

NATIONAL PRESTO INDUSTRIES INC
Form 10-K
March 15, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

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 (IRS Employer Identification Number)
--	---

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**

Edgar Filing: NATIONAL PRESTO INDUSTRIES INC - Form 10-K

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

Title of each class	Name of each exchange on which registered
\$1.00 par value common stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or any amendment to the Form 10-K

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$490,468,015. The

number of shares outstanding of each of the registrant's classes of common stock, as of March 2, 2012 was 6,875,001.

The Registrant has incorporated in Part II of Form 10-K, by reference, portions of its 2011 Annual Report and in Part III of Form 10-K, by reference, portions of its Proxy Statement for its 2012 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

A. DESCRIPTION OF BUSINESS

The business of National Presto Industries, Inc. (the “Company” or “National Presto”) consists of three business segments. For a further discussion of the Company’s business, the segments in which it operates, and financial information about the segments, please refer to Note L to the Consolidated Financial Statements. The Housewares/Small Appliance segment designs, markets and distributes housewares and small electrical appliances, including pressure cookers and canners, kitchen electrics, and comfort appliances. The Defense Products segment manufactures 40mm ammunition, precision mechanical and electro-mechanical assemblies, medium caliber cartridge cases, performs Load, Assemble and Pack (LAP) operations on ordnance-related products primarily for the U.S. government and prime contractors, produces and sells a variety of less-lethal products and support accessories, and provides training for the use of less-lethal products. The Absorbent Products segment manufactures and sells primarily private label adult incontinence products and diapers.

1. Housewares/Small Appliance Segment

Housewares and electrical appliances sold by the Company include pressure cookers and canners; the Presto Control Master® heat control single thermostatic control line of skillets in several sizes, griddles, woks and multi-purpose cookers; deep fryers of various sizes; waffle makers; pizza ovens; slicer/shredders; electric heaters; corn poppers (hot air and microwave); rice cookers; microwave bacon cookers; coffeemakers and coffeemaker accessories; electric tea kettles; electric knife sharpeners; shoe polishers; and timers. Pressure cookers and canners are available in various sizes and are fabricated of aluminum and, in the case of cookers, of stainless steel, as well.

For the year ended December 31, 2011, approximately 12% of consolidated net sales were provided by cast products (griddles, waffle makers, die cast deep fryers, skillets and multi-cookers), and approximately 18% by noncast/thermal appliances (stamped cookers and canners, pizza ovens, corn poppers, coffee makers, microwave bacon cookers, rice cookers, tea kettles, electric stainless steel appliances, non-cast fryers and heaters). For the year ended December 31, 2010, approximately 15% of consolidated net sales were provided by cast products, and approximately 17% by noncast/thermal appliances. For the year ended December 31, 2009, approximately 16% of consolidated net sales were provided by cast products, and approximately 14% by noncast/thermal appliances. For the years ended December 31, 2010 and 2009, this segment had one customer which accounted for 10% or more of Company consolidated net sales. That customer was Wal-Mart Stores, Inc. which accounted for 11% of consolidated net sales in 2010 and 2009. The loss of Wal-Mart Stores as a customer would have a material adverse effect on the segment.

Products are sold primarily in the United States and Canada directly to retailers and also through independent distributors. Although the Company has long established relationships with many of its customers, it does not have long-term supply contracts with them. The loss of, or material reduction in, business from any of the Company's major customers could adversely affect the Company's business. Most housewares and electrical appliances are sourced from vendors in the Orient. (See Note J to the Consolidated Financial Statements.)

The Company has a sales force of 11 employees that sell to and service most customers. A few selected accounts are handled by manufacturers' representatives who may also sell other product lines. Sales promotional activities are conducted through the use of newspaper advertising and television. The business is seasonal, with the normal peak sales period occurring in the fourth quarter of the year prior to the holiday season. This segment operates in a highly competitive and extremely price sensitive environment. Increased costs that cannot be fully absorbed into the price of products or passed along in the form of price increases to the retail customer can have a significant adverse impact on operating results. Several companies compete for sales of housewares and small electrical appliances, some of which are larger than the Company's segment and others which are smaller. In addition, some customers maintain their own private label, as well as purchase brokered product directly from the Orient. Product competition extends to special product features, product pricing, marketing programs, warranty provisions, service policies and other factors. New product introductions are an important part of the Company's sales 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. Engineering and tooling costs are increasingly expensive, as are finished goods that may not have a ready market or achieve widespread consumer acceptance. High-cost advertising commitments which may accompany such new products or may be required to maintain sales of existing products may not be fully absorbed by ultimate product sales. Initial production schedules, set in advance of introduction, carry the possibility of excess unsold inventories. New product introductions are further subject to delivery delays from supply sources, which can impact availability for the Company's most active selling periods.

Research and development costs related to new product development for the years 2011, 2010, and 2009 were absorbed in operations of these years and were not a material element in the aggregate costs incurred by the Company.

Products are generally warranted to the original owner to be free from defects in material and workmanship for a period of one to twelve years from date of purchase, depending on the product. The Company allows a sixty-day over-the-counter initial return privilege through cooperating dealers. Products are serviced through a corporate service repair operation. The Company's service and warranty programs are competitive with those offered by other manufacturers in the industry.

The Company primarily warehouses and distributes its products from distribution centers located in Canton and Jackson, Mississippi. Selective use is made of leased tractors and trailers.

The Company invests funds not currently required for business activities (see Note A(4) to the Consolidated Financial Statements). Income from invested funds is included in Other Income in the accompanying consolidated financial statements.

Earnings from investments may vary significantly from year to year depending on interest yields on instruments meeting the Company's investment criteria, and the extent to which funds may be needed for internal growth, acquisitions, newly identified business activities, and reacquisition of Company stock.

2. Defense Products Segment

AMTEC Corporation was acquired on February 24, 2001, and manufactures 40mm ammunition, and precision mechanical and electro-mechanical products for the U.S. Department of Defense (DOD) and DOD prime contractors. AMTEC's 75,000 square foot manufacturing facility located in Janesville, Wisconsin is focused on producing niche market ordnance products (such as training ammunition, fuzes, firing devices, and initiators). AMTEC is also the majority prime contractor for the 40mm ammunition system to the DOD (more fully described below).

Spectra Technologies LLC, a subsidiary of AMTEC, was acquired on July 31, 2003, and is engaged in the manufacture and delivery of munitions and ordnance-related products for the DOD and DOD prime contractors. Spectra maintains 294,000 square feet of space located in East Camden, Arkansas, dedicated primarily to Load, Assemble and Pack (LAP) type work and during 2008 completed a facility which enabled it to begin performance in 2008 of LAP work for the 40mm systems program previously mentioned and referenced below.

Amron, a division of AMTEC, holds the assets that were purchased from Amron LLC on January 30, 2006. Amron manufactures cartridge cases used in medium caliber ammunition (20mm, 25mm, 30mm and 40mm) primarily for the

DOD and DOD prime contractors, which includes the 40mm systems program previously mentioned and referenced below. The Amron manufacturing facility is 208,000 square feet and is located in Antigo, Wisconsin.

AMTEC Less Lethal Systems, Inc., a subsidiary of AMTEC Corporation, holds the assets that were purchased from ALS Technologies, Inc, a small Arkansas manufacturer of less than lethal ammunition, on November 1, 2011. The subsidiary's products include smoke and tear gas grenades, specialty impact munitions, diversionary devices and stun munitions, support accessories like launchers and gas masks, as well as training for the use of its products. The subsidiary's manufacturing facility is 15,000 square feet and is located in Bull Shoals, Arkansas.

The Defense Products segment competes for its business primarily on the basis of technical competence, product quality, manufacturing experience, and price. This segment operates in a highly competitive environment with many other organizations, some of which are larger and others that are smaller.

On April 25, 2005, AMTEC Corporation was awarded the high volume, five-year prime contract for management and production of the Army's 40mm Ammunition System. The Army selected AMTEC as one of two prime contractors responsible for supplying all requirements for 40mm practice and tactical ammunition for a period of five years. AMTEC was awarded the majority share of requirements, and the Army estimated the total for the two contract awards, if all of the options were fully exercised, to be \$1.3 billion. AMTEC projects that its deliveries under the contract will exceed \$667,000,000, with final deliveries of approximately \$9,000,000 expected to be completed in 2012. On February 18, 2010, the Army awarded AMTEC a second five-year contract for the management and production of the 40mm Ammunition System. As in the original 5-year contract, AMTEC was awarded the majority share of the 40mm requirement. The requirements for the first two years of the new five-year contract awarded to AMTEC exceed \$283,600,000. The actual and cumulative dollar volume with the Army over the remaining three years of the contract will be dependent upon military requirements and funding, as well as government procurement regulations and other factors controlled by the Army and the Department of Defense. Total deliveries under the system program for the 40mm were \$92,000,000 during 2011.

During 2011, almost all of the work performed by this segment directly or indirectly for the DOD was 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 is generally not subject to adjustments reflecting the actual costs incurred by the contractor, with the exception of some limited escalation clauses, which on the newest contract apply to only three materials – steel, aluminum and zinc. The Defense segment's contracts and subcontracts contain the customary provision permitting termination at any time for the convenience of the government, with payment for any work completed, associated profit and inventory/work in progress at the time of termination.

3. Absorbent Products Segment

The Absorbent Products segment business (Presto Absorbent Products, Inc.) was formed on November 21, 2001 to purchase assets from RMED International, a company that manufactured primarily private label diapers. On October 6, 2003, the segment purchased the assets of NCN Hygienic Products, Inc., a Marietta, Georgia company which manufactured adult incontinence products and pads for dogs, which were likewise primarily private label products. Focus continues to be on private label, although branded product is produced under the "PRESTO" label. The absorbent products business is capital intensive. New absorbent product equipment is extremely complex. Not only is considerable time required to secure and install the equipment, but even more time is required to develop the requisite employee skill sets to utilize the equipment efficiently. Sales channels must be in place to sell the increased production that results from new equipment and improved efficiency in operations.

During the fourth quarter of 2006, in order to enhance the Absorbent Products segment's long-term manufacturing efficiencies, the Company decided to consolidate its adult incontinence production capabilities and, as a result, began the process of relocating its adult incontinence manufacturing equipment from its Marietta, Georgia facility to its Eau Claire, Wisconsin facility. In addition, the Company made a decision to discontinue the manufacture of dog pads, a business which did not fit the long-term Absorbent Products segment strategy. This transition was largely completed by the end of the first quarter of 2007.

Unlike the housewares/small appliance business, the absorbent product business is not seasonal. To the extent there are variations from month to month, that is primarily a function of customer promotional timing or a change in the customer base. As private label products tend to emulate branded product as much as possible, new product development is important, but is largely limited to providing features similar to those found in national branded product. Research and development costs are absorbed in operations.

The absorbent product industry is a very competitive, high volume-low margin business. There are several competitors, most of which are larger than this segment of the Company. Product competition is largely based on product pricing, quality, and features.

Product cost is heavily influenced by commodity costs which include wood pulp, as well as many petroleum based products. It is also influenced by equipment operating speed, efficiency, and utilization.

Advertising is typically the responsibility of the owner of the private label and is thus minimal. Most sales are currently handled through distributor/broker arrangements. Production for the most part is done to order.

For the years ended December 31, 2011, 2010, and 2009, this segment had one customer, Medline Industries Holdings LP, which accounted for 12%, 11%, and 12%, respectively, of consolidated net sales. The segment in 2009 implemented a program to diversify its customer base. Subsequently, the customer announced a plan to build its own absorbent product facility, and began operating the facility late in 2011. The segment currently has a one-year private label manufacturing agreement with Medline, which provides a framework for the ongoing relationship. The contract ends in September 2012. At this point, there is no commitment to extend the term of the contract. Medline has advised that it intends to continue purchasing product from the segment, albeit at a significantly reduced level. The complete loss of Medline Industries Holdings LP as a customer would have a material adverse effect on the segment.

The segment, which realized its first truly profitable year in 2009, began experiencing capacity constraints towards the end of that year and received Board authorization for a \$30 million expansion. To date, it has ordered one multi-million dollar machine, which was installed in the Eau Claire, Wisconsin facility during the third quarter of 2011, added a warehouse addition to the current facility in Eau Claire, and installed an automated handling system. All were in operation by the third quarter of 2011. Additional equipment purchases are in process.

B. OTHER COMMENTS

1. Sources and Availability of Materials

See Note J to the Consolidated Financial Statements.

2. Patents, Trademarks, and Licenses

Patents, particularly on new products, trademarks and know-how are considered significant. The Company's current and future success depends upon judicial protection of its intellectual property rights (patents, trademarks and trade dress). Removal of that protection would expose the Company to competitors who seek to take advantage of the Company's innovations and proprietary rights. The Company has dozens of U.S. and foreign patents pending and granted. Of those U.S. patents granted, the following is a non-exhaustive list of those relevant to current products and their expiration dates, assuming continued payment of maintenance fees (the date is the latest expiration date of the corresponding patents): Quick Release Appliance Cord Assemblies (US 6,719,576 and 6,527,570, October 2021), Rotatable Cooking Apparatus (US 6,125,740 and 6,354,194, March 2019), Food Processor (5,680,997, October 2014), Microwave Corn Popper Device and Methods (5,397,879, November 2013), and Parabolic Heater (D633,189, November 2023). To date, the Company has vigorously protected its rights and enjoyed success in all its intellectual property suits. The Defense and Absorbent Products segments do not currently hold patents, trademarks, and licenses which would be deemed significant to their respective operations.

3. Effects of Compliance with Environmental Regulations

In May 1986, the Company's Eau Claire, Wisconsin, site was placed on the United States Environmental Protection Agency's (EPA) National Priorities List (NPL) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) because of alleged hazardous waste deposited on the property. At year end 1998, all remediation projects at the Eau Claire, Wisconsin, site had been installed, were fully operational, and restoration activities had been completed.

Based on factors known as of December 31, 2011, it is believed that the Company's environmental liability reserve will be adequate to satisfy on-going remediation operations and monitoring activities; however, should environmental agencies require additional studies or remediation projects, it is possible the existing accrual could be inadequate.

Management believes that in the absence of any unforeseen future developments, known environmental matters will not have any material effect on the results of operations or financial condition of the Company.

4. Number of Employees of the Company

As of December 31, 2011, the Company had 992 employees compared to 1,053 employees at the end of December 2010.

Approximately 208 employees of Amron are members of the United Steel Workers union. The contract between Amron and the union is effective through February 28, 2015.

5. Industry Practices Related to Working Capital Requirements

The major portion of the Company's sales was made with terms of 60 days or shorter.

For the Housewares/Small Appliance segment, inventory levels increase in advance of the selling period for products that are seasonal, such as pressure canners, heaters, and major new product introductions. Inventory build-up also occurs to create stock levels required to support the higher sales that occur in the latter half of each year. Buying practices of the Company's customers require "just-in-time" delivery, necessitating that the Company carry large finished goods inventories.

The multiple stock keeping units inherent in the private label absorbent product business, combined with the desire to avoid excessive machine changeover (which can have a negative impact on efficiency), necessitates the carrying of a large finished goods inventory in the Absorbent Product segment as well.

The ability to meet U.S. Department of Defense demands also necessitates the carrying of large inventories in the Defense segment.

6. Order Backlog

Shipment of most of the Company's Housewares/Small Appliance products occurs within a relatively short time after receipt of the order and, therefore, there is usually no substantial order backlog. New product introductions may result in order backlogs that vary from product to product and as to timing of introduction.

The contract backlog of the Defense segment was approximately \$342,000,000, \$329,000,000, and \$274,000,000 at December 31, 2011, 2010, and 2009, respectively, net of intercompany sales. Backlog is defined as the value of orders from the customer less the amount of sales recognized against the orders. It is anticipated that the backlog will be performed during an 18 to 24-month period, after December 31, 2011.

Shipment of Absorbent Products typically occurs within 15 to 30 days from receipt of an order and thus there is usually no substantial long term backlog of orders.

C. AVAILABLE INFORMATION

The Company has a web site at www.gopresto.com. The contents of the Company's web site are not part of, nor are they incorporated by reference into, this annual report.

The Company makes available on its web site its annual reports on Form 10-K or 10-K/A and, beginning with its second quarter filing in 2011, quarterly reports on Form 10-Q. It does not provide its current reports on Form 8-K or amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act on its web site. These reports are readily available to the public on the SEC web site at www.sec.gov, and can be located with ease using the link provided on the Company's web site. The Company also provides paper copies of its annual report free of charge upon request.

ITEM 1A. RISK FACTORS

The Company's three business segments described above are all subject to a number of risk factors, the occurrence of any one or more of which could have a significant adverse impact on the business, financial condition, or results of operations of the Company as a whole.

Housewares/Small Appliance Segment:

Increases in the costs for raw materials, energy, transportation and other necessary supplies could adversely affect the results of the Company's operations.

The Company's suppliers purchase significant amounts of metals, plastics, and energy to manufacture its products. Also, the cost of fuel has a major impact on transportation costs. Any increased costs that cannot be fully absorbed or passed along in the form of price increases to the retail customer can have a material adverse impact on the Company's operating results.

Reliance on third-party suppliers in Asia makes this segment vulnerable to supply interruptions and foreign business risks.

The majority of the housewares/small appliance products are manufactured by a handful of third-party suppliers in Asia, primarily in the People's Republic of China. The Company's ability to continue to select and develop relationships with reliable vendors who provide timely deliveries of quality parts and products will impact its success in meeting customer demand. Most products are procured on a "purchase order" basis. As a result, it may be subject to unexpected changes in pricing or supply of products. There is no assurance that it could quickly or effectively replace any of its vendors if the need arose. Any significant failure to obtain products on a timely basis at an affordable cost or any significant delays or interruptions of supply may disrupt customer relationships and have a material adverse effect on the Company's business.

In addition, international manufacturing is subject to significant risks, including, among others, labor unrest, adverse social, political and economic conditions, interruptions in international shipments, tariffs and other trade barriers, legal and regulatory constraints and fluctuations in currency exchange rates. Although China currently enjoys "most favored nation" trading status with the United States, the U.S. government has in the past proposed to revoke that status and to impose higher tariffs on products imported from China, which could have a material adverse effect on the Company's business.

The Housewares/Small Appliance segment is dependent on key customers, and any significant decline in business from one or more of its key customers could adversely affect the segment's operating results.

Although the Company has a long-established relationship with its major customers, it does not have any long-term supply agreement or guaranty of minimum purchases. As a result, the customers may fail to place planned orders, change planned quantities, delay purchases, or change product assortments for reasons beyond its control, which could prove detrimental to the segment's operating results.

The sales for this segment are highly seasonal and dependent upon the United States retail markets and consumer spending.

Traditionally, this segment has recognized a substantial portion of its sales during the Holiday selling season. Any downturn in the general economy or a shift in consumer spending away from its housewares/small appliances could adversely affect sales and operating results.

The Company may not be successful in developing and introducing new and improved consumer products.

The development and introduction of new housewares/small appliance products is very important to the Company's long-term success. The ability to develop new products is affected by, among other things, whether the Company can develop and fund technological innovations and successfully anticipate consumer needs and preferences, as well as the intellectual property rights of others. The introduction of new products may require substantial expenditures for advertising and marketing to gain marketplace recognition or to license intellectual property. There is no guarantee that it will be aware of all relevant intellectual property in the industry and may be subject to claims of infringement, which could preclude it from producing and selling a product. Likewise, there is no guarantee that the Company will be successful in developing products necessary to compete effectively in the industry or that it will be successful in advertising, marketing and selling any new products.

Product recalls or lawsuits relating to defective products could have an adverse effect on the Company.

As distributors of consumer products in the United States, the Company is subject to the Consumer Products Safety Act, which empowers the U.S. Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the U.S. Consumer Products Safety Commission could require the Company to repair, replace or refund the purchase price of one or more of its products, or it may voluntarily do so. Any repurchase or recall of products could be costly and damage the Company's reputation, as well as subject it to a sizable penalty that the Commission is empowered to impose. If the Company removed products from the market, its reputation or brands could be tarnished and it might have large quantities of finished products that could not be sold.

The Company could also face exposure to product liability claims if one of its products were alleged to have caused property damage, bodily injury or other adverse effects. It is self-insured to specified levels of those claims and maintains product liability insurance for claims above the self-insured levels. The Company may not be able to maintain such insurance on acceptable terms, if at all, in the future. In addition, product liability claims may exceed the amount of insurance coverage. Moreover, many states do not allow insurance companies to provide coverage of punitive damages, in the event such damages are imposed. Additionally, the Company does not maintain product recall insurance. As a result, product recalls or product liability claims could have a material adverse effect on the Company's business, results of operations and financial condition.

The housewares/small appliance industry continues to consolidate, which could ultimately impede the Company's ability to secure product placement at key customers.

Over the past decade, the housewares/small appliance industry has undergone significant consolidation, and, as a result, the industry primarily consists of a limited number of larger companies. Larger companies do enjoy a competitive advantage in terms of the ability to offer a larger assortment of product to any one customer. As a result, the Company may find it more difficult or lose the ability to place its products with its customers.

Defense Segment:

The Company relies primarily on sales to U.S. Government entities, and the loss of a significant contract or contracts could have a material adverse effect on its results of operations.

As the Company's sales in the Defense segment are primarily to the U.S. Government and its prime contractors, it depends heavily on the contracts underlying these programs. The loss or significant reduction of a major program in which the Company participates could have a material adverse effect on the results of operations.

In April 2005, AMTEC Corporation was selected as one of two prime contractors responsible for supplying all requirements for 40mm practice and tactical ammunition rounds for the Army's five year 40mm systems program. AMTEC projects that its deliveries to the Army over the life of the contract will exceed \$667,000,000. In February 2010 the Army awarded AMTEC a new contract for an additional five-year period. As in the original contract, AMTEC and one other prime contractor will be responsible for supplying all of the requirements for the 40mm family of ammunition rounds. The actual annual and cumulative dollar volume with the Army will be dependent on military requirements and funding. Total deliveries under the systems program for the two 40mm contracts were \$92,000,000 during 2011.

A decline in or a redirection of the U.S. defense budget could result in a material decrease in the Defense segment sales and earnings.

Government contracts are primarily dependent upon the U.S. defense budget. During recent years, the Company's sales have been augmented by increased defense spending, including supplemental appropriations for operations in Iraq and Afghanistan. However, future defense budgets could be negatively affected by several factors, including U.S. Government budget deficits, administration priorities, U.S. national security strategies, a change in spending priorities, and the reduction of military operations in Afghanistan and other parts of the world. Any significant decline or redirection of U.S. military expenditures could result in a decrease to the Company's sales and earnings.

U.S. Government contracts are also dependent on the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a fiscal year basis even though contract performance may take more than one year. As a result, at the outset of a major program, the contract is usually incrementally funded, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations for future fiscal years. In addition, most U.S. Government contracts are subject to modification if funding is changed. Any failure by Congress to appropriate additional funds to any program in which the Company participates, or any contract modification as a result of funding changes, could materially delay or terminate the program. This could have a material adverse effect on the results of the Company's operations.

The Company may not be able to react to increases in its costs due to the nature of its U.S. government contracts.

Substantially all of the Company's U.S. government contracts are being performed on fixed-price basis. Under fixed-price contracts, the Company agrees to perform the work for a fixed price, subject to limited escalation provisions on specified raw materials. Thus it bears the risk that any increases or unexpected costs may reduce profits or potentially cause losses on the contract, which could have a material adverse effect on results of operations and financial condition. That risk is potentially compounded by the political actions under consideration by federal and state governments, including climate change and labor regulations, which could have an impact if enacted or promulgated on the availability of affordable labor, energy and ultimately, materials, as the effects of the legislation/regulation ripple throughout the economy. In addition, products are accepted by test firing samples from a production lot. Lots typically constitute a sizable amount of product. Should a sample not fire as required by the specifications, the cost to rework or scrap the entire lot could be substantial.

The Company's U.S. government contracts are subject to terminations.

All of the Company's U.S. government contracts can be terminated by the U.S. Government either for its convenience or if the Company defaults by failing to perform under the contract. Performance failure can occur from a myriad of factors, which include late shipments due to the inability to secure requisite raw materials or components or strikes or other labor unrest, equipment failures or quality issues which result in products that do not meet specifications, etc. Termination for convenience provisions provide only for recovery of costs incurred and profit on the work completed prior to termination. Termination for default provisions provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source. If a termination provision is exercised, it could have a material adverse effect on the Company's business, results of operations and financial condition.

Failure of the Company's subcontractors to perform their contractual obligations could materially and adversely impact contract performance.

Key components and services are provided by third party subcontractors, several of which the segment is required to work with by government edict. Under the contract, the segment is responsible for the performance of those

subcontractors, many of which it does not control. There is a risk that the Company may have disputes with its subcontractors, including disputes regarding the quality and timeliness of work performed by subcontractors. A failure by one or more of the Company's subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact the Company's ability to perform its obligations as the prime contractor.

Absorbent Products Segment:

The Absorbent Products segment is dependent on key customers, and any significant decline in business from one or more of its key customers could adversely affect the segment's operating results.

One customer, Medline Industries Holdings LP, has accounted for more than 10% of consolidated net sales in each of the last three fiscal years. During the last several years, the Absorbent Products segment has been implementing a customer diversification program to reduce its reliance on this customer. In September of 2011, the Company entered a one-year private label manufacturing agreement with Medline. The agreement provided a framework for an ongoing relationship between the parties and ends in September 2012. In fourth quarter 2011, Medline began operating its own absorbent products facility. As a result, purchases for 2012 are expected to decline significantly. The loss of this customer, in particular if in conjunction with the loss of other key customers, could have a material adverse effect on the segment's results of operations and financial condition.

Increases in costs for raw materials, transportation, energy and other supplies could adversely affect the results of its operations.

At times, the Company has experienced significant increases in its raw material, transportation, energy, and other supply costs primarily due to limited global supply and increased demand. Any increased costs that cannot be fully absorbed or passed along in the form of price increases to its customers could adversely affect earnings. Global economic conditions, supplier capacity constraints and other factors could affect the availability of, or prices for, those raw materials. The risk is further compounded by the political actions under consideration by federal and state governments, including climate change and labor regulations, which could have an impact if enacted or promulgated on the availability of affordable labor, energy, and ultimately, materials, as the effects of the legislation ripple throughout the economy.

The Company may not be successful in developing and introducing new and improved absorbent products.

The development and introduction of new absorbent products is very important to long-term success. The ability to develop new products is affected by, among other things, whether the Company can develop and fund technological innovations and successfully anticipate consumer needs and preferences. The introduction of new products may require substantial expenditures for advertising and marketing to gain marketplace recognition or to license intellectual property. There is no guarantee that it will be aware of all relevant intellectual property in the industry and may be subject to claims of infringement, which could preclude it from producing and selling a product. Likewise, there is no guarantee that the Company will be successful in developing products necessary to compete effectively in the industry or that it will be successful in advertising, marketing and selling new products it develops.

The inability to operate the Company's manufacturing facility at or near full capacity could adversely affect the result of operations.

The Absorbent Products segment is a very capital-intensive business, utilizing high cost, high-speed equipment. Since the segment operates in a market that is highly competitive with relatively low margins, it is essential to operate near full capacity to achieve high efficiencies and profitable financial results.

Acquisition Risks:

The Company may pursue acquisitions of new product lines or businesses. It may not be able to identify suitable acquisition candidates or, if suitable candidates are identified, it may not be able to complete the acquisition on commercially acceptable terms. Even if the Company is able to consummate an acquisition, the transaction would present many risks, including, among others: failing to achieve anticipated benefits or cost savings; difficulty

incorporating and integrating the acquired technologies, services or products; coordinating, establishing or expanding sales, distribution and marketing functions, as necessary; diversion of management's attention from other business concerns; being exposed to unanticipated or contingent liabilities or incurring the impairment of goodwill; the loss of key employees, customers, or distribution partners; and difficulties implementing and maintaining sufficient controls, policies and procedures over the systems, products and processes of the acquired company. If the Company does not achieve the anticipated benefits of its acquisitions as rapidly or to the extent anticipated by management, or if others do not perceive the same benefits of the acquisition as the Company does, there could be a material, adverse effect on the Company's business, financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

10

ITEM 2. PROPERTIES (Owned Except Where Indicated)

The Company's Eau Claire facility is approximately 522,000 square feet, of which Presto Absorbent Products, Inc. leases approximately 380,000 square feet. The Company's corporate office occupies the balance of the space in Eau Claire.

The Company also has Defense manufacturing facilities located in Janesville and Antigo, Wisconsin and East Camden and Bull Shoals, Arkansas; and two warehousing facilities located in Jackson and Canton, Mississippi used in the Housewares/Small Appliance segment.

The Janesville, Wisconsin facility is comprised of approximately 75,000 square feet and the Antigo, Wisconsin facility is comprised of approximately 208,000 square feet. The East Camden and Bull Shoals, Arkansas operations lease approximately 294,000 and 15,000 square feet, respectively.

The Jackson facility contains 252,000 square feet. The Company leases a 184,000 square foot building in Canton, Mississippi which is used primarily for warehousing and distribution and some activities for product service functions. An additional 72,000 square feet has been leased in adjacent buildings for warehousing.

The facilities in use for each of the segments are believed to be adequate for their ongoing business needs.

ITEM 3. LEGAL PROCEEDINGS

See Note I to the Consolidated Financial Statements.

See Item 1-B-3 of this Form 10-K and Note K to the Consolidated Financial Statements for information regarding certain environmental matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

11

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Record of Dividends Paid and Market Price of Common Stock**

	2011 Applicable Dividend Paid per Share			2010 Applicable Dividend Paid per Share		
	Market Price High	Market Price Low	Market Price High	Market Price Low	Market Price High	Market Price Low
First Quarter	\$8.25	\$136.77	\$102.49	\$8.15	\$130.58	\$108.11
Second Quarter	—	114.21	95.65	—	117.99	90.61
Third Quarter	—	105.44	85.74	—	110.35	89.50
Fourth Quarter	—	99.99	82.76	—	134.40	105.40
Full Year	\$8.25	\$136.77	\$82.76	\$8.15	\$134.40	\$89.50

The common stock of National Presto Industries, Inc. is traded on the New York Stock Exchange under the symbol "NPK". As of March 2, 2012, there were 343 holders of record of the Company's common stock. This number does not reflect shareholders who hold their shares in the name of broker dealers or other nominees. During the fourth quarter of 2011, the Company did not purchase any of its equity securities.

The line graph and related information set forth under the heading "Performance Graph" in the Company's 2011 Annual Report is incorporated by reference.

ITEM 6. SELECTED FINANCIAL DATA

	(in thousands except per share data)				
For the years ended December 31,	2011	2010	2009	2008	2007
Net sales	\$431,021	\$479,000	\$478,468	\$448,253	\$421,287
Net earnings	\$47,968	\$63,531	\$62,576	\$44,183	\$38,623

Edgar Filing: NATIONAL PRESTO INDUSTRIES INC - Form 10-K

Net earnings per share – Basic & Diluted	\$6.98	\$9.26	\$9.13	\$6.45	\$5.65
Total assets	\$411,641	\$415,133	\$402,405	\$365,883	\$374,676
Dividends paid per common share applicable to current year					
Regular	\$1.00	\$1.00	\$1.00	\$1.00	\$0.95
Extra	7.25	7.15	4.55	3.25	2.85
Total	\$8.25	\$8.15	\$5.55	\$4.25	\$3.80

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

An overview of the Company's business and segments in which the Company operates and risk factors can be found in Items 1 and 1A of this Form 10-K. Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Form 10-K, in the Company's 2011 Annual Report to Shareholders, in the Proxy Statement for the annual meeting to be held May 15, 2012, and in the Company's press releases and oral statements made with the approval of an authorized executive officer are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed herein and in the notes to consolidated financial statements, among the other factors that could cause actual results to differ materially are the following: consumer spending and debt levels; interest rates; continuity of relationships with and purchases by major customers; product mix; the benefit and risk of business acquisitions; competitive pressure on sales and pricing; increases in material, freight/shipping, or production cost which cannot be recouped in product pricing; delays or interruptions in shipping or production from machine issues; work or labor disruptions stemming from a unionized work force; changes in government requirements and funding of government contracts; failure of subcontractors or vendors to perform as required by contract; the efficient start-up and utilization of capital equipment investments; and political actions of federal and state governments which could have an impact on everything from the value of the U.S. dollar vis-à-vis other currencies to the availability of affordable labor and energy. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings, copies of which are available from the Company without charge.

2011 COMPARED TO 2010

Readers are directed to Note L, "Business Segments," to the Consolidated Financial Statements for data on the financial results of the Company's three business segments for the years ended December 31, 2011 and 2010.

On a consolidated basis, sales decreased by \$47,979,000 (10%), gross margins decreased by \$19,815,000 (17%), and selling and general expense increased by \$3,283,000 (20%). Other income, principally interest, decreased by \$1,232,000 (54%), while earnings before provision for income taxes decreased by \$24,330,000 (25%), and net earnings decreased by \$15,563,000 (25%). Details concerning these changes can be found in the comments by segment found below.

Housewares/Small Appliance net sales decreased \$26,622,000 from \$157,474,000 to \$130,852,000, or 17%, which was primarily attributable to a decrease in units shipped, largely attributed to the growing retail trend of purchasing private label products, coupled with a phenomenon known as the just in time consumer, resulting in the retailers' failure to maintain adequate stock when the consumers were ready to make a purchase. Both trends are expected to

result in a reduction of volume during the first half 2012. Exclusive products will be introduced in the latter part of the year to counter the first trend. Defense net sales decreased by \$38,390,000, from \$240,762,000 to \$202,372,000, or 16%, primarily reflecting a decrease in unit shipments, which has had the effect of deferring sales to a later date. Absorbent Products net sales increased by \$17,033,000 from \$80,764,000 to \$97,797,000, or 21%, primarily from an increase in unit shipments due in large part to its successful implementation of its customer diversification program. That program will be particularly critical in 2012 to offset the expected reduction of shipments to its major customer, which began producing product in its own facility during the fourth quarter of 2012.

Housewares/Small Appliance gross profit decreased \$10,016,000 from \$37,032,000 (24% of sales) in 2010 to \$27,016,000 (21% of sales) in 2011, primarily reflecting the decrease in sales mentioned above, augmented by increased commodity costs. Defense gross profit decreased \$6,065,000 from \$68,071,000 (28% of sales) to \$62,006,000 (31% of sales), reflecting the decrease in sales mentioned above, approximately half of which was offset by realized efficiencies and a more favorable product mix. Absorbent products gross profit decreased \$3,734,000, from \$8,471,000 (11% of sales) to \$4,737,000 (5% of sales), primarily reflecting increased commodity costs, inefficiencies stemming from the installation and startup of new production equipment, and a fire on one of the segment's machines. The decrease was further augmented by differences in year to year supplier rebate timing, which favorably affected prior year margins by \$401,000. Commodity costs are expected to increase in 2012 as well.

Selling and general expenses for the Housewares/Small Appliance segment increased \$826,000 from the prior year's levels. Significant items were increases in employee benefit cost and bad debt accruals of \$1,076,000 and \$350,000, respectively, and legal and professional costs of \$260,000, partially offset by decreases in self-insurance and environmental reserves of \$771,000 and \$159,000, respectively. Defense segment selling and general expenses increased \$329,000, primarily reflecting increases in legal and professional costs of \$127,000, employee benefit costs of \$51,000, and other individually insignificant items. Selling and general expenses for the Absorbent Products segment increased \$2,128,000. The most significant items were the absence of last year's gain on the sale of obsolete equipment of \$1,293,000 and an increase in the reserve for bad debts of \$638,000.

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

Earnings before provision for income taxes decreased \$24,330,000 from \$99,355,000 to \$75,025,000. The provision for income taxes decreased from \$35,824,000 to \$27,057,000, which resulted in an effective income tax rate of 36% in both years. Net earnings decreased \$15,563,000 from \$63,531,000 to \$47,968,000.

2010 COMPARED TO 2009

Readers are directed to Note L, "Business Segments," to the Consolidated Financial Statements for data on the financial results of the Company's three business segments for the years ended December 31, 2010 and 2009.

On a consolidated basis, sales increased by \$532,000 (less than 1%), gross margins increased by \$3,482,000 (3%), and selling and general expense decreased by \$2,253,000 (12%). Other income, principally interest, decreased by \$777,000 (26%), while earnings before provision for income taxes increased by \$4,958,000 (5%), and net earnings increased by \$955,000 (2%). Details concerning these changes can be found in the comments by segment found below.

Housewares/Small Appliance net sales increased \$7,458,000 from \$150,016,000 to \$157,474,000, or 5%, which was primarily attributable to an increase in units shipped. A portion of the increase was due to heavy first quarter 2010 shipments occasioned by low year-end 2009 retail inventories. Shipments during that quarter increased by \$4,888,000 over the comparable quarter of the prior year. Defense net sales decreased by \$13,027,000, from \$253,789,000 to \$240,762,000, or 5%, primarily reflecting a decrease in unit shipments. Absorbent Products net sales increased by \$6,101,000 from \$74,663,000 to \$80,764,000, or 8%, primarily from an increase in unit shipments.

Housewares/Small Appliance gross profit decreased \$3,304,000 from \$40,336,000 (27% of sales) in 2009 to \$37,032,000 (24% of sales) in 2010, primarily reflecting increased commodity and freight costs, offset in part by the increase in sales mentioned above. Defense gross profit increased \$6,205,000 from \$61,866,000 (24% of sales) to

\$68,071,000 (28% of sales), reflecting decreased material costs and a more favorable product mix, offset in part by the decrease in sales mentioned above. Absorbent products gross profit increased \$581,000, from \$7,890,000 (11% of sales) to \$8,471,000 (11% of sales). But for differences in year to year supplier rebate timing of \$802,000, gross margins would have decreased as a result of increased commodity costs.

Selling and general expenses for the Housewares/Small Appliance segment decreased \$572,000 from the prior year's levels. Significant items were a decrease in employee benefit cost accruals of \$624,000 and advertising costs of \$225,000, partially offset by an increase in environmental expenditures of \$167,000. Defense segment selling and general expenses decreased \$415,000, primarily reflecting the absence of certain prior year incentive compensation accruals. Selling and general expenses for the Absorbent Products segment decreased \$1,266,000, reflecting a comparative increase in net gains on the sale of obsolete equipment of \$1,588,000, partially offset primarily by increases in compensation and travel costs related to an augmented sales force.

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

Earnings before provision for income taxes increased \$4,958,000 from \$94,397,000 to \$99,355,000. The provision for income taxes increased from \$31,821,000 to \$35,824,000, which resulted in an effective income tax rate increase from 34% to 36% reflecting, in largest part, an increase in state income tax rates, augmented by an increase in earnings subject to tax. Net earnings increased \$955,000 from \$62,576,000 to \$63,531,000.

LIQUIDITY AND CAPITAL RESOURCES

2011 COMPARED TO 2010

Cash provided by operating activities was \$58,686,000 during 2011 as compared to \$57,768,000 during 2010. The principal factors behind the increase in cash provided can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during 2011 were net earnings of \$47,968,000, reflecting a decrease in late fourth quarter sales and a reduction in accounts receivable levels. These items were offset by increases in inventory levels and deposits with vendors included in other current assets, and a decrease in payable levels. Of particular note during 2010 were net earnings of \$63,531,000 and an increase in payable levels, largely reflecting deposits received from one customer during the year. Also of note were an increase in inventory levels and a change in other current assets attributable to additional deposits made to vendors.

Net cash provided by investing activities was \$21,816,000 during 2011 compared to \$1,542,000 used during 2010. Of note during 2011 were net maturities/sales of marketable securities of \$41,559,000, partially offset by the acquisition of plant and equipment of \$15,003,000, primarily to support the expansion of the Absorbent Products segment, and the acquisition of assets comprising a small business in the Defense segment, described in Note P to the Consolidated Financial Statements, of \$4,526,000. Of note during 2010 was the \$17,972,000 of cash used in the acquisition of plant and equipment primarily to support the expansion of the Absorbent Products segment. The purchase of plant and equipment was essentially funded through the sale of marketable securities.

Based on the accounting profession's 2005 interpretation of cash equivalents under Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 230, the Company's variable rate demand notes have been classified as marketable securities. This interpretation, which is contrary to the interpretation that the Company's representative received directly from the FASB (which indicated it would not object to the Company's classification of variable rate demand notes as cash equivalents), has resulted in a presentation of the Company's consolidated balance sheet that the Company believes understates the true liquidity of the Company's income portfolio. As of December 31, 2011 and 2010, \$33,034,000 and \$37,779,000, respectively, of variable rate demand notes are classified as marketable securities. These notes have structural features that allow the Company to tender them at par plus interest within any 7-day period for cash to the notes' trustees or remarketers, and thus provide the liquidity of cash equivalents.

The Company increased its dividends paid in 2011 by \$0.10, which accounted for the increase in cash used in financing activities.

As a result of the foregoing factors, cash and cash equivalents increased in 2011 by \$24,276,000 to \$73,995,000.

Working capital decreased by \$15,852,000 to \$262,959,000 at December 31, 2011 for the reasons stated above. The Company's current ratio was 5.0 to 1.0 at December 31, 2011, compared to 5.2 to 1.0 at December 31, 2010.

The Company expects to continue to evaluate acquisition opportunities that align with its business segments and 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. See Item 1-A-3 for information regarding the planned expansion for the Absorbent Products segment.

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