
**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 1, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 1-2451

NATIONAL PRESTO INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

WISCONSIN (State or other jurisdiction of incorporation or organization)	39-0494170 (I.R.S. Employer Identification No.)
3925 NORTH HASTINGS WAY EAU CLAIRE, WISCONSIN (Address of principal executive offices)	54703-3703 (Zip Code)

(Registrant's telephone number, including area code) **715-839-2121**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 6,977,023 shares of the Issuer's Common Stock outstanding as of May 1, 2018.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

April 1, 2018 and December 31, 2017

(Dollars in thousands)

	April 1, 2018		December 31, 2017	
	(Unaudited)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$	23,586	\$	11,222
Marketable securities		132,577		144,252
Accounts receivable, net		43,401		65,220
Inventories:				
Finished goods	\$	27,695	\$	27,242
Work in process		68,717		72,219
Raw materials		4,968	101,380	4,978
Assets held for sale		4,417		6,189
Other current assets		7,620		7,186
Total current assets		312,981		338,508
PROPERTY, PLANT AND EQUIPMENT	\$	105,301	\$	103,538
Less allowance for depreciation		59,396	45,905	58,370
GOODWILL		11,485		11,485
INTANGIBLE ASSETS, net		2,586		3,330
NOTES RECEIVABLE		6,804		6,750
DEFERRED INCOME TAXES		983		995
OTHER ASSETS		4,947		5,637
		<u>\$ 385,691</u>		<u>\$ 411,873</u>

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
April 1, 2018 and December 31, 2017
(Dollars in thousands)

	April 1, 2018	December 31, 2017
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 29,925	\$ 28,445
Federal and state income taxes	7,029	3,750
Accrued liabilities	12,460	13,092
Liabilities held for sale	19	210
Total current liabilities	<u>49,433</u>	<u>45,497</u>
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	9,640	9,074
Retained earnings	333,754	364,757
Accumulated other comprehensive loss	(42)	(86)
	<u>350,793</u>	<u>381,186</u>
Treasury stock, at cost	14,535	14,810
Total stockholders' equity	<u>336,258</u>	<u>366,376</u>
	<u>\$ 385,691</u>	<u>\$ 411,873</u>

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three Months Ended April 1, 2018 and April 2, 2017
(Unaudited)
(In thousands except per share data)

	Three Months Ended	
	2018	2017
Net sales	\$ 76,826	\$ 72,854
Cost of sales	56,549	52,728
Gross profit	20,277	20,126
Selling and general expenses	6,151	5,760
Intangibles amortization	745	367
Operating profit	13,381	13,999
Other income	895	950
Earnings from continuing operations before provision for income taxes	14,276	14,949
Provision for income taxes from continuing operations	3,282	4,976
Earnings from continuing operations	\$ 10,994	\$ 9,973
Earnings (loss) from discontinued operations, net of tax	(8)	8,182
Net earnings	\$ 10,986	\$ 18,155
Weighted average shares outstanding:		
Basic and diluted	6,999	6,981
Earnings per share, basic and diluted:		
From continuing operations	\$ 1.57	\$ 1.43
From discontinued operations	0.00	1.17
Net earnings per share	\$ 1.57	\$ 2.60
Comprehensive income:		
Net earnings	\$ 10,986	\$ 18,155
Other comprehensive income, net of tax:		
Unrealized gain on available-for-sale securities	44	28
Comprehensive income	\$ 11,030	\$ 18,183
Cash dividends declared and paid per common share	\$ 6.00	\$ 5.50

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended April 1, 2018 and April 2, 2017
(Unaudited)
(Dollars in thousands)

	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 10,986	\$ 18,155
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for depreciation	1,052	1,739
Intangibles amortization	745	367
Provision for doubtful accounts	6	5
Non-cash retirement plan expense	201	183
Gain on involuntary conversion of machinery and equipment	-	(1,580)
Loss (gain) on disposal of property, plant and equipment	1	(2)
Gain on divestiture of business	-	(10,704)
Other	107	67
Changes in operating accounts:		
Accounts receivable, net	21,660	25,874
Inventories	3,059	(14,072)
Other assets and current assets	256	896
Accounts payable and accrued liabilities	657	(4,584)
Federal and state income taxes	3,236	9,055
Net cash provided by operating activities	<u>41,966</u>	<u>25,399</u>
Cash flows from investing activities:		
Marketable securities purchased	(51,583)	(85,715)
Marketable securities - maturities and sales	63,313	26,835
Proceeds from divestiture of business, net of cash paid	-	63,324
Purchase of property, plant and equipment	(1,790)	(2,257)
Proceeds from insurance settlement	1,925	-
Sale of property, plant and equipment	-	1
Net cash provided by investing activities	<u>11,865</u>	<u>2,188</u>
Cash flows from financing activities:		
Dividends paid	(41,989)	(38,405)
Proceeds from sale of treasury stock	528	519
Other	(6)	(115)
Net cash used in financing activities	<u>(41,467)</u>	<u>(38,001)</u>
Net increase (decrease) in cash and cash equivalents	12,364	(10,414)
Cash and cash equivalents at beginning of period	11,222	27,034
Cash and cash equivalents at end of period	<u>\$ 23,586</u>	<u>\$ 16,620</u>

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

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

NOTE A – BASIS OF PRESENTATION

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). In the opinion of management of the Company, the consolidated interim financial statements reflect all the adjustments which were of a normal recurring nature necessary for a fair presentation of the results of the interim periods. The condensed consolidated balance sheet as of December 31, 2017 is summarized from audited consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2017 Annual Report on Form 10-K. Interim results for the period are not indicative of those for the year.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. (“PAPI”), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. (“Drylock”) in exchange for \$68,448,000. The proceeds amount differs from the amount previously disclosed because of the customary post-closing adjustments that were finalized during the second quarter of 2017, totaling \$1,448,000. The asset purchase agreement also provides for additional proceeds of \$4,000,000 upon the sale of certain delayed assets, consisting of machinery and equipment that were the subject of an involuntary conversion. The sale is expected in the second quarter of 2018. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. See Note J for further discussion.

NOTE B – RECLASSIFICATIONS

In addition to the reclassifications mentioned in Note A above, certain reclassifications have been made to the prior periods’ financial statements to conform to the current period’s financial statement presentation. These reclassifications did not affect net earnings or stockholders’ equity as previously reported.

NOTE C – REVENUES

The Company’s revenues are derived from short-term contracts and programs that are typically completed within 3 to 24 months and are recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. The standard was adopted on January 1, 2018 and did not result in any change to the Company’s pattern of revenue recognition. The Company’s contracts each 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 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.

Revenue is recognized at a point in time. 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 recognized when the customer has legal title and formally documents that it has accepted the products. 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 1, 2018 and December 31, 2017, \$9,088,000 and \$8,364,000, respectively, of contract liabilities were included in Accounts Payable on the Company's Condensed Consolidated Balance Sheets. The Company monitors its estimates of variable consideration, which includes customer allowances for cooperative advertising, defective product, and 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. There were no material adjustments during the three-month periods ended April 1, 2018 and April 2, 2017. 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 in the Company's Defense segment were \$335,487,000 and \$308,173,000 as of April 1, 2018 and December 31, 2017, respectively. The Company anticipates that the unsatisfied performance obligations will be fulfilled in an 18 to 24-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 two segments: Housewares/Small Appliance and Defense, 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.

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 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 Appliance	Defense	Assets Held for Sale	Total
Quarter ended April 1, 2018				
External net sales	\$ 16,057	\$ 60,769	\$	\$ 76,826
Gross profit	1,899	18,378		20,277
Operating profit (loss)	(875)	14,256		13,381
Total assets	231,875	149,399	4,417	385,691
Depreciation and amortization	336	1,461		1,797
Capital expenditures	1,709	81		1,790
Quarter ended April 2, 2017				
External net sales	\$ 20,047	\$ 52,807	\$	\$ 72,854
Gross profit	3,169	16,957		20,126
Operating profit	547	13,452		13,999
Total assets	238,143	160,096	4,501	402,740
Depreciation and amortization	303	1,754		2,057
Capital expenditures	460	217		677

NOTE F - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company utilizes the methods of fair value as described in Financial Accounting Standard Board (“FASB”) Accounting Standard Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, to value its financial assets and liabilities. ASC 820 utilizes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying 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.

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 1, 2018 and December 31, 2017, cost for marketable securities was determined using the specific identification method. A summary of the amortized costs and fair values of the Company's marketable securities at the end of the periods presented is shown in the following table. All of the Company's marketable securities are classified as Level 2, as defined by FASB ASC 820, with fair values determined using significant other observable inputs, which include quoted prices in markets that are not active, quoted prices of similar securities, recently executed transactions, broker quotations, and other inputs that are observable. There were no transfers into or out of Level 2 during the three months ended April 1, 2018.

	(In Thousands)			
	MARKETABLE SECURITIES			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
April 1, 2018				
Tax-exempt Municipal Bonds	\$ 26,847	\$ 26,794	\$ -	\$ 53
Variable Rate Demand Notes	105,783	105,783	-	-
Total Marketable Securities	\$ 132,630	\$ 132,577	\$ -	\$ 53
December 31, 2017				
Tax-exempt Municipal Bonds	\$ 30,103	\$ 29,994	\$ -	\$ 109
Variable Rate Demand Notes	114,258	114,258	-	-
Total Marketable Securities	\$ 144,361	\$ 144,252	\$ -	\$ 109

Proceeds from maturities and sales of available-for-sale securities totaled \$63,313,000 and \$26,835,000 for the three month periods ended April 1, 2018 and April 2, 2017, respectively. There were no gross gains or losses related to sales of marketable securities during the same periods. Net unrealized gains included in other comprehensive income were \$55,000 and \$42,000 before taxes for the three month periods ended April 1, 2018 and April 2, 2017, 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 1, 2018 are as follows: \$24,901,000 within one year; \$15,921,000 beyond one year to five years; \$7,456,000 beyond five years to ten years, and \$84,299,000 beyond ten years. All of the instruments in the beyond five year ranges are variable rate demand notes which can be tendered for cash at par plus

interest within seven days. Despite the stated contractual maturity date, to the extent a tender is not honored, the notes become immediately due and payable.

NOTE 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 up to two years. As of April 1, 2018 and December 31, 2017, \$10,881,000 and \$11,567,000 of such prepayments, respectively, remained unused and outstanding. At April 1, 2018 and December 31, 2017, \$5,934,000 and \$5,930,000, respectively, of these amounts 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.

NOTE I – COMMITMENTS AND CONTINGENCIES

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

NOTE J – DISCONTINUED OPERATIONS

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. ("PAPI"), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. ("Drylock") in exchange for \$68,448,000. The proceeds amount differs from the amount previously disclosed because of the customary post-closing adjustments that were finalized during the second quarter of 2017, totaling \$1,448,000. The asset purchase agreement also provides for additional proceeds of \$4,000,000 upon the sale of certain delayed assets, consisting of machinery and equipment that were the subject of an involuntary conversion. The sale is expected in the second quarter of 2018. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. The Company's pre-tax gain on sale of \$11,413,000, net of one-time transaction costs, was recorded in the first six months of 2017 within earnings from discontinued operations. This amount differs from the gain previously reported as a result of the post-closing adjustments mentioned above that were finalized in the second quarter of 2017. A pre-tax gain of \$10,704,000 was recorded in first quarter of 2017.

The following table summarizes the results of the Absorbent Products business within discontinued operations for each of the periods presented:

(in thousands)	Three Months Ended (Unaudited)	
	April 1, 2018	April 2, 2017
Net sales	\$ -	\$ 421
Cost of sales	(11)	(468)
Selling and general expenses	-	(26)
Gain on divestiture, net	-	10,704
Other income	-	1,648
Earnings (loss) from discontinued operations before provision for income taxes	(11)	12,279
Provision for (benefit from) income taxes from discontinued operations	(3)	4,097
Earnings (loss) from discontinued operations, net of tax	\$ (8)	\$ 8,182

The following table summarizes the major classes of assets and liabilities of the Absorbent Products business held for sale for each of the periods presented:

(in thousands)	April 1, 2018 (Unaudited)	December 31, 2017
Accounts receivable, net	\$ 757	\$ 2,529
Property, plant and equipment, net	3,660	3,660
Assets held for sale	<u>\$ 4,417</u>	<u>\$ 6,189</u>
Accounts payable	\$ 19	\$ 210
Liabilities held for sale	<u>\$ 19</u>	<u>\$ 210</u>

The Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash used in operating activities from discontinued operations was \$353,000 and \$5,196,000 for the three months ended April 1, 2018 and April 2, 2017, respectively. Cash provided by investing activities related to discontinued operations was \$1,925,000 and \$61,744,000 for the three months ended April 1, 2018 and April 2, 2017, respectively.

In connection with the asset purchase agreement discussed above, the Company entered into a 10-year lease agreement with Drylock for a portion of its manufacturing and warehouse facilities. The lease agreement provided for total annual payments of \$1,288,000 initially. It also provides Drylock an option for early termination of the lease after the initial five years and an option to modify the space subject to the agreement. Drylock elected the latter option as of June 30, 2017. The agreement allows as well for adjustments to the rental payments based on certain price indices. The Company also entered into a transition services agreement with Drylock, which terminated at the end of 2017. The amounts received from Drylock for transition services and rental income are recorded in Other Income on the Consolidated Statements of Comprehensive Income.

NOTE K – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the performance of Step 2 from the goodwill impairment test. In performing its annual or interim impairment testing, an entity will instead compare the fair value of the reporting unit with its carrying amount and recognize any impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss. The standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 provides guidance for estimating credit losses on certain types of financial instruments, including trade receivables, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. ASU 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance requires a modified retrospective transition method and early adoption is permitted. The Company does not expect the adoption of ASU 2016-13 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required. The Company is in the early stages of evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

NOTE L – SUBSEQUENT EVENT

On April 19, 2018, Spectra Technologies, LLC, a wholly-owned subsidiary of the Company, received a subcontract for the production of the warhead for the Small Diameter Bomb program. The award, in combination with other recent subcontracts, represents a total value of approximately \$43,000,000. Deliveries on these awards will commence in 2018.

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 2017 Annual Report to Shareholders, in the Proxy Statement for the annual meeting to be held on May 15, 2018, and in the Company's press releases and oral statements made with the approval of an authorized executive officer are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed herein and in the Notes to Consolidated Financial Statements, among the other factors that could cause actual results to differ materially are the following: consumer spending and debt levels; interest rates; continuity of relationships with and purchases by major customers; product mix; the benefit and risk of business acquisitions; competitive pressure on sales and pricing; development and market acceptance of new products; increases in material, freight/shipping, or production cost which cannot be recouped in product pricing; delays or interruptions in shipping or production; reliance on third-party suppliers in Asia; 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 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 information technology system failures or security breaches. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings.

Discontinued Operations

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. ("PAPI"), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. The operations of PAPI previously comprised the Company's Absorbent Products segment.

Comparison of First Quarter 2018 and 2017

Readers are directed to Note E to the Consolidated Financial Statements, "Business Segments," for data on the financial results of the Company's two business segments for the quarters ended April 1, 2018 and April 2, 2017.

On a consolidated basis, sales increased by \$3,972,000 (6%), gross profit increased by \$151,000 (1%), selling and general expenses increased by \$391,000 (7%) and intangibles amortization increased by \$378,000 (103%). Other income decreased by \$55,000 (6%), while earnings from continuing operations before provision for income taxes decreased by \$673,000 (5%), and earnings from continuing operations increased by \$1,021,000 (10%). Earnings from discontinued operations, net of tax, decreased \$8,190,000 (100%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by \$3,990,000 from \$20,047,000 to \$16,057,000, or 20%, primarily attributable to a decrease in shipments. Defense net sales increased by \$7,962,000 from \$52,807,000 to \$60,769,000, or 15%, primarily reflecting an increase in units shipped.

Housewares/Small Appliance gross profit decreased \$1,270,000 from \$3,169,000 to \$1,899,000, primarily reflecting the decrease in sales mentioned above. Defense gross profit increased \$1,421,000 from \$16,957,000 to \$18,378,000, reflecting the increase in sales mentioned above, partially offset by a less favorable product mix.

Selling and general expenses for the Housewares/Small Appliance segment increased \$153,000, primarily reflecting increased marketing expenses. Selling and general expenses for the Defense segment increased \$239,000, primarily reflecting increased compensation and benefit costs.

Intangibles amortization increased by \$378,000. The increase primarily reflects the Defense segment's amortization of the value of an acquired government sales contract corresponding to the quarter's comparatively higher shipments from the

contract's backlog. For the three months ended April 1, 2018 and April 2, 2017, the Company recorded amortization expense of \$739,000 and \$361,000, respectively, associated with the customer contract intangible asset.

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

Other income was essentially flat.

Earnings from continuing operations before provision for income taxes decreased \$673,000 from \$14,949,000 to \$14,276,000. The provision for income taxes from continuing operations decreased from \$4,976,000 to \$3,282,000, which resulted in an effective income tax rate of 23% in 2018 versus 33% in 2017. The decrease in the effective income tax rate relates primarily to United States income tax reform enacted in December 2017, which included a reduction of the corporate income tax rate from 35% to 21%, beginning in 2018. Earnings from continuing operations increased \$1,021,000 from \$9,973,000 to \$10,994,000, or 10%.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. ("PAPI"), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. Earnings (loss) from discontinued operations, net of tax, for the three months ended April 1, 2018 and April 2, 2017 were \$(8,000) and \$8,182,000, respectively. The change in earnings from discontinued operations primarily relates to the gain on sale of the Absorbent Products business recorded in the first quarter of 2017.

Net earnings decreased \$7,169,000 from \$18,155,000 to \$10,986,000.

Liquidity and Capital Resources

Net cash provided by operating activities was \$41,966,000 and \$25,399,000 for the three months ended April 1, 2018 and April 2, 2017, respectively. The principal factors contributing to the increase can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during the first three months of 2018 were net earnings of \$10,986,000, which included total non-cash depreciation and amortization expenses of \$1,796,000. Also contributing to the cash provided were a decrease in accounts receivable levels stemming from cash collections on customer sales, a decrease in inventory levels, and a net increase in payable and accrual levels. Cash used in operating activities from discontinued operations was \$353,000. Of particular note during the first three months of 2017 were net earnings of \$18,155,000, which included total non-cash depreciation and amortization expenses of \$2,106,000, and non-cash gains on the sale of the Absorbent Products business and on an involuntary conversion of machinery and equipment of \$10,704,000 and \$1,580,000, respectively. Also contributing to the cash provided were a decrease in accounts receivable levels stemming from cash collections on customer sales and a net increase in payable and accrual levels, partially offset by an increase in inventory levels. Cash used in operating activities from discontinued operations was \$5,196,000.

Net cash provided by investing activities was \$11,865,000 during the first three months of 2018 as compared to \$2,188,000 during the first three months of 2017. Significant factors contributing to the change were net maturities and sales of marketable securities in 2018 of \$11,730,000, in contrast with net purchases in 2017 of \$58,880,000; proceeds from the 2017 sale of the Absorbent Products business of \$63,324,000; and proceeds from an insurance settlement of \$1,925,000 in 2018. Cash provided by discontinued operations for the first three months of 2018 and 2017 were \$1,925,000 and \$61,744,000, respectively.

Cash flows from financing activities for the first three months of 2018 and 2017 primarily differed as a result of the comparative \$0.50 per share increase in the extra dividend paid during the 2018 period. 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 \$29,463,000 during the first three months of 2018 to \$263,548,000 at April 1, 2018 for the reasons stated above. The Company's current ratio was 6.3 to 1.0 at April 1, 2018 and 7.4 to 1.0 at December 31, 2017.

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 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 tax exempt variable rate demand notes described above 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 Policies

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. Actual results may differ from those estimates. The Company reviewed the development and selection of the critical accounting policies and believes the following are the most critical accounting policies that could have an effect on the Company's reported results. These critical accounting policies and estimates have been reviewed with the Audit Committee of the Board of Directors.

Inventories

New Housewares/Small Appliance product introductions are an important part of the Company's sales to offset the morbidity rate of other Housewares/Small Appliance products and/or the effect of lowered acceptance of seasonal products due to weather conditions. New products entail unusual risks and have occasionally in the past resulted in losses related to obsolete or excess inventory as a result of low or diminishing demand for a product. There were no such obsolescence issues that had a material effect during the current period, and accordingly, the Company did not record a reserve for obsolete product. In the future should product demand issues arise, the Company may incur losses related to the obsolescence of the related inventory. Inventory risk for the Company's 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 a government sales contract. 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.

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 with a weighted average life of 0.5 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

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "1934 Act") as of April 1, 2018. Based on that evaluation, the Company's Chief Executive Officer and Chief 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 1, 2018 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 I to the Consolidated Financial Statements set forth under Part I - Item 1 above.

Item 6. Exhibits

Exhibit 3(i)	<u>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</u>
Exhibit 3(ii)	<u>By-Laws - incorporated by reference from Exhibit 3 (ii) of the Company's current report on Form 8-K dated July 6, 2007</u>
Exhibit 9.1	<u>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</u>
Exhibit 9.2	<u>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</u>
Exhibit 31.1	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
Exhibit 31.2	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
Exhibit 32.1	<u>Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
Exhibit 32.2	<u>Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
Exhibit 101	The following financial information from National Presto Industries, Inc.'s Quarterly Report on Form 10-Q for the period ended April 1, 2018, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

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

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

/s/ Randy F. Lieble

Randy F. Lieble, Director, Vice President,
Chief Financial Officer (Principal
Financial Officer), Treasurer

Date: May 11, 2018

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Maryjo Cohen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Presto Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2018

/S/ Maryjo Cohen

Maryjo Cohen
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Randy Lieble, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Presto Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2018

/S/ Randy Lieble

Randy Lieble
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I the undersigned Chief Executive Officer of National Presto Industries, Inc. (the “Company”), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 1, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: May 11, 2018

/S/ Maryjo Cohen

Maryjo Cohen,
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I the undersigned Chief Financial Officer of National Presto Industries, Inc. (the “Company”), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 1, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: May 11, 2018

/S/ Randy Lieble

Randy Lieble
Chief Financial Officer