Maryjo Cohen, Chair of the Board,  
President, Chief Executive Officer  
(Principal Executive Officer), Director

/s/ David J. Peuse

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David J. Peuse, Director of Financial Reporting and Treasurer, (Principal  
Financial Officer)

Date: May 12, 2023